CHAPTER I

METHODOLOGY AND REVIEW OF LITERATURE

1.0.0 Introduction

In majority of the developing countries there is an increasing gap between availability and demand for housing. Today, housing means the provision for comfortable shelter in pleasant surroundings with swift service of the basic necessity that would keep a man healthy and cheerful. In developing countries, a combination of adverse factors exacerbates the shortage more than in advanced countries.

Growth of population in the developing countries is on the increasing side. This growth can be particularly traced in cities. The sheer scale of the growth in population poses a severe task for builders and promoters. Housing is an essential requirement of life for every human being. More construction of houses and development activities accounts as major indicator of the prosperity of a nation.

In all the developing and developed countries housing is one of the principal factors that affect the level of living status of the people. It plays a multiple role in creating employment and economic growth in maintaining health and social stability and in preserving the values of decent family life. Housing also contributes to the physical environment that is society's basic unit on which the family develops. The improvements of this physical environment represent a concrete and visible rise in the general level of living. Initially, United Nations documents were the first that explicitly
mentioned about the right of housing in the Universal Declaration on Human Rights, which states that:

"Everyone has the right to a standard of living adequate for the health and well being of himself (SIC) and of his (SIC) family, including food, clothing, housing and medical care and necessary social services.... (article 25(1))". Since the adoption of this declaration in 1948, the human right to adequate housing has been repeatedly reaffirmed. The Vancouver Declaration on Human Settlements and Plan of Action (1976) included reference to a range of individual human rights, State based rights and other legal provisions. The Global Strategy for Shelter in the year 2000 (GSS) further reinforced the right to adequate housing and the obligation of nations to ensure an enabling environment in the shelter sector”

Homelessness represents the most obvious and severe manifestation of the unfulfilment of the human right to adequate housing. While estimates on scale of homelessness are invariably difficult to ascertain with precision, it is generally mentioned in the relevant United Nations documents that there are about 100 million homeless persons in the world. Few countries have entirely eliminated homelessness but in many countries this phenomenon is clearly on the increase and hence further action is required to solve the problem of homelessness.²

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² Ibid, p.2.
The shortage of finance for housing has been recognised as one of the hindrances to the provision of housing for different households. Currently for every house built, funds utilized are from formal financial institutions, another three to five houses are built with personal savings and funds from other informal sources. Housing finance is inter-dependently linked with the provision of infrastructure and utilities because of its intense relationship with the volume construction to be built. From the conceptual foundation, one can see housing finance occupying a crucial intermediary role between production cum construction of new building, consumption of raw materials for the construction and the arrangement of finance for it or the economy on one hand, and the housing system on the other.

Housing credit and mortgages have a connection between the supply of housing for the purchaser to the demand of the households. Accessibility to credit and instalment purchase becomes very important. Eligibility for accessing credit depends on the duration of loan, the rate of interest and the amount of deposit, which is required as down payment made at the initial stage by the applicant or the purchaser.

Housing finance is the capital made available to the household to improve or acquire a house. Acquiring a house means building a house or buying one that has been built by someone else. The house can be bought from any number of sources including the builder or promoter, independent house owner or from a landlord and the seller may be an individual or an institution. The amount of housing finance required will depend primarily on the gap between the cost of acquisition and the amount already available
with the purchaser. However demand can only become effective if the purchaser is able and willing to borrow the amount.

In India, initiative for developing housing projects had begun with the First Five Year Plan (1950-1955). The Plan gave priority and formulated plans to provide successive construction of standard housing facilities in the country. The National Housing Policy of 1988, 1991 and the National Housing and Habitat Policy of 1998 were an action plan drawn to achieve the target of “Shelter for All” enunciated in the National Agenda by the then ruling government in 1991. The central theme of the policy strengthens the public and private partnership for tackling the housing and infrastructure problems faced by the country. The policy provides fiscal concessions, with legal and regulatory reforms and creates an enabling environment for the construction of houses in the country.

The Census of the year 2001 has revealed that the Indian population, which had been estimated to cross the billion mark by the turn of the Century had touched 1027 millions as in March 2001. The population translates to the need of over 200 million houses towards achieving the goal of “Housing for All”.¹ The National Housing and Habitat policy has addressed this problem compounded with the population explosion. This document clearly identifies the respective roles of the Central Government, the State Government, local authorities and Housing Financial Institutions.

Suresh V. (Chairman and Managing Director, Housing and Urban Development Corporation Ltd., New Delhi), paper presented for the National Seminar on Housing: Ushering in a grey Revolution in Chennai, on 17th November 2001.
Homelessness can be seen as a condition of detachment from society characterizing the lack of the affiliate, the bonds that link people into their social structures. Homelessness carries the implication of 'belonging no where', rather than 'no place to sleep'. A theoretical definition of homelessness has widened out from embracing not only those people sleeping under the open sky but includes the housing, which faces rough weather including risk and casualty. Broader definitions of homelessness are contentious in policy making. More wide-ranging interpretations of homelessness include those in overcrowded, insecure or sub standard accommodation, those forced into involuntary sharing of shelter, or those subjected to high levels of noise pollution.

Definitions of homelessness developed in high-income industrial countries can be viewed as points on a continuum than as discrete categories. They include those who live in accommodation that does not reach certain standards as well as those with no accommodation at all. In Eastern Europe some countries are included in the list of homelessness or sub-standard housing. Furthermore, there is still a tendency in this region to classify homeless people as either deserving or undeserving.

In developing countries, some define homelessness as having no land or shelter, while others include living in sub-standard housing. As in high-income industrial countries, people living on the streets may (perversely as it may seem) be excluded from the homelessness figures and policy. Many countries have no official concern for homeless people, even to the extent of denying their existence.
1.1.0 The Problem under Study

In India the housing situation continues to be daunting despite qualitative and quantitative increase in housing stock over successive plan periods. Speculative land prices and spiraling rents with fluctuating situations have further worsened the housing problem in the urban areas. Hence the problem under study focuses on the institutional resources facilitating access for growth of housing activity through their fiscal advances.

Both public and private sectors deal Housing and provision of housing with enormous disparity in income levels. The recent policies of the Central Government on housing have further helped the participation of public - private partnership and foreign direct investment in housing as part of infrastructure development.

i) The public or private housing finance plays a very important role in housing and hence the Study deals with demand and supply of housing activity.

ii) The Study attempts to evaluate the affordable rates of interest and their impact on the larger sections of the society.

iii) The Study also attempts to investigate the various institutions involved in this research work and their role in coming forward to provide financial assistance.

iv) The detailed personal demographic variables along with organizational variable are also closely observed.

Hence the Study has been taken with the following objectives:
1.2.0 **Objectives of the Study**

The major objectives of the Study are given below:

1) To identify the role of Non-Governmental Organizations / Agencies in removing the obstacles of housing supply at the Third World and National Levels

2) To trace the housing problems and policies through the national housing laws and national plans and to analyze the changing roles of the various Agencies in the housing supply process.

3) To identify the role and method of supplying credit through the Housing Financial Institutions and the Banking Sector

4) To review the performance of Housing Financial Institutions and their involvement in meeting the financial requirement of the urban housing beneficiaries in Chennai city.

5) To elicit the opinions of the urban housing beneficiaries and the suppliers of finance with the view to identify the affordable interest rates.

6) To formulate and suggest guidelines so that the financial assistance reaches the larger sections of the society.

1.3.0 **Hypotheses**

Stemming from objectives, a series of hypotheses have been formulated, which are listed as below:

i) Whether Housing Financial Institutions in the city of Chennai (Madras) have removed the obstacles of housing supply without any discrimination in sanctioning loan amount.
Whether the legislative Amendments relating to housing policy have an impact with educational qualifications of the respondents.

Whether the margins applied on the housing loans by the financial institutions is reasonable with reference to the annual income and loan coverage.

To study whether the beneficiaries favour the directly proportional interest rate or indirect proportional method of interest that satisfies the Beneficiaries on the loan they have taken to purchase the dwelling units.

1.4.0 Scope of the Study

To day it is nothing less than a 'Housing Revolution'. There is an immediate need for financial foreclosure, provision of easy and cheaper finance, extension of tax incentives and macro economic reforms like increasing the cash flow to housing. To identify the global scenario and national theme, this Study is an attempt to analyse the functions of the housing Financial Institutions in providing effective accessibility and financing factors to the beneficiaries in Chennai city. The study confines to a specific period namely 1991-2000. It relates to the role of the Housing Financial Institutions in the field of supplying credit and meeting the requirement, there by helping the economy to the related auxiliary industries.

1.4.1 Study Area

The study area covers to major Housing Financial Institutions in Chennai city. The institutions have been chosen to make a comparative analysis of the performance of housing finance in a major mega city like
Chennai dividing in areas and zones geographically. Major suppliers of housing finance in public sector and private sector are involved in the study. An attempt has also been made to study the private and foreign institutions to know their direct involvement in the field. Thus the Study covers the various roles of government, public, private and foreign institutions.

1.5.0 Study Period

The Study covers the period from 1991-1992 to 2000-2001. A few Housing Financial Institutions (HFI), since their inception, are covered under the period. Lured by the demand and policy several financiers are flooding the housing market. Almost all Nationalized Banks and Scheduled Banks have their gallant entry made into this field during this period. The 1991-1992 was chosen to find the reliability factor of the institutions based during the year. It was the year when the First National Housing Policy was drafted, just after the global shelter ‘United Nations Centre for Human Settlements’ (UNCHS) announced the strategy. This period covers from the beginning of the Seventh Five Year National Plan to the end of the Ninth Five Year National Plan in India.

1.6.0 Methodology

The methodology adopted for the present Study is summarised below. There are about 50 financial institutions of varying size in Chennai city offering loans for the purchase of houses/flats etc. Many of these financial institutions are enjoying the support extended by the Government of India (GOI), the Reserve Bank of India (RBI) and National Housing Bank (NHB). In this context few institutions are identified and selected based on
their merits and performances. In total only 7 major financial institutions have been chosen for the study. The choosing criteria were based on the number of persons taking loans from these major financial institutions, which varied considerably.

1.6.1 Sampling Frame

The sampling frame plays an important role in any major study. In the present study we have constructed two different types of sampling frames. Utmost care has been taken in constructing a non-overlapping data bank and up to date sampling frame.

The sampling frame of HFI and the sample frame of beneficiaries for each of the financial institutions are the fundamental units of the study, which form the primary data in addition to the governmental documents, interview. The published materials in magazines, journals form the secondary data. The percentage of loan distributed through these financial Institutions during the terminal year was taken by following stratified sampling. In each strata lottery method has been used to identify the exact sample unit.

1.6.2 Primary Data

This involved in preparation of two different sets of interview schedules. The collection of data was made in person and through mail. Pre-testing of questionnaire was initially done to find out the reliability of the questionnaire. In the light of experience gained from pre-testing the questionnaire was also modified. The primary data was collected from 300
beneficiaries of the selected seven institutions, relating to personal demographics, financial sector, loan areas, repayment of the loan, tax incentives, effective functioning of the HFI etc.

An opinion survey was also included. The opinion of the beneficiaries over the effective functioning of the financial institutions and suggestions were collected.

A separate interview schedule was addressed to the Executives of the respective Housing Financial Institutions. The detailed data in respect of finance advanced and disbursement had been collected.

1.6.3 Secondary Data

Secondary data was collected from various Reports, Manuals, Journals, Training Materials, Published by International Organizations and Central and State Governments. Annual reports published by Life Insurance Corporation Housing Finance (LICHF), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC) and other Institutions were also consulted used. The housing policy of the centre and state governments, several five year plan documents, NHB reports and valuable literature from different libraries were used in this study.

1.6.4 Statistical Tools Applied for Data Analysis

The data collected were analysed with appropriate statistical tools and techniques such as, simple ratio percentage, estimators based ratio and regression methods, formulation of multiple regression models, analysis of variance techniques for testing the effects of various factors, chi-square and
t-test, usage of statistical test for testing various hypotheses and for drawing valid inferences and construction of statistical charts and diagrams. Comprehensive descriptions of statistical tools are presented in Chapter V.

1.7.0 Limitations

i) The Study confines only to the selected Housing Financial Institutions extending housing finance to individuals in Chennai City.

ii) The Study concentrates only on the effectiveness of promotional and development functions of these institutions, the accessibility and affordability aspects.

iii) Due to time constraints the Study confines to a period of about 10 years only.

1.8.0 Organisation of the Thesis

The First Chapter deals with the Scope, Objectives, Methodology, Review of Literature and Limitations of the present Study.

The Second Chapter presents an overview of housing policies of the Third World countries.

The Third Chapter describes the housing and the housing finance policies in India and in Tamil Nadu.

The Fourth Chapter traces the performance of Housing Financial Institutions in Chennai.
The Fifth Chapter presents the evaluation of the performance of the Housing Financial Institutions in Chennai and their impact on the beneficiaries.

The Sixth Chapter summarizes the findings and conclusions of the Study and offers suggestions for the improvement of the HFI.

1.9.0 Institutional Framework of Housing Industry – A Review of Literature

In the past a number of studies on the housing problems and HFI, have been made by Economists, Planners, Architects and Social Scientists in India and abroad. It may be relevant to give a brief account of these studies.

In this connection the UNCHS, Nairobi, has pointed out that "Homelessness represents the most obvious and severe manifestation of the unfulfilment of the human right to adequate housing. While estimates on scale of homelessness are invariably difficult to ascertain with precision, it is generally mentioned in the relevant United Nations documents that there are about 100 million homeless persons in the world. Few, countries, if any have entirely eliminated homelessness and in many nations this phenomenon is clearly increasing rather than declining, and further action is clearly required to eradicate homelessness".

In developing countries, population growth particularly in cities is still very large, although the rates of increase are declining. However, the sheer scale of the growth poses a severe task for housing suppliers. In sub-Saharan Africa, Tipple (1994) shows that the growth of households has required and will require the supply of more than ten dwellings per thousand population every year for the last and even next few decades. In the past, supply at this scale has eluded the formal sector and in the future, the
likelihood that these can be supplied through conventional formal sector methods is very slim indeed.¹

The International Covenant on Economic, Social and Cultural Rights (1966) defines and clarifies...that the economic, social and cultural rights requires States to respect, protect and fulfil the contents of the following article:

"The State parties to the present covenant recognize the right of everyone to an adequate standard of living for himself (sic) and his (sic) family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The state parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international co-operation based on free consent". (United Nations 1966a; Article 11(1))².

The Vancouver Declaration on Human Settlements (1976), states that...

"The highest priority should be placed on the rehabilitation of expelled and homeless people who have been displaced by natural or man-made catastrophes, and especially by the act of foreign aggression. In the latter case, all countries have the duty to fully co-operate in order to guarantee that the parties involved allow the return of displaced persons to their homes and to give them the right to possess and enjoy their properties

¹ Series of Publication in support of the Global Campaign for Secure Tenure to 03/2000, strategies to combat homelessness, United Nations Centre for Human Settlements (Habitat), Nairobi, 2000, pp.2-3.
² Ibid, p.177.
and belongings without interference" (Chapter II (General Principles), paragraph 15).1

The Global Strategy for Shelter (GSS) to the year 2000 (1988) asserts that...

"The right to adequate housing is universally recognized by the community of nations... All nations without exception, have some form of obligation in the shelter sector, as exemplified by their creation of ministries or housing agencies, by their allocation of funds to the housing sector, and by their policies, programmes and projects. All citizens of all States, poor as they may be, have a right to expect their governments to be concerned about their shelter needs, and to accept a fundamental obligation to protect and improve houses and neighborhoods, rather than damage or destroy them" (UNCHS, 1990).2

The United Nations Special rapporteur on Housing Rights has noted that ...

"... the fundamental necessity of an adequate place to live in peace, dignity and security is such that a recognition of housing rights must be seen and interpreted, in the most general sense, to imply that a claim or demand can be made upon society for the provision of or access to housing resources should a person be homeless, inadequately housed or generally incapable of

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1 Series of Publication in support of the Global Campaign for Secure Tenure to 03/2000, strategies to combat homelessness, United Nations Centre for Human Settlements (Habitat), Nairobi, 2000, p.177.
2 Ibid., p.178.
acquiring the bundle of entitlement implicitly linked with housing rights" (UNCHS, 1995c).¹

UNCHS have earlier listed the following possible actions in order to combat, reduce and eradicate homelessness.

"Encourage the creation of rights availing homeless individuals, and families to an enforceable right to the provision by public authorities of adequate, self-contained affordable land or housing space, of a public, private or cooperative nature, and which is consistent with human rights standards".

"Encourage the creation of administrative capacities to monitor, assist and ensure that the housing rights of chronically ill-housed groups, those with special housing requirements or those with difficulties acquiring adequate housing shall be accorded a measure of priority, in both the housing laws and policies" (UNCHS, 1999 d; Paragraph 71.b).²

**Habitat Agenda (1996)**

The Habitat Agenda addresses homelessness, the right to adequate housing and broader human rights issues.

Paragraph 11 States....

"More people than ever are living in absolute poverty and without adequate shelter. Inadequate shelter and homelessness are growing plights in many countries, threatening standards of health, security and even life itself.


² Ibid, pp 182-183.
Everyone has the right to an adequate standard of living for themselves and their families, including adequate food, clothing, housing, water, sanitation and to the continuous improvement of living conditions.¹

Paragraph 26 proclaims, inter alia.....

"We reaffirm that all human rights - civil, cultural, economic, political and social are universal, indivisible, interdependent and interrelated. We subscribe to the principles and goals set out below to guide us in our actions".²

The Housing Finance Manual designed for developing countries while targeting the group defines to whom the housing finance strategy is intended and made accessible. It defines...

"Housing Finance is the capital made available to a household to improve or acquire a house. Acquiring a house might mean building a house or buying one that has been built by someone else. The house might be bought from any of a number of sources, including the builder, another household or, even, a landlord, and the seller may be an individual or institution. The amount of housing finance required will depend primarily on the gap between the cost of acquisition and the amount already available to the purchaser. However, demand can only become effective, if the household is able and willing to borrow the amount. Its ability to borrow will depend on the terms of the loan as well as its own financial circumstances; its

willingness is likely to depend upon its view regarding the value of the house or improvements.¹

The workshop conducted in Goa, India from 10th to 14th June 1991, by the United Nations Centre for Human Settlements (Habitat) concluded with recommendations for strengthening the Housing Finance System in developing countries.

"It concluded then that the success of financial integration depends very much on the degree of domestic financial development. Liberalization of the financial markets could be destabilized unless and until effective supportive legal regulatory and supervisory frame works and institutions are firmly put in place".²

It was noted that in certain countries, government fiscal concessions/benefits are oriented to borrowing, with loan repayments, for example, qualifying for tax deductions. The Workshop recommends that similar fiscal concessions be extended to savers or investors as an added incentive, so as to increase resource mobilization, particularly by Housing Finance Institutions.

Foreclosure laws should be strengthened to enable housing finance institutions to recover their loans within a reasonable time. In some developing countries, it takes more than of five years to foreclose on

defaulting mortgages. Such a situation is capable of destroying the housing system where there is a large number of defaults, and morbidly long foreclosure periods is a disincentive for borrowers to honour promptly their mortgage obligations to Housing Finance Institutions.

Housing finance systems in developing countries should increase their efforts to explore and tap the tremendous financial resource potential of the informal sector of the economy through some "out-reach" strategies. Positive measures and strategies to encourage interaction between the informal sector and housing-finance institutions should be considered and put in place. With well-thought-out initiatives, the informal sector is a financially rich field which the Housing Finance System can exploit with immense profit, if it can win the confidence of that sector. With the informal sector currently financing over 70 per cent of the housing in developing countries, its resource potential requires no further proof or emphasis.

The development of a secondary mortgage market should not be a priority at this stage. Rather, efforts should be concentrated and intensified on strengthening the primary market and all the flaws in the primary market are to be ironed out before deeper involvement in the secondary market and ultimately, development of the secondary market will benefit from a strongly developed primary market.1

"Housing Finance Company" means a company incorporated under the Companies Act 1956 (1 of 1956) which primarily transacts or has as its

principal object, the transacting of the business of providing finance for housing, whether directly or indirectly.¹

Housing finance comes under the purview of non-banking financial companies as per the directions of the Reserve Bank of India Act 1934, under section 45-1(a) and National Housing Bank directions 1989. "Housing Finance Company is a financial institution carrying on as its principal business the financing of the acquisition or construction of houses including the acquisition or development of plots of land in connection therewith".²

Further, housing finance is defined as providing housing facilities to the general public in engaging the attention of the Government and it is an important item on the agenda of social development. The Government had passed the National Housing Bank Act. The primary objective of the NHB is to provide financial and other support to the Housing Financing Institutions. The housing loans disbursed by the Housing Financing Institutions are reimbursed by the NHB.

The HFIIs provide loans secured by mortgaging the housing property. They also secure in the initial stages by personal guarantee, the one who would be liable as security in case of default by the principal debtor, the borrower. The law of Guarantee would be applicable in such cases.

The financial institutions besides the house property as security insist on pledging collaterally financial instruments which have liquidity

¹ Government of India, Notification No, National Housing Bank, Housing Finance Companies, Directions 6, CMD 94, dated 07.02.1994.
such as National Savings Certificates, Life Policies, Shares, Fixed Deposits, Mutual Fund Units etc.

The repayment of loan is ensured by resort to other sources of income of the borrower viz rental income, dividend from the shares, income of other earning members of the family, if there is any.

The loan advanced by the financial institutions are repaid in monthly instalments which would cover the principal amount and the interest payable. In many cases the borrowers are not able to make the instalment payments as agreed to and the financial institutions hence resort to recover the loans by selling the mortgaged property. There is a need for the financial institutions to make scientific appraisals of the proposals before the disbursement of housing loans.¹

The Indian Constitutions through its Articles explores the following...

Article 19(1) (e) of the Constitution states: "All Citizens shall have the right to reside and settle in any part of the territory of India". Though the sub-clause is clearly intended to remove internal barriers in India and any of its parts, it can be construed as a right to residence/ house/shelter.²

Article 21: "No person shall be deprived of his life or personal liberty except according to procedure established by law".³

2. The Indian Constitution, Art. 19(1).
3. The Indian Constitution, Art. 21.
Article 25(1) of the Universal Declaration of Human Rights 1948 and Art. 11(1) of the International Convention on Economic, Social and Cultural Rights 1966 provide that everyone has the right to food, clothing and housing and State Parties recognize the said right and would take appropriate steps to ensure realisation of the right to housing. India is a signatory to both the Declaration and Convention.

"The ultimate object of the Directive Principles is to liberate the Indian masses, from Centuries, old coercion, ignorance, subject conditions, and to prevent exploitation. The Union of India in implementation of the above Directive Principles in Art. 39(b) and in discharge of its obligation under Art. 38 and Art. 46 to provide facilities and opportunities to the dalits, for construction of houses, to make their right to settlement and life meaningful, to enable them to live with dignity and provide economic empowerment of settled residence to enjoy the right to meaningful life".

**Housing under the national Five Year Plans of the Government of India...** briefly traces the salient issues that were addressed by the Five Year Plans of the past, with particular reference to National Housing. The first Five Year Plan concentrated upon housing for Government Employees and weaker sections of the society; and housing subsidies were introduced. Housing for the poor was emphasized in the Second Plan, when the Town & Country Planning Legislation were enacted to prepare master plan for development of housing. The third Five Year Plan ushered the move to co-ordinate the efforts of agencies for Low Income Group Housing. Balanced urban growth to decongest cities, schemes to improve infrastructure and intent to disperse population to new urban centres were some important
objectives of the Fourth Plan. The Urban Land Ceiling Act passed in the fifth Five Year Plan attempted to release land in urban agglomerations for public housing. The Sixth Plan saw the provision of services with shelter, integrated development of small and medium towns with ancillary services and inducements to set up industries for housing being given importance. The Seventh Five Year Plan recognised the role of the private sector in the construction of housing projects. The public sector hitherto involved in construction activities would restrict itself to mobilize resources, provide the subsidies and acquire land for mass housing. However the Eighth Five Year Plan addressed the following issues:

i) The widening gap between demand and supply of infrastructure service badly hitting the poor, whose access to the basic services like drinking water, sanitation, education and basic health services was shrinking.

ii) The unabated growth of urban population aggravating the accumulated back log of housing shortages, resulting in proliferation of slums and squatter settlement and decay of city environment.

iii) The high incidence of marginal employment and urban poverty while recognizing that 41.8 million urban people were living below the poverty line.

**Housing under the Ninth Five Year Plan (1997-2002)**

The dimensions and problems of housing need to be viewed in the overall environment of human settlements. Housing has been primarily a self-help activity. The housing policies and programmes, while accepting
that housing is essentially a private activity, have to recognize that State intervention is necessary to meet the housing requirements of the vulnerable sections and to create an enabling environment in accomplishing the goals of "shelter for all" in a self-sustainable basis.

An important development in the Eighth Plan was the bringing out of a consensus in the approach to human settlement development. The National Housing Policy (NHP) provided the basic approach. The economic reforms stimulated the process and the preparatory process for the Habitat II Conference brought together the key actors through the National Steering Committee, key groups of human settlement Managers, NGOs and CBOs, private sector and the National Human Settlement Forum, which crystallised and endorsed in the National Report.

The Eighth Plan outlay for urban housing was Rs.3,581.67 crores in the State Sector and Rs.1,341.35 crores in the Central Sector (Rs.860 crores as IEBR and Rs.481.35 crores budgetary support, inclusive of equity support).\(^1\) The expenditure under the Central Sector was 96 per cent and in the State Sector, 112 per cent. However, there was significant inter State variations in the funds utilisation rate. In terms of the total activities and investment requirement in the housing sector, the Plan outlay was modest.\(^2\)

The Eighth Plan target was 7.80 million new housing stock, including 6.29 million units for Economically Weaker Sections (EWS) and Low Income Group (LiG) categories. The estimated investment requirement was Rs.5,779 crores, at 1989-90 prices. The metropolitan cities were

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\(^2\) Ibid p.278.
estimated to account for as much as 2.75 million units at an investment of Rs.22,770 crores. The urban upgradation activity was estimated at 1.75 million units at an investment of Rs.1130 crores. Housing for the totally houseless population, urban and rural, would require an investment of Rs.610 crores. Housing has been, therefore, largely a people’s activity, but constraints of finance, land, other inputs and the absence of a stimulating environment has pushed the urban housing solutions beyond the reach of the majority of the people. Recent Habitat II housing and urban indicators for Mega Cities and secondary towns show that the cost of a medium house in terms of the annual income of the household, 11 years income in Bangalore and 7 years in Chennai, and it goes down to 3 to 4 years in secondary towns. This is the situation in the formal housing market, but a similar trend is seen in informal housing with 2-3 years income in Mega Cities and less than one year in the secondary towns. The comparative variations in housing costs in the formal and informal housing sectors and the composition of the population in the latter also bring out a shift from formal to informal housing as costs go up. Rental housing indicator also shows market distortions as reflected in high rental to income ratio, 20-25 percent in secondary towns and 30-50 per cent in the Mega cities.1

In this perspective, public housing thrust is, most appropriately, directed towards social housing, to reach out housing solutions to the priority groups. An equally important activity is to provide a policy framework and a legislative, fiscal and financial system that would put into effect the enabling

role of the Government in stimulating, supporting and promoting other things to play a direct role in the housing delivery system. These two activities had been the pillars of the Eighth Plan approach and would continue in the Ninth Plan.

**Physical Targets of Ninth Plan**

The physical targets under Special Action Plan are Rs.7 lakhs additional dwelling units annually starting from second year of the Ninth Plan (1997-2002). Assuming that physical output of formal sector, institutions in the implementation of SAP would be commensurate with the investment requirement of 70 per cent, the target for formal sector financial institutions would be 4.9 lakhs dwelling units annually and the balance 2.1 lakhs units would be provided by the beneficiary contribution subsidy. Out of formal sector institutions Housing and Urban Development Corporation (HUDCO) is expected to build one third of the total target namely 2.33 lakhs dwelling units annually. However since there is likely delay in the implementation of the SAP and HUDCO is currently engaged with the task of additional target for HUDCO has been kept at a reduced level of 1.5 lakhs dwelling units for 1998-99 instead of 2.33 lakhs originally proposed. The shortfall in the current year (0.83 lakh dwelling units) is undertaken by other Formal Sector Institutions. During the remaining years of IXth Plan (i.e. 1992-2002), HUDCO could take up one third of the shortfall in 1998-99 (i.e. 0.83 lakh dwelling units) over and above the original target of 2.33 lakhs dwelling units.
National Housing Bank

The National Housing Bank was set up in July 1988, under an Act of the parliament. The Bank is wholly owned by the RBI. The NHB at present has a paid-up capital of Rs.350 crores. The NHB was conceived and promoted to function as the apex institution in the housing sector. The need to set up this institution stemmed from the fact that the housing sector had not received the attention it required not only in terms of finance for individual loans but also in terms of buildable or serviced land, building material and cost effective technology.

The Objectives of the NHB

i. To promote a sound, healthy, viable and efficient housing finance system, to cater to all segments of the population and to establish a network of housing finance outlets to adequately serve different regions and different income groups.

ii. To promote savings from housing.

iii. To make housing more affordable.

iv. To promote appropriate technologies for housing.

v. To augment the supply of land and of building material for housing.

vi. To enable public agencies to emerge, primarily, as facilitators and suppliers of serviced land.

vii. To augment and upgrade the housing stock in the country.
viii. To strengthen the backward and forward linkages of the housing sector with rest of the economy.

ix. To augment the financial resources for the sector.

x. To enable the housing finance system to access the capital market for resources.¹

The Industrial Survey, Report, 2001 conducted by 'The Hindu' emphasis that the working group on the Ninth Plan had identified the need for provision of shelter for 16.76 million units in urban areas and 6.25 million units in rural areas for various income groups in the period 1997-2002. The total requirement of funds during the plan period alone was projected at Rs.150.370 crores, whereas the availability from the formal sector has been estimated at Rs.52,000 crores.²

National Housing and Habitat Policy

Housing is a state subject, but, the Union Government is responsible for the formulation of policy with regard to programmes and approaches for effective implementation of the social housing schemes, particularly those pertaining to the weaker sections of the society. A new Housing and Habitat Policy 1998 had been formulated to address the issues of sustainable development, infrastructure and for strong public-private partnership. The objectives of the Policy are to create surpluses in housing stock and facilitate construction of two million additional dwelling units each

¹ P.P. Vora, Chairman & Managing Director, National Housing Bank, Role and Function in Housing Sector through internet, pp. 1 of 3.

year in pursuance of the national agenda for governance. It also seeks to ensure that housing along with supporting services is treated as a priority sector at par with infrastructure. The central theme of the policy is strong public-private partnerships for tackling housing and infrastructure problems. The Government would provide fiscal concessions, carry out legal and regulatory reforms and create an enabling environment.

**Housing Finance**

The following initiatives have been taken recently as part of implementation of National Housing and Habitat Policy: (a) An action plan has been drawn up to achieve the target of shelter for all enunciated in the National Agenda for Governance. Construction of seven lakhs additional dwelling units in urban areas will be facilitated by the Government by providing fiscal and technological support. It will require all-round involvement of private sector/cooperatives and NGOs/CBOs (Community Based Organisations); (b) The NHB set up in 1998 as a subsidiary of RBI, is functioning under the administrative control of the banking division of Department of Economic Affairs. It is supervising and controlling various Housing Finance Institutions (HFIs). So far it has recognised 29 HFIs; (c) Allocation by Life Insurance Corporation/General Insurance Corporation for direct and indirect finance for housing has been increased; (d) During 1999-2000, HUDCO sanctioned loans of Rs.8,889.89 crores for Housing and Urban infrastructure schemes. Loan released during the same period was Rs.4,412.40 crores. During 1999-2000, 745 schemes sanctioned with loan assistance of Rs.11,778.81 crores would enable construction and upgradation of 14.54 lakh residential units and development of 22,117 residential plots.
More than 98 per cent of the total residential units, (14.33 lakh units) sanctioned during the year were meant for EWS/LIG. On 8 March 1999, HUDCO launched the individual retail-financing scheme HUDCO Niwas and sanctioned Rs.1,259.97 crores for 1,82,370 dwelling units all over the Country. An amount of Rs.809.02 crores had been released during the year under this scheme; and (e) As an Action Plan item, Night Shelter Scheme for footpath dwellers is being implemented as a Centrally-sponsored scheme in the Metropolitan and other major urban centres. Since April 1991, 101 schemes benefiting over four lakh footpath-dwellers have been sanctioned by HUDCO in various parts of the country.¹

Ministry of Urban Affairs and Employment narrates the role of the public and private Housing Finance Companies that should target for achieving the goal of providing shelter to all. These companies would:

i) Redefine their role and move away from their traditional approach to housing finance.

ii) Develop and expand their reach to meet the needs of people.

iii) Devise schemes to lend at affordable rates to those who are in dire need of Housing Finance support.

iv) Mobilise resources from provident funds, insurance funds, mutual funds etc. for house building activities.

v) Develop innovative instruments to mobilise domestic savings.²

¹ A reference annual compiled and edited India 2001, Publication Division, Ministry of Information and Broadcasting, Govt. of India, Patiala House, New Delhi, pp.611-612.

² Urban India, Ministry of Urban Affairs and Employment, policies, (through internet), pp. 5 of 8.
Central Statistical Organisation (CSO), India, 1992, evidently declares that a small percentage of the total household savings goes to the creation of physical assets that include housing. A substantial part of this savings is mobilized through formal institutions of which a fraction is made available in bulk or retail form. The formal sources of Housing Finance are:

i) Public and private institutions that have been set up specifically to finance housing activities

ii) Institutions catering to housing as well as to other sectors, such as scheduled commercial banks, LIC, General Insurance Corporation (GIC), Co-operative Banks, Land Development Banks etc.; and

iii) Government, public and private Agencies offering Provident Fund loans to their employees.¹

The Tamil Nadu State housing policy in accordance with the National Housing policy, has formulated a housing policy which focuses attention on the provision of "a house for each family". The basic objectives of this housing policy are: (i) To motivate and help all people, and in particular, the houseless and inadequately housed, to secure for themselves affordable shelter through access to land material, technology and finance. (ii) To encourage investment in housing in order to achieve a sustained growth of the nation's housing stock, and its proper conservation, renovation and upgradation. The objectives of the Tamil Nadu State Housing Policy are sought to be achieved by:

¹ National Trends in Housing Production Practices, Vol.1, India, United Nation Centre for Human Settlements (Habitat), Nairobi, 1993, p.35
i) Marking available developed land at reasonable price for housing at appropriate locations.

ii) Encouraging guided urban development and land assembly

iii) Providing security of tenure to households both in rural and urban areas:

iv) Promoting a viable and accessible institutional system for the provision of housing finance, promoting savings and investment in housing.

v) Improving and upgrading construction skills through opening of building centre (Kattidamaiyam) in each district.

vi) Creating and strengthening basic infrastructure and services needed for a healthy environment in human settlements through implementation of Urban Basic Services for the poor programme in the form of convergence of all physical and social infrastructures to meet the needs of the main target i.e., urban poor.

The Ninth Five Year Plan would endeavour to implement the state Housing Policy of ‘A house for each family’. To meet the housing needs, the State Housing Policy dedicates itself to the critical issues of mobilising resources and developing the delivery system of the housing market. Hence housing programmes have achieved a high priority and the agenda of the Government.¹

¹ Government of Tamil Nadu, State Planning Commission, Chapter 16, Housing, pp.400-401.
Cooper, B., defines 'Home' as a very rich concept. It embodies ideas of comfort, belongingness, identity, security and others that are beyond the scope of this report. 'Home' may be defined as a place where a person is able to establish meaningful social relations with other through entertaining them in his/her own space or where the person is able to choose not to relate to others if that choice is made.

'Home' could be a place where a person is able to define the space as his own and control its form and shape. This may be through control of activities and of defining their privacy in terms of access to the space. When the person defines his space he gives it a sense of identity and the space becomes associated with him and the person has made his house.

Cooper, further discusses the ideas of relative and absolute homelessness. Absolute homelessness occurs when there is neither access to shelter nor the elements of home. A person may be in relative homelessness; if he has a shelter but not a home. The notion of a home, however, is determined also by cultural conditions.1

Caplow T., Bahr H.M. and Stevnberg D. suggest the following definition of homelessness. "Homelessness is a condition of detachment from society characterised by the absence or attenuation of the affiliative bonds that link settled persons to a network of interconnected social structures."2

Daly G. estimates that five people per thousand use emergency shelters in Canada. Combined with census figure, these give national estimates of 130-260,000 homeless people. In the United States of America estimates give a very varied picture About 1.5 - 2.5 people per thousand population are judged to be absolutely or temporarily homeless, i.e. users of public shelters. In 1994 seven million Americans had experienced homelessness. Researchers like Epstein (1995), Wight (1989), Hope and Young (1984) have done similar work and presented their Reports to the United Centre for Human Settlements, (Habitat), Nairobi, Kenya.

Epstein (1995) states through his studies that there were 2.5 million people homeless in the United States of America in 1991. The number got increased from 1980.

Raj M. and Baross account that the housing shortage is taken as a measure of homelessness on the ground that, if a household must share someone else’s living accommodation, or a dwelling is due for demolition, it is homelessness. If it is so India would probably have some 20 million homeless households (probably 110 million homeless people in total) on this measure alone. If such of those who are not sharing dwelling but have poor

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servicing, and those whose tenure is very uncertain are added, the number will become very large indeed.¹

Moreover, the number of homeless households can also be calculated through the number of households not living in a shelter classified as a 'census house'. These would thus be considered 'houseless'. This gives much lower figures.

The 1981 Homeless Census, indicated that there were 6,30,000 homeless households, or some 23,42,000 homeless people (Glaesser, 1994). The 1991 Census of India showed a much lower figure of 2,17,000 (0.5 percent) 'houseless' households (e.g. not living in census houses). If these were assumed to have a similar mean size to the housed households, there would have been 1.2 million houseless people in 1991, i.e. twice the 6,00,000 estimate for pavement dwellers quoted by the Housing and Urban Development Corporation (HUDCO) for its homeless shelter plans. The latter looks rather low, especially in the light of the UNCHS (1996) assertion that the are 2,50,000 pavement dwellers in Mumbai alone. However, a reasonable similar figure would result if the same rates of homelessness as the highest rates in Western Europe (e.g. more than four per thousand population) are applied. This rate would suggests more than one million homeless people in urban areas of India.²


If an even wider definition of homelessness is used, e.g. by including those occupying `slums' (Juggi and Jomphri clusters) and sharers, very large numbers would come within our limit. There are about 45.7 million people (21 per cent of the 215 million urban total) in Juggi and Jomphri clusters and a further 90,000 sharers.¹

Jorgarsen N.O. studied the effective demand for housing and other factors such as market, price, rental value, location, appearance, infrastructural services and the availability of finance. He states, "An important aspect of the demand for housing is often overlooked: it is income-inelastic, i.e., as family income rises, expenditure on housing does not increase proportionally. This is particularly true for the lowest income strata where demand for food and clothing is sometimes reduced below normally acceptable levels in order to secure a roof over one's head. But also at higher income levels housing demand is inelastic. To ignore this fact by defining "affordability" as 25-30 per cent of income, as is common policy in many institutions, is but doing injustice to the poor spend more than one fourth of their income on housing".²

John G. Gurley and Edward S. Shaw analyse the Housing Finance System and the economy through size, scope and efficiency. They narrate. "It is difficult to attain a satisfactory rate of growth in real output.


² Jorgarsen N.O., 'Housing Finance for low income groups', 2nd edition, (1982), Rotterdam, Bouwereterum, (Housing Research and Development Unit), University of Nairobi, p.25.
Such a growth rate may not be achieved for a number of reasons, some social, some psychological, some political and some economic. What is significant here is that the rudimentary economy places severe financial restraints on the growth of real output. An immature financial system is in itself an obstacle to economic progress.\(^1\)

Cedric Pugh in his text discusses and indicates the following upon Housing Finance and its potentials as:

First, the housing capital market and Government stand as intermediaries between the production-consumption process in the economy on one hand and the housing system on the other.

Second, housing systems in the developing countries are inequitable, reflecting the prior inequality in the ownership of capital and earnings from work in the production-consumption economy. In countries such as India the inequality will be very conspicuous, with contrasts between life in a villa, in a leafy suburb and life on a city pavement.

Third, urban development creates assets which in total represent enormous economic and social value. From the reformist view, we can perceive the potentials here to add to urban investments, and to use housing policy as a means of extending property rights, to households in the income range below the eightieth percentile. Households above the eightieth percentile will be able to exercise their housing choices, largely without Government economic assistance or incentives.

Fourth, some of the thrust in the foregoing three points is towards spreading the extent of owner-occupied housing and land. In this fourth point we add some cautious circumspection. Housing and land policies have to be coordinated to ensure that land price escalation is curbed. If they are not coordinated in such a way that abundant supplies of housing and affordable land are forthcoming, various economic problems will arise.¹

Giriappa S. explains that the Construction Firms and Building Societies have become major institutions in housing system specialising in housing finance market. Apart from Commercial Banks, Insurance Companies, Local Authorities and other Finance Institutions and Building Societies have been increasing significantly in recent years. Their share has been more than 90 per cent in many developed countries. In the developing countries however, their role has been hitherto somewhat handicapped. While being freely competitive the housing market may exhibit some monopoly or scarcity conditions during recession and times of emergencies. Rent control was introduced during the First World War in countries like U.K. which facilitated variable supply adjustment. In the post Second World War period reconstruction and slum clearance required planning and redevelopment in most of the countries.²

Lal A.K., says, "The informal sector, on the other hand, contributes to the housing finance system through various sources. These include sale of personal assets such as personal savings in cash and kind, sale of personal assets such as jewellery, land and agricultural property, and

¹ Cedric Pugh, Housing and Urbanisation Sage Publications, 32 M, Block Market, Greater Kailash, New Delhi, Chapter III, Housing Finance, The Economy and Housing Welfare, pp.71 to 73.
borrowings from friends, relatives and informal money lenders; unions.¹

Desai D.L., argues that "appropriate technological support, in the form of new cheaper building material such as engineering plastic in lieu of steel, heat and waterproof plastic doors and windows, cheaper blended cement, etc. . . . Necessary legal reforms in respect of Rent Control Act, simplification of Building Bye-laws and National Standards and Codes. Easy availability of Housing loan facilities at lower interest rates. Government of the day has not only to act as facilitator but bring about desired legal and administrative changes. So that 'Housing Activity' can propel economy to higher growth path."²

The above mentioned literature has been reviewed deeming it fit for the Study. Further references and related books, Journals, technical papers are listed in the Bibliography. The next Chapter overviews the housing policies of the selected Third World Countries.