Chapter VI
Experience of Select Developing Countries of Asia, Lessons for India, Summary and Concluding Remarks

6.1 Experience of Sri Lanka, Indonesia and Malaysia

Shelterlessness as well as inadequate living environments in the urban centres of several Asian countries have been synonymous with the problems of urban Asia since the post War Years. Recognising that urban housing is an important problem that has links with the general well being of the people and development of the economy of a country as whole, the concerned countries made their best efforts to resolve the housing shortages through a variety of policies and programmes.

As mentioned in Chapter III, the contribution of formal sector institutions is around 25 per cent of the total investment required for the 8th and 9th Plan Periods. It may be assumed that formal sector institutions especially the HFCs, having profit motive and operating in the private sector, are catering to the people in the lower strata of the income groups to a very limited
extent. Renaud (1984)\textsuperscript{1}, an intellectual who was closely associated with the World Bank, also found that formal sector housing institutions contributed less than 20 per cent of the annual investment in housing in the developing countries. He also pointed out that most of that investment was channeled to the higher income group and to the upper ranges of the middle income group. Moreover, the Government of India, as revealed in Chapter II, has changed its role from a provider of housing to that of an enabler. Thus, it may be argued that the people belonging to the lower income strata depend largely on the informal sources for funds, which are exploitative and unproductive. The Government's policy should be such that the flow of funds from the formal sector institutions also reaches the poor people and there should be proper mechanisms for recovery of loans from them. The recovery is essential for the economic and financial viability of the institutions. It is in this context that the experience of Sri Lanka, Indonesia and Malaysia in housing sector seems worth mentioning.

This chapter makes an attempt to review the experiences of Sri Lanka, Indonesia and Malaysia and to identify the lessons that can be drawn from them.

Of the several Asian countries that faced urban housing problems since the last few decades the experience of Sri Lanka and Indonesia are most relevant to the Indian urban scenario due to the following reasons:

(i) Culturally these two countries are deeply linked to India. The hero of the epic Ramayana resurrected his wife Sita from the clutches of Ravana, the king of Lanka, now known as Sri Lanka. It is well known that the Sinhalese as a community emerged as migrants from the main land India (it is believed, particularly from Bengal) and settled in the island country several centuries ago. On the other hand, the events of Ramayana are celebrated to this day with great enthusiasm in Indonesia, which is otherwise an Islamic country.

(ii) As political entities too, both Sri Lanka and Indonesia gained their sovereign status during the late forties, as is the case with India. Both countries, like India, are governed through a democratic set-up dominated by the elites of the countries. The decision making process in all the three countries consists of influential political and beauracratic components. However, in Sri Lanka the link between the electorate and political leaders are stronger than either in India or Indonesia due to the absence of the
civil service cadre since Smt. Bandaranayake became Sri Lanka's first woman President in 1970.

Table 6.1 Level of Urbanisation in India, Sri Lanka and Indonesia for the period between 1970 to 1993.

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>Sri Lanka</th>
<th>Indonesia</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>20</td>
<td>22</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>1993</td>
<td>26</td>
<td>22</td>
<td>32</td>
<td>52</td>
</tr>
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</table>


Considering the levels of urbanisation, as indicated in the above table, all the three countries are again found to be comparable. In a broad sense, all the three countries are still categorised as agrarian economies, though India and Indonesia are fast emerging as industrial economies, taking advantage of the growing population concentration in their urban centres.

The third country whose experience in the field of urban housing is relevant to India is Malaysia. Although Malaysia's level of economic development is significantly higher compared to those of India, both these countries represent a multi-racial, multi-ethnic society. Malaysia's housing experience is presented towards the end of this section.
Sri Lankan Experience

The well-known and much documented shelter programme of Sri Lanka, MHP (the Million Houses Programme) was initiated in 1979 in the form of "one-hundred-thousand-houses-programme". The objective of this programme, as reflected in the name, was to supply 100,000 dwelling units to the citizens all over the country. The prime motive to initiate this programme was to fulfil the electoral commitment announced by the political party before they were elected to power.

It may be noted that half of the number (i.e., 50,000 units) were to be supplied in the form of Aided Self Help. 36,000 units were supplied by the public sector through direct construction and the remaining through loans.

This crash programme was considered by and large successful though a few drawbacks were also identified. The Programme did not support the mainstream shelter supply process, which in the case of Sri Lanka was a community-initiated process. Further, the unit costs of the houses supplied through direct construction were very high leading to heavy subsidies by the government. The decisions made by the National Housing Development Authority (NHDA) did not always satisfy the requirements of the beneficiaries. Last but not the least, the
beneficiaries were frequently unable to decide on the choice of materials, design, etc. of the dwelling units.

However, the single largest benefit of this programme was a significant increase of the awareness of the professionals, officials as well as politicians regarding issues and problems associated with the success and lacunae of the programme.

In spite of successful implementation of the 100,000 Houses Programme, housing and particularly urban housing continued to occupy an important place in the development policies of Sri Lanka. Indeed in 1984, the Million Houses Programme (MHP) was initiated with the aim of supporting the 'mainstream process' of shelter supply in Sri Lanka which envisaged minimal intervention by the government.

The government was however expected to play a supportive role where individuals or communities could not solve certain problems on their own. Therefore the support given by the government was in the form of land tenure, credits and loans, design and installation on basic services, supply of information, formation of working groups with specific responsibilities and organisation of learning and teaching sessions.
The Million Houses Programme, revolved around two key ideas viz. *Minimal intervention* while offering *maximum support* to the process of shelter supply or improvement. Further, the key ideas were translated in terms of the following three *key principles*:

i) The principle of *people centred* development

ii) The principle of recognising *use value* of land for the poor rather than the *market value*.

iii) The principle of locally derived *small solutions for many* rather than externally determined *sophisticated solutions for a few*.

In order to cover the housing problems throughout the nation, six sub-programmes were evolved. These were as follows:

1) Urban Housing
2) Rural Housing
3) Plantation Housing
4) Mahaweli Housing
5) Major Agricultural Settlement Housing and
6) Private Sector Housing

*The Urban Housing Sub Programme (UHSP)* was implemented in all the 51 urban centre of the island. As may be expected,
Colombo, the Sri Lankan capital having a population of 2.3 million (1987) enjoys the status of primacy amongst all the urban centres. In 1978, about half of the population of Colombo lived in old slum gardens and shanty settlements, both being considered as sub-standard living environments. However, by the year 1988, all the slum gardens were upgraded under UHSP while nearly two thirds of the shanty settlements were upgraded in terms of regularisation of land tenure, provision of services and shelter upgradation. It is worthwhile to note that in a period of 10 years, nearly 90 percent of the housing stock within the limits of the Colombo Municipal Council was covered through UHSP.

One of the most important underlying aspects of UHSP was that of integrating urban livelihoods and environmental concerns. These were achieved with reasonable success since the programme depended heavily upon serious participation of the community and a high degree of awareness regarding environmental concerns. The Community Development Councils (CDC) were elected bodies representing about 50 to 125 families. With a view to sharing the workload, the CDCs were formed annually through elections by the concerned families.

One of the prime functions of the CDCs had been to help the community to negotiate with the Urban Local Authority (ULA)
and the bureaucracy. Further, it was also a channel for dialogue between the urban local authority and the community. In the beginning (1978) the ability of the CDCs to perform their prime functions was less than adequate. However, gradually, by 1980's, the communities became aware of the negotiating power that the CDCs could command. Therefore, inhabitants of the slums and shanty settlements took on the initiative themselves and started forming CDCs.

Another very innovative feature of the MHP was the *Community Contract System* (CCS). Infrastructure and common amenities would ordinarily be built by contractors approved by the government. However, in the case of MHP, such works were entrusted to certain members of the beneficiary community by the community itself. This arrangement resulted in multiple benefits; community could be ensured of the quality of amenities supplied within the limits of their affordability. Moreover, persons from within the beneficiary community received monetary benefit and the entire process of building a given item of the services was made efficient and cost effective.

The well known interdependence of having access to secured shelter and the intention to initiate home-based economically gainful activities was reconfirmed as soon as the MHP began to take roots, particularly in the urban areas.
Individuals made humble beginnings as small traders or brokers as soon as they obtained tenureship of their shanties and eventually were able to make not only stabilised income but also gained certain social status among the peer groups and neighbours. In extreme cases, some erstwhile anti-social elements were able to make a new beginning while leaving behind their unpleasant memories for good. Families headed by women were benefitted in particular. Home-made packaged food was a common item supplied by the women which enjoyed considerable popularity among the low income to middle income consumers. Consequently, poverty alleviation was also achieved.

Lack of affordability of the beneficiaries was identified as an important factor that proved to be detrimental to the success of the 100,000 houses programme. In the MHP, provisions were made to offer credits, loans, etc. to enable the people to improve their income and thereby their affordability.

It is worthwhile to note that the entire programme including negotiations, transactions, contracts etc. were carried out in an atmosphere of transparency. As a result, the accountability of the system linking NHDA and the community through CDC’s and CCS’ had worked with a high degree of success.
The Indonesian Experience

A major effort to resolve the gigantic housing problem of Indonesia was launched in the year 1969 under the banner of Kampung Improvement Programme (KIP). In the local language, Kampung stands for informal settlement. Given the trends in urbanisation in Indonesia, proliferation of Kampung in Jakarta, the capital city, has been a common phenomena. The KIP took off in 1974, five years after it was launched when the World Bank funds flowed into the programme. In addition, the government of Indonesia borrowed from the Asian Development Bank and the Government of Netherlands either to finance construction of new housing projects (including slum improvement) or to finance home ownership loan. It must be noted, however, that the main target of the housing programme had been the low-income families.

In the year 1974, two thirds of the population of Jakarta lived in Kampung that accounted for nearly 60 percent of the total housing stock. The essential features of the KIP were:

(i) *Focus on community services*: The central focus of the KIP has been the Kampung as a whole rather than improvement of the individual dwellings. KIP constructed roads, drainage, water taps etc. In other words, municipal
services as well as schools and clinics were established in the Kampungs.

(ii) **Compensation to the affected:** Frequently, as a result of introducing the municipal services in a Kampung, some individuals had to give up part or whole of their land or house. But as a special feature of KIP, the affected individuals or families were not entitled to receive monetary compensation for the loss. However, the benefitted members of the Kampung were supposed to find an acceptable solution to the problems of the affected families. If this condition was not fulfilled, the Kampung was to be left out of the KIP project. It was, therefore, a Community Determined Compensation System (CDCS).

(iii) **Top down approach:** Although the KIP may be perceived as a community participation based shelter improvement approach, it was in reality practiced as a top-down system where the decision-making as well as flow of finances were initiated and monitored by the Perum Perumnas or the National Urban Development Corporation (NUDC). The Perum Permunas was instituted in the year 1974 as an autonomous agency which could mobilise finances from domestic and international sources and evolve its own planning and implementation programme which also included sale and leasing of the dwelling units.
In addition to the above, some other important features which have contributed to the success of the KIP were:

i) It depended on the traditional community structure for negotiations, agreements and decisions as practiced in villages, leading to strengthening of the bonds between individuals and families in the society.

ii) The programme did not deplete the housing stock even temporarily, as is often the case in many improvement programmes and thereby the programme led to minimal hardship during the improvement implementation phase.

iii) The programme permitted great deal of flexibility in terms of the quality of improvements, thereby ensuring affordability for the beneficiaries.

iv) It provided adequate breathing time for the emergence of new residential neighbourhoods.

v) It permitted the adoption of simple and user-friendly technologies to which the community already had some exposure.

The Malaysian Experience

Housing has been recognized as an “important engine of growth” as early as 1960s by the Government of Malaysia. Traditionally, the type of shelter in urban Malaysia mainly consisted of shop-
houses (shop on ground floor and residence on upper floor), single storeyed dwelling units for rubber estate and tin mining workers and quarters for Government employee built by the Public Works Department.

In response to increasing demand for modern urban housing and growing affordability due to the country’s economic boom during 1970-80, private housing estates were developed. During the 1980s, in order to involve the private sector to resolve the housing problem for the lower income families, the Government asked private developers to build a minimum of 30 percent of low cost dwelling units.

During the later half of 1980s, the private sector was expected to undertake 78 percent of the housing target of which a little over half (370,000 units approximately) were low cost units.

Also during the 1980s, while the private sector was being increasingly involved to built more and more dwelling units, the public sector concentrated on upgradation and provision of urban services and amenities.

During the late 1980s, a General Guidelines on the Special Low Cost Housing Programme was drawn up with the cooperation of Ministry of Housing and Local Government.
In Kuala Lumpur, which is inhabited by about a quarter of Malaysia's urban population, a three pronged strategy was adopted to resolve the housing problem. This strategy consisted of:

1) Resettlement of squatters to new housing areas that could offer better urban services and amenities. Usually, the resettlement of squatters was taken up with the aim of regaining access to prime land meant for public use such as roads or schools.

2) Squatter upgradation was promoted where minimum intervention was required. The beneficiary families were ultimately granted tenurehip of their respective lots under this programme.

3) The most-well known of the strategies however, was the Long Houses Programme. Under this arrangement, inhabitants of the squatters were shifted temporarily to 'long houses' or temporary shelters built near the original squatter settlements. The squatters' shacks were then reconstructed, furnished with proper services such as potable water supply, electricity, drainage system etc. After completion of the process of reconstruction, the inhabitants returned to their original location but in a
significantly improved living environment. The long houses were used by successive groups of beneficiaries.

It must be noted however, that despite Malaysia's steady progress in terms of national economic development, in Kuala Lumpur, nearly 60 percent of the targeted housing units during 1980-2000 are for low cost, 30 percent for medium cost and the remaining for higher cost. The commendable achievement of the Malaysian efforts was a marginal gap between the annual demand and supply figures since 1980s.

The Malaysian experience is a useful model for all nations that seek to encourage both public and private sectors to resolve the housing problem.

In Comparative Perspective

The experiences of housing in Sri Lanka and Indonesia are comparable in more ways than one. Looking at the two major programmes, the Million Houses Programme in Sri Lanka and the Kampung Improvement Programme in Indonesia, one finds several similarities. To begin with, both these programmes address problems of housing and related aspects related to low income families. In both cases, government assistance to the beneficiaries has been beneficial in several ways. Both
programmes included shelter improvement, area level improvement, upgradation of basic services economic upliftment and skill upgradation.

Despite these similarities, there have been quite a few areas of differences. The methodology in both the programmes, although fundamentally people based, differed significantly; in MHP there was a greater reliance on the community for decision making while in the KIP, it was a top-down approach. It is worthwhile to note that while Sri Lanka scored better in terms of its unique system of CDC and CCS, Indonesia evolved a unique method of CDCS. Another point of dissimilarity was that while Indonesia had to look for funds from external sources, Sri Lanka did not.

Both projects have their share of achievements and drawbacks. In the Sri Lankan MHP, the programme led to several benefits such as family stability, social respectability of poor, strengthening livelihoods, generating new avenues and opportunities for income generation and better shelter quality. It also led to fostering a strong sense of community feeling, bridging the gap between the rich and the poor and improvement in the general quality of the life in urban areas. However, in case of the KIP, a strong sense of belonging to a given Kampung or community actually formed the basis of the programme.
Despite the overall benefits that accrued to the society, these projects had a few lacunae such as creation of a sprawling city structure, extensive low density developments, loss of prime urban land in certain instances and difficulties in integrating physically and socially the different parts of the city. However, the achievements of these programmes far outweigh the shortcomings.

Recognising that KIP is relatively an older programme, the achievements are spread over a longer period of time and space. The visible success of the MHP may be largely attributed to the higher level of literacy of the beneficiaries compared to that of the inhabitants of the Kampungs. On the other hand, the greatest strength of the MHP was that the programme enjoyed full support of the political leadership of the nation from the stage of initiation itself.

Though Malaysian housing problem was not as acute or large in magnitude as those of Indonesia or Sri Lanka, it merits our attention because it represents pursual of a less radical approach and yet achieving the desired results.
Secondly, in the Malaysian approach, unlike the Sri Lankan and Indonesian ones, the public sector had to adopt distinctly different roles in order to implement the three pronged strategy.

Being relatively more prosperous compared to Sri Lanka and Indonesia, the Long House Programme of Malaysia could be successful and acceptable to the beneficiaries.

The comparative perspective is summarised in Table 6.2 for a synoptic view.
Table 6.2 Comparative Parameters of MHP and KIP

<table>
<thead>
<tr>
<th>Parameter</th>
<th>SRI LANKA</th>
<th>INDONESIA</th>
</tr>
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<tbody>
<tr>
<td>Programme</td>
<td>Million Houses Programme (MHP)</td>
<td>Kampung Improvement Programme (KIP)</td>
</tr>
<tr>
<td>Year initiated</td>
<td>1984</td>
<td>1974</td>
</tr>
<tr>
<td>Target group</td>
<td>Mostly low income families</td>
<td>Mostly low income families</td>
</tr>
<tr>
<td>Components</td>
<td>Shelter, services, employment</td>
<td>Loan assistance for shelter, services, redevelopment</td>
</tr>
<tr>
<td>Methodology</td>
<td>People centred development; local solution; system; CDC participation, transparent decision making</td>
<td>Top down decision making; community participation mostly for implementation;</td>
</tr>
<tr>
<td>Programme period</td>
<td>Five years</td>
<td>Ten years</td>
</tr>
<tr>
<td>Achievements</td>
<td>Family stability, social respectability of the poor, strengthening new opportunities for income earning; better shelter quality; fostering community feeling; bridging the gap between rich and poor; improvement general quality of life in urban areas;</td>
<td>Retaining the traditional rural family structure; better quality of life; enhanced access to amenities, services; significant overall success in light of low literacy rate;</td>
</tr>
<tr>
<td>Lacunae</td>
<td>Improvement confined tot micro level; more than necessary dependence on community for decisions; loss of prime urban land in some cases; sprawling city structure leading to difficulty in integration; low density low rise development</td>
<td>Limited community participation limited effect on employment generation; sprawling city structure having rural character.</td>
</tr>
</tbody>
</table>
6.2 Lessons for India

The experiences of Sri Lanka and Indonesia have been documented and received worldwide attention due to the clarity of their purpose and approaches in trying to resolve their housing problems in their respective contexts. The Indian urban housing scenario could be perceived to be by and large similar to the situations of Sri Lanka and Indonesia notwithstanding the peculiarities that exist in India. Nevertheless, the significant lessons that could be drawn from these two countries are:

(i) A significant dent in increasing housing supply qualitatively as well as quantitatively for the low income is best done through community participation.

Evidently, in both the programme under discussion, MHP and KIP, the community had a very significant role to play. Most of the work was actually undertaken by the beneficiaries with the state primarily playing a supportive role. While in the MHP, the entire programme revolved mostly on the people, even in the KIP top-down approach, the people had a key role to play in project implementation. The success of both these programmes is undoubtedly on account of the deep association and
enthusiastic participation of the citizens. It is therefore apparent that in order to make a significant dent in the urban housing sector, community participation is imperative.

In comparison, Malaysia's Long Homes programme could operate with passive cooperation of the beneficiaries.

(ii) For a housing programme to play a meaningful role in national development, it is imperative that the lowest rung of the socio-economic ladder is addressed.

A majority of the urban population in Sri Lanka and Indonesia, for that matter in India too, belong to the low income strata whose access to wealth is highly restricted. Development of such nations has to mean development of this section of the society.

Otherwise, it would be a development of the few at the expense of many. The housing programmes in Sri Lanka and Indonesia have been able to reach the lowest rungs of the urban population successfully. Undoubtedly, housing provision in this manner had a positive effect on the national economy and overall development; the GNP of Sri Lanka and Indonesia recorded significant increases after the implementation of these housing programmes. As noted earlier, access to "decent
shelter" was considered by the Malaysian Government as an 'important engine of development' in the national context since 1960s. It is reasonable to believe that this has been to a great extent on account of the increased access to secured life and well being of the citizens brought forth by the housing programmes. An important lesson for India here is that by reaching the lowest rung of the socio-economic ladder, housing programmes can certainly play a meaningful role in national development.

(iii) **The limitation of the affordability of the lowest income families must be realistically recognized.**

Both Sri Lanka and Indonesia have been able to perceive the limitations of the affordability of the low-income families. This has been evidenced in the creation of project components related to livelihood improvement, economic upliftment, etc. It is believed that these social and economic project components have been rightly recognized and have actually contributed in a major way in realising the project objectives. Even in Malaysia, which has a significantly higher level of economic development, a major proportion of urban housing programmes, consist of low cost units. In India today, one can quote several examples of economically weaker section housing projects (the housing projects catering to the lowest income groups) where the
beneficiaries' affordability has not been properly recognized, thereby leading to abandoning of houses by such population. The important lesson here as can be derived from Sri Lanka, Indonesia and Malaysia is realizing the reality that people just cannot afford housing on their own without adequate supportive environment.

(iv) Urban housing programme at the national level needs to be an integrated package comprising of several components viz. Shelter, land tenure, employment, poverty alleviation etc.

The success of the Sri Lankan, Indonesian and Malaysian urban housing experience has been on account of the fact that they were 'housing' project and not mere 'house' construction projects. These programmes have realised that housing is a 'process' rather than 'product' having backward as well as forward linkages. Both the programmes, MHP as well as KIP have succeeded to great extent for the simple reason that they provided not just a house but an overall developmental package with housing as a pivot. In case of Malaysia, improvement of shelter as well as accessibility to better quality urban services and amenities made their efforts successful. It is apparent that housing programmes need to be broad based, multi-sectoral as well as comprehensive in content, coverage and implementation.
For the success of a housing programme, it is imperative that political and executive supports are available consistently.

Political ideology and national developmental priorities are closely interrelated. Without political will and necessary executive or bureaucratic support, it would be almost impossible for housing projects to succeed on a significant scale. Both Sri Lanka and Indonesia have exhibited that with political will and executive support, housing programmes can actually become national movements and lead to large scale participation with zeal. In fact it may not be out of place here to mention that the success of the housing programme had played a major role in the ascendancy of Honorable Shri Premdasa to the coveted position of the President of Sri Lanka. Housing problem in Malaysia in particular was prevented from snowballing into a large problem by adopting appropriate strategies that were initiated by the executives, supported by the politicians and accepted by the community. It is therefore important to recognize that political will and executive support are very essential requisites for the success of a housing programme of comparable magnitude.
(vi) Housing as a sector needs to be perceived for its benefits to the economy.

The Sri Lankan and Indonesian experience has vividly revealed the increase in family stability, strengthening of livelihoods and generation of new avenues of income earning after procurement of a shelter. It is evident that housing has played a crucial role in improving the economic conditions of the citizens not only in Sri Lanka and Indonesia but also in Malaysia, which in turn has led to an increase in the GNP. Housing therefore has had a positive effect on the growth of the economy. It is reasonable to believe that in India too, housing needs to be perceived in terms of its long-term contribution to the economy.

6.3 Summary

In this section, the summary of the research findings in the foregoing chapters is presented.

The development policy in India has been a mixture of Rapid Economic Growth Strategy and Basic Needs Strategy (Chapter II). Though housing is considered to be a basic human need it has not received due importance from the policy makers and planners while formulating the development policies for India. The share of housing investment in the total investment in the economy has come down from 34 per cent in the 1st Five Year
Plan to around 7 per cent in the 8th Five Year Plan. The percentage share of budgetary expenditure on housing of Central and all state Governments combined in the total budgetary expenditure has also declined over the years. The Government of India in its policy documents has mentioned several times about its changing role from a provider of housing to an enabler. As an enabler the Government's role should be in developing a conducive social, physical, financial and legal infrastructure for the private sector to invest and participate in house building activities. The Government is not successful in even undertaking the role of an enabler. Had the Government been successful in making the housing sector a viable investment avenue, the proportion of private sector housing investment in total private sector investment would not have come down from 50 per cent in the 1st Five Year Plan to 12.8 per cent in the 7th Five Year Plan. Inadequate investment and marginal attitude of the Government of India towards the housing sector vis-à-vis other sectors in the economy have led to an alarming rate of increase in the total backlog of housing shortage. On the other hand, it has been found that there is an improvement in the availability of housing amenities like drinking water, electricity and toilet both at the state level and at the national level. It has also been found that the disparity regarding the provision of housing amenities across states in India has reduced in 1991 compared to 1981. However, it is to
be mentioned that a significant number of households still do not have access to safe drinking water, electricity and toilet - the basic necessaries of mankind.

Various studies have shown that there exists a strong relationship between productivity at workplace and housing - better housing ensures higher productivity of the occupants (Chapter II). Studies have also shown that housing investment creates direct and indirect employment opportunities and thereby increased income in multiple folds. In the Indian economy, the contribution of housing in Gross Domestic Product and Gross Capital Formation is not very significant and has more or less shown a declining trend both in current prices and at 1980-81 prices. However, housing has played a significant role in employment generation in India. Building sector workforce represents 16 per cent of the total workforce in the country.

Housing need is a normative indicator which shows the extent to which the quantity and quality of existing accommodation falls short of that required to provide each household or person in the population, irrespective of ability to pay or of particular personal references, with accommodation of a specified minimum standard and above (Chapter III). On the other hand, effective housing demand may be defined, as housing need
backed by ability and willingness-to-pay. The demand analysis for the commodity 'housing' is a complex issue and should take into account its special features, viz., heterogeneity, durability and spatial fixity.

A research study has shown that the demand for housing in India is inelastic with respect to income and with respect to price it is elastic. The demand for housing is more responsive to the changes in prices than income (Chapter III).

There are several estimates of the housing need/shortage at the aggregate level in India (Chapter III). The estimate of the National Buildings Organisation (NBO) regarding housing shortage in India may be considered to be a base-level one since the forecast of the number of households for the year 2001 in this case is significantly underestimated. The NBO has estimated that by the year 2001 there will be housing shortage to the extent of 19.4 million units. Hence it may be argued that the Government of India is possibly not going to achieve its mission of "shelter for all by the year 2001".

In India, the flow of credit into the housing sector comes from two sources, viz., the formal sector and the non-formal sector. According to the definition adopted by the Rangarajan Committee, 1987, the formal sector includes budgetary
allocation of centre and state Governments, assistance from the financial institutions/agencies like LIC, GIC, UTI, Scheduled Commercial Banks, Provident Funds and specialised housing finance institutions like Housing Finance Companies (HFCs) and Cooperative Housing Finance Societies. The non-formal sector consists of the household themselves, private money lenders, public and private employers extending home loans to their employees and project financing by HUDCO and other agencies outside the budgetary process. It may, thus, be noted that a substantial portion of the organised sector’s contribution is included in the non-formal sector (Chapter III).

Though the funds for housing activities from the formal sector has increased during the last few years, the non-formal sector plays a crucial role in housing activities in India even today with a large proportion of the households funding their building activities either through personal savings or through any other informal sources. It has been found that the formal sector institutions during the 8th Five Year Plan contributed only around 25 per cent of the total housing investment required for the Plan Period (Chapter III). The target-achievement analysis for the 8th Five Year Plan shows that the shortfall in the actual flow of funds as against the targeted one was the lowest in the case of Housing Finance Companies (HFCs) compared to other formal sector institutions like LIC, GIC and Scheduled
Commercial Banks. Being exclusively in housing finance, HFCs are considered to be the most important source of funds for the housing sector and the 9th Five Year Plan envisages a substantial flow of funds into this sector from the HFCs. The National Housing Bank has been set up under the NHB Act 1987 to promote and regulate the housing sector in India by monitoring the activities of the HFCs. The NHB is successful to a large extent in its effort since the number of NHB approved HFCs has increased from 5 (with some 50 branches) in 1988 to 21 (with some 300 branches) in 1996. However, the NHB should take initiative to remove certain existing legal and fiscal obstacles for proper functioning of the HFCs.

There was a phenomenal growth in the number of HFCs approved for refinance by NHB between 1988 and 1996 (Chapter IV). However, it is also necessary to analyse the growth with respect to net owned funds (NOF), outstanding deposits, borrowings outstanding and outstanding loans to individuals of the HFCs. NOF, outstanding deposits and borrowings outstanding represent the mobilisation of funds and outstanding loans to individuals represent the disbursement of funds by the HFCs. It has been found that, at an aggregate level, the growth of 21 HFCs with respect to mobilisation as well as disbursement of funds is reasonably high and there is a proper match between the two indicating thereby a viable overall
performance of the HFCs (Chapter IV). It has also been found that in case of HFCs (at an aggregate level) the share of borrowings outstanding in the total borrowings (deposits plus borrowing outstanding) is around 80 per cent.

The analyses pertaining to the pattern of mobilisation of funds by the HFCs have revealed the following (Chapter IV):

1. Barring HDFC and HUDCO, most of the other HFCs have limitations in having access to various sources for mobilisation of funds. Most of the time they are depended on one or two particular sources for borrowing funds.

2. LIC Housing Finance and GIC Housing Finance are mainly dependent on their parent organisations (Life Insurance Corporation and General Insurance Corporation respectively) for raising funds.

3. Investors' confidence in fixed deposits and bonds/debentures are found to be substantially prevalent in HFCs promoted by Scheduled Commercial Banks and HUDCO - the only Government HFC.

4. Flow of bank funds into most of the HFCs under consideration increased with the passage of time and became
more prominent during the later years.

The HFCs have limitations in having access to various sources for mobilisation of funds and as a result the housing sector in India is undercapitalised (Chapter IV). It is therefore crucial for the HFCs to broad base their resource mobilisation through integration of housing finance system with the broader financial system, viz., money and capital markets. In this context, securitisation of loan assets and secondary mortgage market assume a vital role. In India, there are serious legal impediments in the creation of secondary mortgage market for the housing sector and they relate to the Transfer of Property Act 1882, Foreclosure Laws and the Stamp Duties. In the Union Budget of 1999-2000 the Finance Minister, however, has promised to simplify the present legal positions of foreclosure and transfer of property and rationalise the stamp duties across different states in India.

HFCs are set up to serve the housing sector by supplying funds to it as specialised institutions vis-à-vis other formal sector institutions (like LIC, GIC, Scheduled Commercial Banks etc.) from where funds flow into the housing sector as allocated credit (Chapter V). It may be assumed that HFCs would be able to provide finance to the housing sector successfully if their financial activities are governed by prudent financing as well as
investment decisions. Financing decisions take into account the various sources from which funds are raised while investment decisions deal with the various avenues of investment of the funds raised. To judge the correctness of the financing and investment decisions, it is pertinent to undertake an in-depth analysis of the trends of those performance indicators that affect the two decisions mentioned above. In the present analysis, liquidity, profitability, capital, investment, output and net profit have been considered to be the performance indicators that ultimately reflect the quality of the financing as well as investment decisions. The analysis of the trends in investment, output, capital, liquidity, profitability and net profit over a period of time has been carried out for each HFC under the Strength (capital, investment and output analyses) – Soundness (liquidity analyses) – Profitability – Performance (growth performance in real profit) framework (the SSPP framework). In addition, a simple econometric analysis has been carried out to determine the factors that affect the profitability of the HFCs and examine these factors with reference to each HFC. Besides profitability, the efficiency of the HFCs with respect to cost structure, over a period of time, also finds a suitable place in the financial performance analysis of service companies like HFCs where it is very difficult to measure the productive efficiency. Hence, cost structure analysis is considered to be relevant and undertaken. Out of the 21 HFCs approved for
refinance from NHB, 11 HFCs have been selected for the financial analysis.

An inter-firm comparison (Chapter V) reveals that all the HFCs except Peerless Abasan Finance Ltd. have a good match between the growth rates of capital stock and output. The operating income, as a proxy for output, has come down sharply during the last two years for Peerless Abasan Finance Ltd. This is the only HFC, in the sample chosen for analysis, where operating income has declined in a particular year compared to the previous year. The compounded annual growth rate of operating income for Peerless Abasan is not low both in nominal as well as in real terms. However, this growth rate is misleading since the base value of operating income for the company is very low thereby inflating the overall growth rate in a significant manner. Judged by the absolute value and growth rates of capital invested and operating income, HDFC seems to be the best performer followed by HUDCO and LIC Housing Finance Ltd.

The inter-firm comparison in the investment front (Chapter V) shows that most of the HFCs have a regular flow of funds. But fluctuations on a year to year basis are evident. In the case of Ind Bank Housing Ltd. and Peerless Abasan Finance Ltd., the investment flow has come down continuously, both in nominal and real terms, over the entire period of analysis. For Peerless
Abasan, the situation is even worse since the investment in the initial year was quite low and it reached an absolutely rock bottom level in the final year of the analysis. The overall flow of investment, during the entire period of analysis, is the highest in HUDCO followed by HDFC and LIC Housing Finance Ltd. Since growth rates are sometimes biased because of the base values, the level of efficiency in the utilisation of investments measured through ICOR (Incremental Capital Output Ratio) has been considered in the inter-firm comparison. Most of the HFCs have ICOR more than unity indicating a low level of efficiency in utilising investments for generating output. Can fin Homes Ltd. With a modest inflow of investment each year exhibits the most efficient utilisation of funds in a consistent manner. HDFC also shows a moderately high level of efficiency in generating operating income out of the large investment inflows every year. With a steady and large flow of investments every year, LIC Housing Finance Ltd. is improving its investment utilisation efficiency in a significant way over the years. HUDCO needs special attention in utilising its huge investments in an efficient manner since the ICOR is well above unity. For other companies like Ind Bank Housing Ltd., Peerless Abasan Finance Ltd. and Dewan Housing Finance Corporation Ltd. the ICOR is coming down over the years and is well below unity during the last couple of years. However, since the flow of investment for these companies have declined sharply without a significant fall in
operating income, the ICOR for these companies has fallen below unity. It has to be kept in mind that sometimes the operating income is not affected even if there is a crunch in the inflow of investments since the interest income from previous loans keeps on flowing into the company. But this is not considered to be viable in the long run. Hence, the three companies viz., Ind Bank Housing Ltd., Peerless Abasan Finance Ltd. and Dewan Housing Finance Corporation Ltd. has not been considered to be operationally strong even though the ICOR has remained less than unity in the late years of the analysis.

The analyses pertaining to the liquidity aspect of HFCs (Chapter V) reveal that with regard to short-term liquidity as indicated by cash to current liabilities ratio and current ratio, HDFC has the highest solvency followed by LIC Housing Finance Ltd. Both these companies have exhibited consistent values of the two ratios over the entire period of analysis. Moreover, the cash to current liabilities ratio and current ratio of the both these companies were never too high nor too low and always remained above unity. Ind Bank Housing Ltd. and Peerless Abasan Finance Ltd. also had values for both the short-term liquidity ratios above unity throughout the entire period of analysis but fluctuations were evident. For the other HFCs, the two short-term liquidity ratios were below unity for some years and above
unity during the rest of the period indicating wide range of fluctuations. Regarding the ability to pay the interest due on borrowings as indicated by the interest coverage ratio, all the HFCs have more or less the same status. The interest coverage ratio remained consistently above unity without much fluctuation for all the companies. The relationship between $R-I$ (where 'R' is the return on assets and 'I' is the effective interest rate) and debt-equity ratio is prudent for most of the HFCs indicating high degree of long-term solvency. But HFCs like HUDCO, Ind Bank Housing Ltd. and SBI Home Finance Ltd. did not show the expected relationship. Even though $R-I$ remained negative, the debt-equity ratio increased for these companies.

The profitability analysis of the HFCs shows that with regard to return to risk capital, LIC Housing Finance Ltd. has the best performance (Chapter V). Can Fin Homes Ltd., Dewan Housing Finance Corporation Ltd., HDFC and GIC Housing Finance Ltd. on an average have shown high profitability with respect to risk capital baring the terminal year when the profitability fell marginally for all these companies.

On the basis of relative performance of the HFCs with respect to return on capital employed, the HFCs under consideration has been classified under four groups (Chapter V). The groups are
(a) very high profitability (b) high profitability (c) average profitability and (d) poor profitability.

HDFC and Dewan Housing Finance Corporation Ltd. have very high profitability with respect to capital employed. The return to capital employed has steadily increased over the years. However, out of the two companies, HDFC is the better performer since the return is higher compared to that of Dewan Housing Finance Corporation Ltd.

Can Fin Homes Ltd., GIC Housing Finance Ltd., Gruh Finance Ltd. and LIC Housing Finance Ltd. exhibited high profitability with respect to capital employed. The return on capital employed for these companies increased consistently from 1992-93 till 1995-96 but declined in the terminal year of the analysis. Among these four companies, GIC Housing Finance Ltd. has the best performance with the highest return to capital employed.

HUDCO and Vysya Bank Housing Finance Ltd. had average profitability with respect to capital employed. During the last two years of the analysis, their return to capital employed stabilised after fluctuations during the initial years. Vysya Bank Housing Finance Ltd. has posted a higher return compared to HUDCO.
Ind Bank Housing Ltd., Peerless Abasan Finance Ltd. and SBI Home Finance Ltd. have been identified as companies showing poor profitability with respect to capital employed. The return to capital employed for these companies have more or less shown a declining trend and reached a very low level during the final year of the analysis. Among these companies, Ind Bank Housing Ltd. has the least profitability.

As far as performance indicator is concerned, HDFC and LIC Housing Finance Ltd. are the best performers (Chapter V). They achieved high growth rates of 30.7 per cent and 35.2 per cent respectively together with moderately high absolute values of real net profit and a continuous increase in real net profit on a year to year basis.

In the econometric analysis, linear multiple regression technique has been used to identify the determinants of profit/profitability of HFCs (Chapter V). This would, in turn, help the management of HFCs to implement specific control mechanisms for those operating variables that affect the profit/profitability the most. In the econometric analysis, the hypothesis is that, given a market structure, profitability as well as poor performance of the HFCs ought to depend upon the structure of costs. In the total cost structure of the HFCs, the
major components are identified to be wages and salaries (W), interest expenses (I) and bad debts (D). The model takes the following form:

\[
PBDT/0 = \alpha + \beta_1 (W/0) + \beta_2 (I/0) + \beta_3 (D/0) + u
\]

Where, \(\alpha\) represents the intercept term and \(\beta_1, \beta_2, \beta_3\) represent the co-efficient of the explanatory variables, 'O' represents the operating income and 'U' represents the stochastic disturbance term.

The following are the results of the above model:

> The explanatory variables together are explaining 86 per cent of the variations in the dependent variable as reflected through the \(R^2\).
> The co-efficients of the explanatory variables are statistically significant at 1 per cent level of confidence.
> Wages as a proportion of operating income have the highest negative impact on profitability.
> The presence of autocorrelation problem is minimum as the D-W statistics is 1.99.

The cost structure analysis, which details the cost per rupee of operating income, helps to analyse the performance of any HFC with respect to cost management over a period of time (Chapter
V). In fact, it may be used as a surrogate for productivity measurement for service companies like HFCs. Each major cost component (wages, bad debt and interest) has been expressed as a proportion of operating income over the period 1992-93 to 1996-97 with respect to all the HFCs under consideration.

It has been found that Dewan Housing Finance Corporation Ltd., Gruh Finance Ltd., HDFC and LIC Housing Finance Ltd. are exhibiting a more or less declining trends with regards to the proportion of wage cost in the operating income indicating thereby, better utilisation of human resource and an upsurge in the productivity level of employees. This declining trend is consistent in the case of Gruh Housing Finance Ltd. There are some HFCs like Can Fin Home Ltd., GIC Housing Finance Ltd., Peerless Abasan Finance Ltd. and SBI Home Finance Ltd. which have shown an increasing trend in wage cost per rupee of operating income in the last three years. Rest of the HFCs have fluctuations without any proper trend.

The analysis pertaining to the bad debt cost apparently reveals that the HFCs in general have not faced any problems in the front of recovery of loans. However, the bad debt cost per rupee of income has gone up significantly for Ind Bank Housing Ltd. and SBI Home Finance Ltd. during the later part of the period under analysis indicating the need for better recovery measures
for these companies. Moreover, HDFC and LIC Housing Finance Ltd., the two better performing HFCs (judged on the basis of previous analyses), have also shown an increasing trend of bad debt cost per rupee of operating income over the years.

For most of the HFCs, interest cost per rupee of income is above 65 per cent. Ind Bank Housing Ltd. and Vysya Bank Housing Finance Ltd. are the two HFCs where a marked rise in the interest cost per rupee of income over the years is observed. On the other hand, HDFC is the only HFC, which could consistently reduce the proportion of interest cost on a year to year basis. Can Fin Homes Ltd. and GIC Housing Finance Ltd. have also reduced the interest cost per rupee of operating income continuously over the entire period of analysis baring the terminal year where an upsurge is noticed.

6.4 Concluding Remarks

The investment (public and private combined) in the housing sector as a proportion of the total investment in the Indian economy has been coming down over the various Five Year Plans. The share of public investment in the total housing investment has reduced over the Plan Periods indicating that the private investment is having the lion's share in the total
housing investment. The Government's policy to become an enabler of housing activities rather than a direct provider of houses defends the decreasing share of public investment in the total housing investment. However, as an enabler of housing activities the Government of India is not successful and this is reflected in the fact that the growth in private housing investment is much lower compared to the growth in the overall private investment in the economy. The legal, fiscal and physical infrastructure hindrances have kept away private investment from the housing sector. It is high time for the Government of India to identify its proper role in the housing sector with a view to successfully implement it. The Government has to have a clear future vision for the housing sector.

In a planned economy like India, the major thrust for estimating housing shortage should lie on the difference between housing stock and housing need. Given the significant growth in housing shortage in India and abysmally low share of formal sector contribution in the total investment required for housing, the Government should not try to prevent the informal system working but rather should encourage formal institutions to provide competition to it. Informal systems of housing finance work because they are suited to the conditions in which they operate. However, informal systems are not efficient; in
particular, they cannot provide long term loans in an efficient manner.

In the Indian context, formal housing finance is best provided by specialist institutions like the Housing Finance Companies (HFCs). The major eleven HFCs operating in the housing finance system are financially strong and sound and their profitability as well as growth in profit are, on an average, quite satisfactory. The HFCs are, however, required to broad base their sources for raising funds. The existing problems of HFCs in raising funds from a variety of sources would be mitigated once the secondary mortgage market becomes vibrant, foreclosure laws are made effective and stamp duties across various states are rationalised.

One area in which the HFCs are not successful relates to the down marketing of housing loans to low income groups. The HFCs may operate with a social bent and their line of thinking would be "profitability with social justice". Grameen Bank of Bangladesh would be a suitable model for the Indian HFCs to study.

Grameen Bank, founded in 1976 by Prof. Mohammed Yunus, was the pioneer in micro-credit in Bangladesh. Its success has inspired another 750 non-government organisation (NGOs) in
Bangladesh and thousands in other countries to provide credit to those at the very bottom of the social ladder: poor women, doubly handicapped by poverty and gender discrimination. In Bangladesh, rural loan recovery by formal lending institutions declined from a poor 48.5 per cent in 1981-82 to a disastrous 18.6 per cent in 1993-94. On the other hand, Grameen Bank claims astonishingly high loan recovery rates of over 95 per cent. Another interesting feature is that while formal banks in Bangladesh lend at highly subsidised rates, micro-credit organisations like Grameen Bank charge 15 to 20 per cent interest rate. Yet they boost a high recovery rate indicating that the poor can use credit productively. The Grameen Bank has a unique process of lending loans. A typical group of 5 to 10 members gives a group guarantee for loans to any individual member. This exerts a social pressure on the member to repay and has proved far more effective than legal pressures in formal bank loans - an example of community participation in lending activities.

The Indian HFCs might try to lend funds to the low-income group people in a similar line followed by the Grameen Bank of Bangladesh. Social pressure should be created on the borrowers rather than legal pressures. A joint venture of HFCs and NGOs would be a feasible solution to down marketing of loans and recovery of the same. HFCs like LIC Housing Finance and GIC
Housing Finance should try to utilise the massive workforce (their parent companies have in the field) in these activities. However, it should be kept in mind that the selection of NGOs should be proper and prudent. Moreover, the loan to the poor should be a composite one indicating that a part of the loan will be utilised for income generating activities and the other will be utilised in house building activities. It is believed that unless and until the poor people are involved in activities, which generate income for them, recovery of loan becomes a remote possibility.

HUDCO, HDFC and Dewan Housing Finance have already started micro-credit in housing in collaboration with various NGOs. It would be an interesting area of further research to study the system of this emerging activity in an in-depth manner.