CHAPTER III

HOUSING AND HOUSING FINANCIAL POLICIES IN
INDIA AND IN TAMILNADU

3.0.0 Introduction

The recorded history of planned human settlement in India is over 5000 years old. The Indian subcontinent has a land area of 3.29 million sq.kms. within the political boundaries of India. Physio-graphically the land mass rises from sea level to heights over 8000 m. The ancient architecture and town planning practice placed strong emphasis on the proper location, sustainable use of the resource base that human settlements drawn on for their survival, sustenance and growth.

Presently, many countries are undergoing rapid economic and demographic growth and India is currently facing a series of resource crises. These have had a severe impact on the economy and quality of life of people in both rural and urban settlements and have helped to accelerate the influx of impoverished rural migrants into the cities.

One of the main problems faced by the poor is the lack of access to resources for building. This is especially so in rural areas where resources are becoming quite scarce and beyond the financial reach of the people. Even if the prices were affordable, many building materials are controlled by agencies outside the shelter sector.

In India, housing is a necessity shading into a luxury. Its supply does not fully meet the present needs of the Indian population, whether in terms of location, size and tenure type of facilities. This is a legacy of the past but on inadequate attention has been given to this important sector. However, the importance of housing in India has been gradually increasing and can be better understood from its contribution to national income.

India continues to face an acute shortage of housing units, based on the last census, the housing shortage is estimated at 19.4 million dwelling units in 2001. With demand for exceeding supply, prospects for this sector seem buoyant. The industry has been witnessing an annual growth of 30 per cent and is expected to grow at 20-25 per cent in the years ahead driven by the retail segment. This could come from lower interest rates, tax concessions for both borrowers and construction firms and repeal of ceiling laws in several states.

Over the last three years, the Government has been supporting the industry and encouraging individual home ownership by providing various fiscal incentives in the Budgets. In Budget 2001, an increase in the tax exemption limit for interest on housing loans for self-occupied houses from Rs.1 lakh to 1.50 lakhs was announced. In 1999-2000, the limit was Rs.75,000 and in 1998 it was Rs.15,000. The Budget had also announced an increase in the rebate on repayment of principal under sec. 88 to 30 per cent in certain cases.

2 Ibid, Union Budget
3 Ibid, Union Budget
Again, long-term capital gains on transfer of capital assets are now exempted from tax if they are invested in another house even if the taxpayer already owns a house.

Further, the ULCRA (Urban Land Ceiling and Regulation Act) which was perceived as a stumbling block by most builders was repeated.

3.0.1 Housing Trends in India

Despite the Country's achievements in different fields over the last quarter Century, India has yet adequately to tackle one of its basic needs - that of housing for its teeming millions. The 548 million people in the country live as 97 million families or households in 93 million housing units1. The housing situation in the Country is not as satisfactory or hopeful as the ratio of households to the stock of houses. In addition to an outright shortage of four million houses, which would suggest that more than one family lives in a single room or tenament, about 19 million houses fall below accepted standards of habitation.

Housing disparities in rural and urban areas by different income group patterns of ownership and the leasing of accommodation and building sites have not undergone much change during the past decade. The disparities in status as between the urban and rural areas are apparent. The ownership rate is high in the low and highest size classes in the urban areas. People living in their own houses, whether in village, town or city, generally

occupy more floor area or enclosed volumes of space than others who live a rented house¹.

Moreover, the housing situation in each of the Northern, Eastern, Western and Southern zones of India differ from one another in design, materials, technology, floor space available, ownership and aggregation patterns inhabiting dwelling units, etc., which largely reflect the environment and socioeconomic conditions prevalent in the area. The detailed regional studies could postulate useful correlations².

3.0.2 Gross Capital Outlay in Housing

Housing activity is a major indicator of the growth path of a nation and the quality of life it bestows on its citizens. It is however true that though our country's GDP growth rate in the last decade ranks very high, the same cannot be said about its housing sector. This activity can be broadly classified as the Governmental Sector and the Private Sector. Mass scale housing began at Governmental Level as a result of arrival of displaced persons pursuant to partition of the country. Initially it was undertaken as social obligation on the part of the State Governments to re-house the displaced persons through establishment of State Housing Boards. At the Central level it started under the banner of Delhi Development Authority (DDA) and Central Public Works Department (C.P.W.D.). Later on with emphasis on industrialization resulting in greater urbanization, all Housing Boards or specified agencies undertook various schemes such as Low Income Housing Group (LIG), Middle Income Housing Group (MIG), High Income Housing Group (HIG), etc.

¹ Shelter, Environment and Habitat. - Basic issues in Developing countries. Key note address by, Bhaskara Rao to Earoph VI Congress, ITPI. silver jubilee international conference, Bangalore, February 15-25, 1978, p.43
² Ibid, p.43.
Income Housing Group (HIG) and Industrial Workers Housing Schemes, etc.

With the beginning of planned development from 1951 onwards, the total plan outlay on housing up to the end of the Ninth Five-Year Plan is shown in table 3.1 below. The importance of housing sector in India can be judged by the estimate that for every rupee invested in construction of houses, 78 paise are added to GDP of the country and real estate sector is subservient to development of a number of other industries which have backward linkages.

**Table 3.1**

Gross Capital Outlay on Housing in Five-Year Plans, 1951-2002

(Both Public and Private Sector) (Rs. in crores)

<table>
<thead>
<tr>
<th>Plan period of Total</th>
<th>Investment in housing</th>
<th>Percentage (%) of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public</td>
<td>Private</td>
</tr>
<tr>
<td>Plan I 1951-1956</td>
<td>250</td>
<td>900</td>
</tr>
<tr>
<td>Plan II 1956-1961</td>
<td>300</td>
<td>1000</td>
</tr>
<tr>
<td>Plan III 1961-1966</td>
<td>425</td>
<td>1125</td>
</tr>
<tr>
<td>Plan IV 1969-1974</td>
<td>625</td>
<td>2175</td>
</tr>
<tr>
<td>Plan V 1974-1979</td>
<td>796</td>
<td>3640</td>
</tr>
<tr>
<td>Plan VI 1980-1985</td>
<td>1491</td>
<td>18000</td>
</tr>
<tr>
<td>Plan VII 1985-1990</td>
<td>2458</td>
<td>29000</td>
</tr>
<tr>
<td>Plan VIII 1992-1997</td>
<td>6377</td>
<td>18623</td>
</tr>
<tr>
<td>Plan IX 1997-2002</td>
<td>7590</td>
<td>14000</td>
</tr>
</tbody>
</table>

**Source**: Ministry of Urban Affairs, Housing Section 1997, Ninth Five-Year Plan, Indian Construction Statistics.
DIAGRAM 3.1

Gross Capital Outlay on housing during Five Year Plan Periods (1951-2002)
From the above table 3.1 and diagram 3.1 it is observed that in successive Five-Year Plans the percentage of investment in housing has fallen from 34 per cent in the first Plan to 6 per cent in the Ninth Plan. Simultaneously around 1952, housing in private sector also started in and around Mumbai and Delhi. This later on came to be known as Real Estate Industry. As the private sector started playing a dominant role, the Government role has been reduced to that of providing housing to Economically Weaker Sections (EWS), Low Income Group (LIG), and other needy and specified classes. Housing has been largely a people's activity. Its contribution to housing ranged from 73 per cent in Third Five-Year Plan to as high as 91 per cent in the Seventh Five-Year Plan. As per the report of the working group on finance for housing sector for the Eighth Plan, 80 per cent comes from private savings and non-formal sources of credit. The large proportion of houses provided by householders themselves constitutes the informal private sector.

3.0.3 Housing Deficit

It has been estimated that the current housing deficit will lie anywhere between 22 to 26 million units. It will increase to 42 millions by the end of the 9th Five Year Plan. The impact of the deficit is felt mostly by the group with low income. Two-thirds of total deficit owes to this size-class. Four out of every five houses in rural India are without basic amenities, such as piped water supply, toilets or bathing facilities.

Only 13 per cent of the rural households occupy structures made from permanent building materials, but surprisingly, a mere 5 per cent lives in rented houses. Despite the concentration of four-fifth of Indian households and housing stock generally in the rural sector, its housing needs have received scant attention. For example, the Fourth Five-Year Plan provided but less than one-fifth of the total Housing Plan Outlay for rural housing.

3.0.4 Housing Shortages in India

At the beginning of the Eighth Five-Year Plan, the Planning Commission estimated rural housing shortage at 36.60 lakh units and urban housing at 75.70 lakh units aggregating to 212.30 lakh units. Against this, the National Building Organization (NBO) had estimated housing shortage at 82.30 lakhs units in 1991 but expected the absolute shortage to decline progressively to 75.70 lakhs in 1997 and 66.40 lakhs in 2001. However other estimates indicated that the shortage would increase to 94 lakhs units in 2001. The NICMAR had estimated in 2001, the shortage of 194.20 lakh units as can be seen from the following table 3.2.

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3 Ibid p. 8.
### Urban/Rural Housing Shortages in India in Various States in 2001  
*(in lakh units)*

<table>
<thead>
<tr>
<th>Name of State</th>
<th>Urban housing 2001</th>
<th>Rural housing 2001</th>
<th>Total Housing Shortages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>8.90</td>
<td>12.10</td>
<td>21.00</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>0.20</td>
<td>0.80</td>
<td>1.00</td>
</tr>
<tr>
<td>Assam</td>
<td>1.30</td>
<td>19.70</td>
<td>21.00</td>
</tr>
<tr>
<td>Bihar</td>
<td>3.60</td>
<td>33.80</td>
<td>37.40</td>
</tr>
<tr>
<td>Goa</td>
<td>0.10</td>
<td>0.10</td>
<td>0.20</td>
</tr>
<tr>
<td>Gujarat</td>
<td>2.80</td>
<td>1.70</td>
<td>4.50</td>
</tr>
<tr>
<td>Haryana</td>
<td>1.00</td>
<td>0.70</td>
<td>1.70</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>0.10</td>
<td>0.20</td>
<td>0.30</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>3.70</td>
<td>1.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Karnataka</td>
<td>2.80</td>
<td>3.90</td>
<td>6.70</td>
</tr>
<tr>
<td>Kerala</td>
<td>3.20</td>
<td>3.00</td>
<td>6.80</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>6.90</td>
<td>3.80</td>
<td>10.00</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>0.20</td>
<td>8.20</td>
<td>8.40</td>
</tr>
<tr>
<td>Manipur</td>
<td>0.10</td>
<td>0.80</td>
<td>0.90</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>0.10</td>
<td>1.40</td>
<td>1.50</td>
</tr>
<tr>
<td>Mizoram</td>
<td>0.10</td>
<td>0.30</td>
<td>0.40</td>
</tr>
<tr>
<td>Nagaland</td>
<td>2.30</td>
<td>0.80</td>
<td>3.10</td>
</tr>
<tr>
<td>Orissa</td>
<td>1.50</td>
<td>6.20</td>
<td>7.50</td>
</tr>
<tr>
<td>Punjab</td>
<td>2.30</td>
<td>0.70</td>
<td>3.00</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>-</td>
<td>1.40</td>
<td>-</td>
</tr>
<tr>
<td>Sikkim</td>
<td>8.30</td>
<td>0.10</td>
<td>8.40</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>0.20</td>
<td>2.70</td>
<td>3.00</td>
</tr>
<tr>
<td>Tripura</td>
<td>7.70</td>
<td>1.60</td>
<td>9.30</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>4.60</td>
<td>11.20</td>
<td>15.80</td>
</tr>
<tr>
<td>West Bengal</td>
<td>-</td>
<td>10.80</td>
<td>-</td>
</tr>
<tr>
<td>A &amp; N Island</td>
<td>-</td>
<td>0.20</td>
<td>-</td>
</tr>
<tr>
<td>Chandigarh</td>
<td>0.20</td>
<td>0.10</td>
<td>0.30</td>
</tr>
<tr>
<td>Dadra &amp; Nagar Haveli</td>
<td>-</td>
<td>0.10</td>
<td>-</td>
</tr>
<tr>
<td>Daman &amp; Diu</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Delhi</td>
<td>2.90</td>
<td>0.10</td>
<td>3.00</td>
</tr>
<tr>
<td>Lakshadweep</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pondicherry</td>
<td>0.30</td>
<td>0.10</td>
<td>0.40</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>66.40</strong></td>
<td><strong>127.60</strong></td>
<td><strong>194.00</strong></td>
</tr>
</tbody>
</table>

Source: *Indian Construction Statistics, NICMAR.*
The National Housing & Habitat policy 1998 was formulated to address the issues of sustainable development of housing infrastructure through strong public-private partnership. It also sought to ensure that housing and supporting services were treated as priority sector at par with infrastructure.

3.0.5 Housing Scenario During the Plan Period

The housing scenario in India has, in recent years, seen significant changes in terms of roles and functioning of the concerned agencies in the public and private sectors and their production practices. It may, however, be difficult to attribute all these changes to the impact of the GSS on the policies and programmes in India. The genesis of these changes goes back to the early 1980s when certain important measures were adopted to curb the subsidies in the housing sector and make the agencies financially accountable, if not self-sufficient.

An assessment of the changes in the inter-sectoral distribution of plan funds requires an analysis of the long-term trend. Consequently, the allocation pattern during the entire post-Independence period has been covered in this sub-section. It may be observed that housing activities had been at a low key during the post-Independence period. Only meager investments were made in housing during the colonial period, resulting in a serious housing shortage in many of the big cities. After Independence in 1947, partition aggravated the problem as it dislocated people and brought a large number of them into a few metropolitan cities, particularly Calcutta and Delhi. To meet this crisis, a major rehabilitation programme was
launched along with various housing schemes in the First Five-Year Plan (1950-1955). The total expenditure on rehabilitation and housing accounted for about 8 per cent of the public sector. In the Second Plan (1956-1960), housing constituted 2.5 per cent of the outlay (the actual expenditure however was much less), which was higher than the corresponding figure of 2.1 per cent in the First Plan, although the expenditure on rehabilitation was brought down from about 6 per cent to just 1 per cent.

The Third Five Year Plan (1960-1965) allocated 2.7 per cent of the public-sector outlay to housing and urban development, including water supply and sanitation, which was much less than the corresponding figures in the previous Plans. The allocation for housing worked out to roughly 1.8 per cent only. The Planners did note the problem of inadequate funds, but suggested that “in view of the limited resources, towns and cities with population of one lakh (100,000) or more should receive priority”.

The three Annual Plans that followed during 1966-1969 saw a further decline in expenditure in this combined sector, the figure coming down to 2.42 per cent. In the Fourth Five Year Plan (1969-1974), the outlay for housing, as a proportion of the total, remained at the same low level if the figure is computed after excluding the funds allocated to the Housing and Urban Development Corporation (HUDCO), and a few large (basically urban development) projects. The allocation in the Fifth Five Year Plan too was very low, (1.5 per cent) although it had set poverty eradication as an important objective. The Sixth Plan (1980-1985) allocation for housing in

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1 *III Five year plan documents*, published by Government of India, New Delhi.
relation to total public-sector outlay was reduced further but the expenditure on water supply and sanitation increased because India adopted the United Nations International Decade for Water Supply and Sanitation.

The Seventh Five-Year Plan (1985-1990) stipulated that the responsibility of house construction would gradually shift from the public to the private sector. It restricted social housing activities to the Minimum Needs Programme (MNP), for artisans and landless labourers only. The Plan allocation for housing was barely 1.3 per cent. However, a special central sector scheme, called Indira Awas Yojna (IAY) for the scheduled caste/tribe population,\(^1\) claimed over 15 per cent of the total allocation (Planning Commission, 1985). The Eighth Plan (1992-1997) approved 1.47 per cent of the outlay for housing. Here again, targeting of the funds was to be achieved by resorting to the MNP and reserving about 20 per cent of it for IAY (Planning Commission, 1992).

Capital formation in the housing sector was about 30 per cent of the total during the 1950s which came down to 13 per cent in the 1970s at current prices. The figure was at its lowest in 1975-1976 (10 per cent), but it stabilized subsequently at 13 per cent. Investment in housing, covering both the public and the private sectors, was as high as 34 per cent in the First Five-Year Plan, which declined gradually to less than 10 per cent in the Seventh and Eighth (proposed) Plans. Income from housing as a percentage of Gross Domestic Products (GDP) also declined from 3.7 in the early 1970s to 3.0 in the 1980s. Furthermore, the share of public agencies in housing

\(^{1}\) \textit{VII Five Year Plan documents} published by Government of India, New Delhi.
investment (to total investment in this sector) has gone down from over 28 per cent to less than 10 per cent over the past 40 years.

The 9th Five Year Plan (1997-2002) has envisaged an outlay of Rs.1,50,000 crores for the housing sector as against Rs.97,500 crores during the 8th Five Year Plan period 1992-97. Of this, Rs.38,000 crores is expected to be the net contribution of the formal sector institutions. The expected share of Housing Finance Companies (HFCs), including Housing & Urban Development Corporation Ltd. (HUDCO) was Rs.12,000 crores whereas the actual disbursement during the very first year (1997-98) of the Ninth Five Year Plan, had been Rs. 5,767.55 crores, representing a growth of 24.63 per cent as compared to the disbursement of Rs. 4,627.74 crores during 1996-97. The housing finance allocation for Commercial Banks, other than Regional Rural Banks (RRBs) increased by 20.88 percent, from Rs. 1,071.45 crores during 1996-97 to Rs. 1,295.19 crores during 1997-98. Disbursals during 1997-98 by the public sector scheduled commercial banks alone, at Rs. 1,454.77 crores, had exceeded their level. This, along with the additionalities provided by the cooperative sector institutions and other financial institutions, had substantially added to the capacity of the housing finance sector. With the result, a better integration of the housing finance system with the macro financial sector is expected to emerge in the longer run.  

3.0.6 Housing Demand

Housing is a commodity and in the housing market there are many buyers and sellers, but each individual on his own cannot play a dominant role in the market. There may be competition and collusion among buyers and sellers and free entry or exit is open for both. Consumers have continuous, transitive and established preferences for wide ranging alternate choice of housing and non-housing goods. If consumers try to maximize housing satisfaction from household activities, where housing is a basic component, they will have to extend the same to other activities also. There could be restrictions of place and demand depending upon the nature of housing services and the resources used to produce these services. For example, house purchases may be subject to finance, availability of quality of construction and preferred housing services. If the household has rational and complete preference, ordering by maximizing satisfaction it is possible to express the demand for housing as a function of household income, the price of housing, the price of all other commodities and the nature of requirement in the specific region.

The estimation of housing demand is beset by many problems. Since sub-markets may exist in the housing market, identification of the same becomes crucial. In many sub-markets, housing supply arises from the rental and turnover cost seconded by housing cost. Housing supply and demand in most sub-markets may be simultaneously determined. Where housing is a complete commodity, multiple attributes are traded in the market for which individual prices are not observed. Housing is a complex, multi-dimensional commodity. As durable asset, housing structure provides
both consumption and investment services and may be purchased with a loan or other forms of assistance. The housing stock, which is standing, is characterized by situational attributes defined in social or in economic terms. There may be exist frictional and search costs, which are significant enough to influence the demand.

The durability of housing unit is a major characteristic of the standing stock. This specifies the nature of satisfaction from housing and the income constraint. Since housing is a basic need, decision on housing expenditure has to take a long-term projection. If the household wants to be consistent, only normal income is to be considered which is derived through an average of past and future earnings. It may be that the housing loan over years may ration out the normal and other household expenditure. Where housing assets appreciate more rapidly than many other assets and when appreciation rates are higher than the mortgage rate, permanent income will partly depend upon housing expenditure pattern.

3.0.7 Housing Supply

Housing supply includes supplies of existing stock facing different supply technologies or factor prices and also supplies conversion. Housing construction is an important macroeconomic magnitude and constitutes about one third of all construction sector output. The construction sector is extremely susceptible to the policy action of Central and State Governments. Physical restraints reflected in entry or on the construction firms, which are small in size and low productivity growth, depend mainly on Bank Finance. This explains susceptibility of residential construction to the vagaries of physical and monetary policies. More residential construction is speculative.
Those involved in this generally do not build to order, instead adjust housing estates and complexes in relation to demand condition, price and past expectations. When demand declines, firms may lengthen completion. By such adjustment, construction firms may lessen or end complete price reductions on their speculating output nearing completion. When demand increases completion ratio will also increase. Since monetary expansion has very rapid effect on housing demand, house prices may accompany monetary expansion. The construction firms must have some conceptions of demand for housing in particular areas. The selling price and location of potentially saleable housing is to be assured and the firm will observe the flow of searching prices, price influential terms, and vacancies. If convinced the firm starts housing in advance of demand and completes building as demand emerges, then clearly the inflationary effect of expanding housing demand may be minimal. If construction becomes an increasingly psychological activity, builders may become more prone to speculative building. To reduce uncertainty in demand estimates it may be that builders quote top housing prices, which are obvious and sustaining. There is reaction following sustained house price inflation of and the buyers may resort to advances too.

The problem of demand estimation and salability of construction also arises if the firm is contemplating a new style or location of production, which radically departs from past experience. Fund banking may be a normal practice for construction of firm in a secularly growing or decentralizing housing market.

Larger building firms may finance with new construction projects with capital share or retained earnings. However, the peculiar price structure of the construction industry makes a substantial proportion of its bank loan
finance, as small firms do not have assets for reinvestment. It may be that loans may be large in relation to build-up assets. In this case fund banking may reduce problems of rising building finance. In certain cases bankruptcies in the building industries may be there during recession characterised by high interest rates. Low productivity growth in housing construction has been experienced in many countries. This has been due to poor manipulation, failure of technological progress to introduce changing designs and also due to labour practices and high turnover rates. In general, construction of houses worked out per week and output per unit in the construction sector lags behind the national averages. Of course, this may not be solely due to employment of low skilled manpower. Manual conditions, capital used, and management skill may affect average output per man or machine or unit of area. In construction, wages rise faster than expected and house price also gets increased. When an appropriate mix of production input has been reached, further loan productivity gain may not be available for stabilizing house price level.

3.0.8 Housing Market

In the housing market, individual transacts infrequently while a non-moving household may acquire broad continuous stream of market information. The specific information enquired for purchase will only accrue with purposive search. The quality of information stored in the individual's memory is likely to decay over time. This loss is compounded by changes in the housing market in the non-moving period. However, imperfect information and the possibility of making false bids do not result in search across the sub-markets. Since housing is a major act of consumption and investment, a sub-optimal purchase may result in a serious loss of
satisfaction. In the evaluation of purchase in housing market various institutions may shape household types and choices. Special segregation of purchasing opportunities adds to the time, travel, and psychic cost of housing search. The house purchase process requires individuals not only to evaluate dispersed housing offers and to pursue housing finance, but also to have an access for placement of bids. This may generate friction but it may remain relatively constant over time if the housing market evolves in a stable fashion. Sub-market demands may change more rapidly than the supply because of slow rate of turnover of second hand housing stock.

3.0.9 Housing Loan Market in India

The size of mortgage loan market in India is relatively very small compared to developed countries. Our estimated size of mortgage loans with HFCs is about Rs.32,000 crores. In developed countries like UK and USA, the outstanding mortgage loan to GDP is above 55 per cent. Japan 33 per cent, Korea over 10 per cent, in Malaysia over 20 per cent and Hongkong over 30 per cent. In India the ratio is just around 1.6 per cent. After including other indirect agencies like Government and Financing Institutions, the percentage share will be less than 2 per cent. However, new Mortgage loans as percentage of GDP is 11 per cent in USA and 9 per cent in U.K. i.e. about 20 per cent of outstanding, whereas in India it is 0.6 per cent. i.e. about 37 per cent of outstanding.

The mortgage loans are long term loans for 15 to 20 years. In some countries such as Japan these are also available for 25 to 30 years. There are very limited options for availability of funds for such a long period and at a

1 Industrial Economist Economic Awareness series, National seminar on housing, ushering in the grey revolution, policy issues, Chennai, November, 17, 2001, p.2
fixed interest rate. The long term Debt market has not so far developed or stabilized in India. Most of the institutions are suffering from asset liability mismatch and the consequences would be felt when liabilities will mature for payment. The interest rate risk will be exposed once the interest rates start moving Northwards.

3.1.0  The National Housing and Habitat Policy

The National Housing and Habitat Policy identifies in clear terms 'FINANCE' as the second most of critical need next only to LAND', for housing and residential infrastructure.

i. The need for housing during the Ninth Five Year Plan would be an investment of Rs.1,51,000 crores to provide for 22.90 million units (more than 90 per cent of this shortage is for the poor and the low income category). It is estimated that around Rs.5000 crores would flow from Banks, Financial Institutions and the Government-both Central and State. The bulk however comes from the informal and household sector.

ii. It has been estimated that urban residential infrastructure alone would need a sum of Rs.250,000 crores in the next ten years. Only 10 per cent of this will be available from Government sources. The gap has to come through massive participation of the private sector.

2 Ibid p.2.
3 Ibid, p.2.
iii. The Government would devise macroeconomic policies to enable flow of resources to this sector.

iv. The HFIs would have to redefine their roles and move away from their traditional approach to Housing Finance based on repayment capacity and creation of collateral mortgage. They should also develop the requisite skills to mobilize domestic savings and long term savings through innovative methods. They should down market credit to cover the poorer segments by devising schemes to lend at affordable rates.

v. Public agencies should move away from dependence on budgetary support.

vi. A debt market will be developed for housing and infrastructure fully integrated with financial markets.

vii. There is an urgent need for asset securitisation and development of a secondary mortgage market to recycle finance for the housing sector. The NHB, HUDCO and other leading HFIs are to act as market markers and supporters.

viii. Banking and Insurance Sector should provide funds for the housing sector. NRI/PIO/OCB/FDI would be encouraged to invest in housing.

ix. Fiscal concessions would be given to help raise resources at low cost for funding affordable housing to low income and weaker section groups.

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2 Ibid, p.2.
In successive budgets housing sector received considerable tax concessions which have activated the housing market. Specifically, this has encouraged the tax paying middle class to seek housing loans and invest in housing for self-occupation or rental. But it is still a long way to go in developing fiscal concessions to support massive housing programmes for the weak and low-income categories. Rural housing needs are to be targeted this way by offering concessions to Banks/HFIs/private sector corporate/co-operative sector etc. The Government has yet to set up the National Shelter Fund or Risk Fund to meet the needs and also to cover the additional risk involved in financing the rural and urban poor.

The NHB has done a commendable job in nurturing and regulating the housing finance sector. Securitization of mortgages has been done on an experimental basis by NHB, by itself taking the lead role along with a few major HFIs. However, the progress on this has been tardy. This, therefore, needs to be developed much faster and all legal and structural charges needed for its smooth operation have to be undertaken, as this is a proven method for providing massive funds needed for housing and infrastructure. As done world over, Banks need to move into housing and infrastructure in a big way, both directly and indirectly supporting the efforts of recognised HFIs and Government public agencies. Banks are attracted to this sector to fulfill their obligations and these loans are backed by good security thereby rarely becoming Non-Performing Assets (NPAs).

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1 Industrial Economist Economic Awareness series. National seminar on housing, ushering in the grey revolution, policy issues, Chennai, November. 17, 2001, p.3
The NRI interest in this sector has been fairly good but mostly limited to their own or their families' needs. But what is required is a structured conduct which will encourage massive investment flow by NRIs/PIOs/OCBs/FDIs into this sector so that huge townships and satellite cities can be built along with related infrastructure, particularly rural infrastructure. The Government has still a major role to play, for a considerable period, to provide housing for rural and urban poor by raising resources through schemes, which provide gross subsidisation methods and by designing fiscal concessions to private sector and ensure that these are correctly targeted and utilised by suitable regulatory systems, which would be setup.

In short, if this gargantuan problem has to be tackled and solved, the government should move ahead fast, firing all cylinders not allowing any of the identified issues to remain unresolved for long, in the path of progress towards the goal of "Housing For All".

3.1.1 Formal Housing-Finance System

There are three formal sources of Housing Finance. These are:

(a) Public and Private Institutions that have been set up specifically to finance housing activities; (b) Institutions catering to housing as well as to other sources, such as Scheduled Commercial Banks, Life Insurance Corporation of India (LIC), General Insurance Corporation (GIC), Cooperative Banks, Land Development Banks etc. and (c) Government,
Public and Private Agencies offering Provident Fund Loans to their employees.

Many among the public-sector agencies obtain funds through bulk credit allocations from apex institutions or budgetary provisions of the Government. Their efforts to mobilize resources from the household sector or from the capital market have been marginal. Some of these do not advance loans to individuals and undertake mostly refinancing responsibilities. Significant changes have been brought about in their resource mobilization and credit disbursal policies in recent years. Let us now see the institutions providing housing finance.

3.1.2 Institutions Providing Housing Finance only: Housing and Urban Development Organization

The Housing and Urban Development Corporation (HUDCO) was established in 1970 and is the largest Housing Finance agency in India. Its specific objective is to improve the housing conditions of the low-income and houseless population. It provides financial support to public agencies like Housing Boards established by the State Development Authorities, Slum-Clearance Boards, Municipalities, Co-operatives etc., and not to individual borrowers. Funds have been advanced for infrastructure and urban development projects as well, but these constitute a small fraction of the total advances. Apart from the equity support of the Central Government received every year and its own earnings, HUDCO has been receiving confessional funds from GIC, the Unit Trust of India (UTI) and NHB and some International Agencies like the KFW (Germany), ODA (United
Kingdom), OECF (Japan), the World Bank etc. through the Government. It had received funds from IICs as well, till the early 1980s. The loans from UTI, however, carry the market rate of interest. HUDCO has been borrowing in the capital market through Bonds, its, public issue and private placement issue. It also mobilises resources from Commercial Banks through the Statutory Liquidity Rate (SLR) Bonds, in accordance with the stipulations of RBI.

The major involvement of HUDCO has been in the financing of specific projects of Public Housing Agencies, undertaken on hire-purchase basis. The rate of interest, period of repayment and the amount of loan advanced by it vary from scheme to scheme, depending on the income level of the beneficiaries. Recently, the thrust of HUDCO funding, and as a result, of Public Housing Agencies, has shifted from hire-purchase to a self-financing system wherein the beneficiaries pay the full cost of the unit before, or at the time of occupation. The cooperative housing schemes under which individual savings are mobilised on a large scale have also been encouraged. It has also initiated a few schemes to support Private Housing Agencies.

The lending activities of HUDCO during the Eighth Plan are expected to be primarily for land and infrastructure development and for EWS housing schemes. The enhancement of equity support from the Government and renewal of LIC funding for HUDCO are under active consideration by the Government. It may, however, be pointed out that the
tax holiday enjoyed by HUDCO for the initial 20 years is over and that it is paying taxes before announcing dividends.

3.1.3 National Housing Bank

The National Housing Bank (NHB) was established in 1988 as an apex Institution with financial, regulatory and development functions. It has received equity capital from RBI and confessional funds from LIC. RBI was made long-term operational funds available to it until 1991, at a highly subsidised rate. Being a statutory financial institution, it has raised resources directly from International Agencies. Funds have also been mobilised from the Commercial Banks through the SLR Bonds. Issue of Capital Bonds, which was yet another source of financing this has been discontinued since 1991.

NHB functions as an apex institutional agency, providing financial assistance in the form of equity support and refinancing of loans to HFC, and not as a primary lender to individual borrowers. It extends its refinancing facility to Commercial and Co-operative Banks and subscribes to the Bonds and debentures of State Land-Development Banks. It facilitates housing activities by providing short-term loans to housing agencies largely for "development and supply of land" and by facilitating the provision of long-term loans to "individuals for buying a developed plot or undertaking house construction".

NHB has floated a contractual deposit scheme called “Housing Loan Account” (HLA), to mobilise resources from the household sector as
was done by HDFC and a few State Housing Boards in the Country. As envisaged by NHB, an individual is required to open an HLA at a Scheduled Bank or a HFI which takes the responsibility of dealing with him or her on behalf of NHB. This would make the person eligible for a housing loan after three years. Savings, thus mobilised, would be transferred to NHB, which the latter would use for advancing loans to public housing agencies, contributing to equity capital of industries manufacturing building materials and refinancing the loans to individuals. Consequently, such individuals can purchase a house or developed plot, generally from a public agency on cash payment.

Under directions of NHB, loans are given to individuals by Commercial Banks and HFI for a maximum period of 15 years at rates of interest depending on the loan amounts. The rates determined at the time when NHB was established varied from a minimum of 10.5 per cent to a maximum of 14.5 per cent. The rate of interest of public agencies varied from 13 per cent to 15 per cent and a higher rate is proposed for time and cost over runs.

In accordance with its stipulations, NHB gives preference to agencies undertaking Housing Projects in rural areas and small and medium towns. The public agencies are required to formulate projects by earmarking at least 50 per cent of the developed land and 75 per cent of the plots, for small size plots, i.e., 60 m\(^2\) or less. They are also required to reserve at least 75 per cent of built-up accommodation for housing units of 40 m\(^2\) or less. The maximum plot size and built-up accommodation permitted are 200m\(^2\)
and 120\text{m}^2 respectively. The Housing Agencies give preference to HLA holders when allotting units or plots. The account holders can borrow under the NHB scheme even when they are not registered with any public agency under a Housing Scheme.

### 3.1.4 Housing Development Finance Corporation

The Housing Development Finance Corporation (HDFC) was set up in 1976, to channel household savings - as well as funds from the capital market - into the housing sector. It has promoted ownership housing in urban areas through its retail lending policy. The HDFC has actively promoted new institutions for Housing Finance viz. the Gujarat Rural Housing Finance Corporation Limited with support from the International Finance Corporation, Washington, the Aga Khan Fund for Economic Development Geneva, the Housing Promotion and Finance Corporation Limited with support from the State Bank of India and Capital Markets and Infrastructure Leasing and Financial Services Limited (supported by Canara Bank and UTI). In the case of the last three institutions, HDFC holds 20 per cent of their shares.

About 60 per cent of HDFC funds come from household deposits. These savings are mobilised through different deposit schemes, namely, the Loan Linked Deposit Scheme (currently not in operation), certificate for Deposit Scheme, Cumulative Interest Scheme, Home Savings Plan etc. The HDFC, like HUDCO, borrows from other financial institutions as well. However, unlike HUDCO a large part of its resources comes from the capital market through issue of Bonds and Shares. Like NHB, it borrows directly in
the International market. These two, however, are required to pay a higher interest rate than HUDCO, although the formers are covered against exchange rate fluctuations.

HDFC, which is the largest primary lending agency in the private sector, makes loans under various schemes to individuals, association of individuals, groups of individuals and individual members of Co-operative Societies. The rate of interest charged depends on the loan amount which, finally is determined by the repayment capacity of the borrower. In determining the repayment capacity, factors such as age, income, qualification, number of dependents, spouse’s income, assets, liabilities, stability, and continuity of income and savings history of the borrower are taken into consideration. The principle generally adopted is that the instalment should not exceed 30 per cent of the monthly household income. The borrower can choose a repayment period in the range of 5 to 20 years, not exceeding the age of retirement of the loanee.

It is important to note that HDFC finances the construction of new residential units by an individual who or whose immediate family members do not own any dwelling unit. The security, which is the first mortgage of the property to be financed, is normally executed by way of deposit of title deed, which is essential for the loan. In case of property under construction, collateral or interim security is required, in terms of a Bank guarantee. Surrender of a Life Insurance Policy, the value of which is at least equal to the loan amount; guarantee from a sound and solvent guarantor; pledge of shares and such other investments that are deemed acceptable by HDFC. The
title of the property should be clear, marketable, and free from all encumbrances. The insistence on security for the loan has been the major hurdle in the low-income household benefiting from these schemes.

3.1.5 Apex Co-operatives at State Level and Afflicted Primary Societies

Most States and Union Territories have apex Co-operative Housing Federations. These Federations mobilise resources from LIC, HUDCO, NHB and Commercial Banks as loans and from their affiliated primary societies and State Governments as share capital. These basically finance the primary societies coming under their jurisdiction against first mortgage of the land or house. The prerequisite of a loan from an apex cooperative society is, therefore possession of land.

It is not mandatory for the primary Co-operative Societies to approach an apex Co-operative Federation for funds. They can approach Private Financial Institutions such as HDFC for a loan. When a Primary Co-operative Society borrows from a Public-Sector institution such as HUDCO, the loan amount is channeled through the apex Co-operative Housing-Finance Society, which stands at a guarantor. The first mortgage documents in that case lies with the apex society.

3.1.6 General Financing Institutions Providing Housing Finance

Commercial Banks and Co-operative Banks

These banks mobilise over 40 per cent of the household sector saving. They provide housing loans (along with other loans) to individuals on
terms fixed by RBI. The Commercial Banks, the primary lending institutions, disbursed a negligible amount to the housing sector prior to their Nationalisation in 1969. After Nationalisation Savings-Linked Housing-Loans Scheme was introduced. This unfortunately did not make much impact on the housing scheme and remained basically as a deposit mobilisation scheme. The main reason was difficulties in advancing loans against the mortgage of immovable property. It was legally difficult for the Banks to realize the loan amount in case of default. Acting upon the recommendations of a working group set up by it, RBI made certain new provisions to increase the loan amount disbursed for housing by the Commercial Banks in 1978. However, despite the new RBI stipulations, the allocation of funds for housing did not exceed 0.26 per cent during 1985-1987, against the working group projection of 0.5 per cent. This was largely due to the high risk and low volume of Business in the Housing Sector.

In 1989, the RBI stipulations were revised and the Commercial Banks were required to allocate 1.5 per cent of their incremental deposits in the previous year to housing. RBI also ordained that 30 per cent of this allocation would be for direct lending, half of which should be reserved for rural or semi-urban areas. Another 30 per cent would be for indirect lending, and the remaining for buying Government-guaranteed Bonds and debentures of HUDCO and NHB.

The linking of allocation for housing with the growth in Bank deposits led, in the initial years, to a substantial rise in the loan amount. The growth could not be maintained, as the bank deposit became a casualty in the
1990s. The percentage of bank deposits to total financial saving in the household sector declined from 45 in 1987-1988 to 39 in 1990-1991, since funds were attracted by more lucrative investments in the capital market.

Currently, the Government is considering the proposal to increase the allocation of incremental deposit for housing from 1.5 per cent to 3.0 per cent. A suitable insurance mechanism to protect the Banks and HFLs against default in their long-term lending for housing is also being envisaged. The restrictions on loan-disbursal pattern are also being liberalised to increase the commercial viability of the financial institutions.

3.1.7 Life Insurance Corporation

LIC is the largest single lending institution for housing. It mobilises about 10 per cent of all households saving. Its activities comprise direct lending to individuals, bulk loans, assistance to State-Level apex Co-operative bodies and loans to its Housing Finance Subsidiaries. It is statutorily obliged to invest 25 per cent of its net additional resources to socially-oriented sectors like housing, electrification, water supply, sewerage, road transport etc. The share of housing in its total investments had gone up from 13 per cent in the mid 1960s to over 16-18 percent in the early 2000.

There was a slight decline in the resources mobilised by LIC from its urban clientele due to the boost in the capital market in the late 1980s. This was however largely made up by the growth of membership and deposits in the rural areas. It is expected that LIC will maintain its share of
total household savings and that it will advance the same proportion of its funds for housing during the next few years.

The GIC earmarks 35 per cent of its annual accretion as loans to State Governments for Village Housing and EWS schemes, and to HUDCO. In recent years its advances to the housing sector have been less than 10 per cent of those of LIC. The advances have grown by 10 per cent annually, and this growth is likely to be maintained in the future.

3.1.8 Cooperative Banks

Currently there exists a three tier system of Cooperative Systems i.e., State, District (including urban cooperative banks) and Village (primary affiliated credit societies). The Co-operative Banks in the rural areas have a wide network and can become excellent intermediaries for loan disbursal. Urban Cooperatives can bridge the gap between the formal and Informal Finance Markets and thus can improve the accessibility to the poor for finance, including that for housing. It may be noted that the State-Level apex banks are eligible for confessional finance for LIC.

In a similar fashion, the Land Development Banks also have their apex unit at the State Level and affiliated Primary Land Development (mortgage) Banks at the Taluk level. These have expertise in evaluating and providing mortgage finance and they assist the Rural Housing Programmes.

3.1.9 Pension and Provident Funds (P & PF)

About 11 per cent of all household financial savings go to Pension & Provident Fund. Currently a good portion of these funds in being utilised
as budgetary resources of the Government through the regulatory provisions governing its investment. The contribution of P&PF to housing is currently by way of loans to its members. Since very few members have availed themselves of these loans for housing, only a small percentage of the total funds goes to the housing sector. The percentage share of housing loans to P&PF collection had increased from 11 to 15 during 1983-1989. It fell sharply to 12 per cent due to the boom in the capital market, as noted above, but increased to 16 per cent in 1990-91.

The Government is seriously considering the proposal to allocate 5 per cent of net accretion under P&PF for giving loans for buying securities of NHB/HFIs at the same interest rate as offered by the Government under the special scheme.

3.2.0 Informal Housing Finance

It was observed that much of the funds for house construction come from informal sources that include cash savings by households, loans and gifts from relatives, money-lenders, shop-keepers, landlords etc. The All India Debt and Investment Survey conducted by the National Sample Survey Organisation at the request of RBI in its 37th round had brought out useful information on the asset and debt structure of households in different asset categories as on 30th June, 1981. A few important characteristics of the urban households belonging to the bottom two categories for urban India as a whole are presented. It may be seen that the poorest 14.4 per cent of the households (with maximum assets of Rs.1000) own, on average, assets worth Rs.373, of which only 10 per cent is in the form of land and building. The average figure for the next higher category with assets of Rs.1000-5000 and
comprising 17.5 per cent of the urban households is Rs.2746, of which 25 per cent is in land and building. The average figure for all urban households is Rs.40,573, of which 68 per cent is in land and building.

The average debt per urban household is Rs.1024 while that for the bottom two categories is only Rs.92 and Rs.292 respectively. Most of the loans taken by the households in these categories are for household expenditure. The average percentage of urban household loan used for housing is 60, as opposed to 15 and 30 for the bottom two categories, as may be seen in the detailed results of the National Saving Scheme (NSS). As much as 95 per cent of all loans taken by the households in the lowest asset category comes from informal sources. The corresponding percentage for the next higher category is 75 as compared with the national (urban) figure of 40 only. About 43 per cent of the households in the bottom two asset categories pay an interest rate of more than 20 per cent.

3.2.1 Incentives to Investment in Housing

Different Public and Private-Sector Agencies have designed policies and programmes for mobilizing household savings, constituting the major part of domestic savings in the Country. Schemes have been initiated by the Government to encourage the flow of resources into the priority sectors of the economy. The intersectional allocation of resources, therefore, depends on the success of these policies and schemes. The Central Government has allowed special tax relief to encourage financial flows into housing that are discussed here in some detail.
3.2.2 Housing in Tamil Nadu

India after independence did recognise the importance of housing and took earnest and concerted efforts to provide housing facilities to the increasing population. The Government, wedded to the concepts of a Welfare State and a stable democracy, thought of housing the masses, mostly the slum dwellers, industrial workers and persons in the low income group in decent environments. The Tamil Nadu Government at first released financial assistance for the construction of houses mainly to Co-operatives Institutions. In 1945, the City Improvement Trust for Chennai City was established and this Organisation was able to meet the demand for housing to a considerable extent, with the financial assistance from the Government. Though only one or two schemes like the Industrial Housing and Low Income Group Housing Schemes were taken up during the First Five-Year Plan period, the progress was intensified during the subsequent Plan periods when schemes such as Slum Improvement/Clearance, Plantation Labour and Village Housing Project Schemes were taken up. As it was considered that the development of housing progress should not be confined to the City alone but extended to the districts also, the Tamil Nadu Housing Board was established in April 1961 with three mofussil housing units, one at Tiruchirappalli, another at Madurai and the third at Coimbatore each with a jurisdiction over three and more districts and also Housing Units at Vellore, Salem, Thanjavur and Tirunelveli etc.,

The Directorate of Town and Country Planning has been assigned with the responsibility of administering the Town and Country Planning Act,
1971. The function includes assisting the Local Planning Authorities in preparing and implementing the statutory plans and various schemes to ensure orderly planned development and provide healthy environment in the human settlements. The Town and Country Planning Act has as its objectives the preparation of Regional Plans, Master Plans, New Town Development Plans and Detailed Development Plans etc.

Tamilnadu ranks Third most urbanised State in India with, 43.86 per cent of its population living in urban centres. Of this 25 per cent of the State's urban population lives in Chennai Metropolitan Area (CMA).

The State of Tamil Nadu has achieved a more stabilised population growth rate during 1981-91 and is below the overall average of India and the second lowest among the Southern States. Tamil Nadu is among the States in India with urban population exceeding one third of the State population.

The urban population of the state, 19.03 millions, is distributed over 260 cities and towns. Nearly two-thirds of the urban population of the State is residing in 25 Class I cities (cities with more than one lakh population). The rural population which is 36.61 millions as per 1991 census, is residing in over 15,000 villages.

The rural population has grown at the rate of 12.8 per cent during the decade 1981-91 as compared to 19.3 per cent for urban population.

Among the urban settlements, large cities have been attracting population from small urban and rural settlements. The population growth on one side and the shift of population from rural to urban and urban to urban has cause and effect relationship on the overall housing stock and housing demand at different levels.

The four major tasks of the Study are to provide:

i) Estimates of housing stock - sector - wise,

ii) Composition of housing,

iii) Housing demand by broad income groups,

iv) Housing and household relationship, perceptions, attitudes, affordability, etc.

The components of these can be broadly grouped, analyzed and studied under:

(i) Qualitative aspects of housing stock and demand: basic amenities for exclusive use of households - toilet, bathroom, water, electricity, etc.

(ii) Quantitative aspects of housing stock and demand: nature and type, housing forms and age, the physical indicators such as households, rooms, persons per house etc.

(iii) Socio-economic profile of household: housing and household relationship, income and rent relationship, willingness to pay

and saving potential, housing investment percentage to total income, perceptions of beneficiaries etc.

The data generation from primary as well as secondary sources should thus concentrate on the aspects mentioned above. The demand for new houses will mainly come from four major sources:

i) Rental households who desire to own houses.

ii) Newly formed households due to marriage.

iii) Migrant families from rural to urban are from settlement to settlement within sectors.

iv) Increasing income levels and decline in the size of households will accelerate the demand for housing in the coming decade.

The major factors affecting housing demand are:

i) Economics of owning a house - now or later (inter-temporal choice).

ii) Affordability.

iii) Willingness to pay towards house owning and preference and priority on resource utilisation.

iv) Easily available finance resources for house construction activities and

v) Availability of serviced land in housing at affordable prices.

3.2.3 Housing Requirement Estimation

The Society for Development Studies (SDS) New Delhi, which has taken up the Study, entitled Housing Status, Strategy and Action Plan for Tamil Nadu. This has observed that in addition to meeting the present minimum housing need and that of the incremental households in future, it would be necessary to meet the upgradation requirement of the present housing stock, both the inadequate housing and replacement demands. Further, households living in adequate housing units have to be facilitated to construct an additional room and those living in Kutchha houses to replace traditional building material with low cost and durable materials. The Study estimated the housing requirements in Tamil Nadu during the period 1994-2001. The number of housing units required during the 9th Plan period for both rural and urban amounted to 29.68 lakhs¹

3.2.4 Housing in Chennai City

Chennai is the Capital of Tamil Nadu State and the gateway to Southern India and has become a part of cultural, administration and industrial activities. The State Assembly, Secretariat, and nearly all offices of Heads of Departments and the High Courts are located in Chennai. The premier and oldest University of the State and of India, prestigious Government Hospitals, Private Technical and Medical Universities, the major Cultural, and Art Academies are also situated here. The place is well connected to all other places of the State and to major towns and State

Headquarters of neighboring States by road, rail and also by air. Thus, the population that moves in or out of the City runs into a few lakhs. The medical, educational and other facilities available in the city and the suburb are the best in the Country\(^1\). Chennai is recognised as one of the National Priority Cities by the National Commission of Urbanisation (NCU). Because of its primacy, Chennai tends to grow faster and bigger. In the context of liberalised economy, focus on Industrial Development and entry of Multi National Companies in Industrial Sector, the pace of development of Chennai Metropolitan Area is likely to be faster. This warrants urgent measures to plan, implement and guide the developments in order to make the Metropolitan Area livable by improving its quality of life. Chennai Metropolitan Development Authority focuses its activities on various development schemes with the above concept in mind.

Chennai had early and close associations with the development of the Modern Town Planning Movement. In 1915 the eminent leader of British town planning reformist, Sir Partick Geddes (1854-1932) brought a town planning exhibition to Madras. Geddes's futuristic vision was to clean and beautify the City with no slum living conditions. The exhibition raised consciousness planning reports and passing an enactment of Town Planning Legislation in 1920\(^2\). This Legislation did not provide for Geddes's futuristic vision of “city beautiful,” but it established positive attitudes for including urban issues in public policy. In the real world away from the futuristic vision, India, like other societies, had inequality, poverty, and the necessity

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\(^1\) Effective demand for Housing in Tamil Nadu, Madras urban Agglomeration Report, Volume 2 for TNUPP, Government of Tamil Nadu, Prepared by STEM, Society Bangalore 560 095, p.4.

\(^2\) Ibid, p.4.
to make economic life work. As we might therefore expect, slum living conditions continued in Chennai, attracting the attention of the Madras Municipal Corporation in the 1940s. In consequence, in 1945 the policy makers took steps to deal with the slums, by creating the City Improvement Trust (CIT). The Trust operated within the conventional wisdom of the time, tearing down the slums and providing new housing for the residents. During the last ten years of redevelopment activity, prior to the creation of the Tamil Nadu Slum Clearance Board (TNSCB) in 1971, the average annual rate of rehousing was only some 738 flats and some 845 developed plots. These developed plots represented something of an innovation in general sites and services schemes, with piped water, sewerage systems, and access roads. Meanwhile the slum population continued to increase in squatter settlements and in old tenements. In 1961 there were 548 slum areas, which had grown to 1450 by 1981, with a total population of about one million. The slums varied in size from 25 to 1,500 people; the average family size was 4.5 persons; over 40 per cent of the slum dwellers were children. Illiteracy rates were at 41 per cent, and 83 per cent of the slum population had low incomes of below Rs.700 monthly, compared with 65 per cent in their wider Chennai population. Obviously, the worsening situation in 1970s meant that policy reform was urgent.

Until the 1960s, housing policy in Chennai was confined to slum clearance. In 1961 the Government created the Tamil Nadu Housing Board (TNHB), reflecting the fact that the rural-urban migration and natural increase in population in Chennai were escalating the demand for housing well above the supply. This was the reason, of course, for the growth of the


2 Ibid p.230
squatter settlements and other slum living areas. The deficit in housing supply was being revealed in social statistics as a mass low-income housing problem. The private Sector "permanent construction" housing catered only to the higher-income groups. The TNHB at that stage, in the 1960s, mainly saw its task as providing 'permanent construction' housing. It had two avenues through which it could add to housing supply. First, modest Government funding was provided to stimulate the Co-operative Housing Societies. These Societies had grown from the success of the Co-operative principle in Tamil Nadu's agriculture. The urban necessity was for housing. Some Societies provided developed plots, leaving members to make their own arrangements for building, and others provided fully developed houses. This housing was mainly allocated to the middle-and high-income groups. The TNHB added to supply by providing some Rs.250 million per annum, falling well short of demand. Second, the TNHB acted as the conduit through which the Central Government housing funds could be expended in the State. These funds came through various categories and the Housing and Urban Development Corporation (HUDCO) was the Central Government's housing agent. HUDCO provided confessional interest loans for the purchase of housing built by State-Level Housing Agencies and Co-operative societies. It had limited access to capital funds, and thereby its contribution to housing supply fell short of demand. The "permanent construction" flats were beyond the financial means of low-income groups. It was the sort of approach, which the World Bank wished to change.

Cedric Pugh, 1976, Housing and Urbanization, A study of India Sage publications, New Delhi, p.231.
In 1961 the Central Government wished to see its housing programmes and its financial assistance to the States come within authorised "development" or "master plans". Accordingly it provided financial assistance for the preparation of development plans for large cities. The Tamil Nadu Government responded by commencing work on the Chennai Metropolitan Development Plan in 1963. It was published in 1967. The plan was in character with the conventions of time. That is to say, it aimed to regulate the location and form of land use, and it reviewed the possibilities for infrastructure development over a twenty-year period, having in context the likely demographic growth. This approach is largely ineffective because it does not translate into action budgets or organisational realities, and it largely ignores change processes in the economy. For housing, the 1961 Plan merely continued its scope to the endorsement of slum clearance. But further progress was to follow in 1971 with the publication of the new Chennai Metropolitan Development Plan. The new Plan shifted the emphasis from physical to economic and financial planning. In fact, the intent behind the new plan was to tap some sources of urban investment funds, which were becoming available through National and International Schemes. In housing, the 1971 Plan went far beyond the slum clearance confines of the 1967 Plan. Housing was viewed in terms of affordability, in its "deficit" between demand and the low rates of supply, and in the need to bring more attention to low-income housing.

By the mid-1970s, housing and urban policy development had an air of expectancy. The World Bank had participated in Calcutta's emergency

programmes to upgrade basic utilities of the urban poor. These programmes commenced in 1972 and, along with them and without World Bank participation, the West Bengal Government began a determined and concerned effort to rid its bustees (i.e., slums) of killer and debilitating diseases. This insisted environmental Improvement Programme by getting involved in the bustees, that is, more widely into housing policy. In fact, the World Bank did join the Bustees Improvement Programme in 1977. But the major test of the World Bank's theory of affordability, cost-recovery, replicability, would be in new development, in the form of sites and services projects. Calcutta's priorities were towards slum improvements and by cutting sites and service activities. The World Bank was ready to look for another Indian City where it could participate in Urban Housing Policy. Chennai might be the place where it all would happen. In Chennai the policy-makers prepared the possibilities. In 1975 they created the Madras Metropolitan Development Authority (MMDA). The MMDA was created as a planning authority, leaving the executive development work to the TNHB and the TNSCB. But the MMDA's role could be extended to formulating the shape of low-income housing programmes and to monitoring progress made by the Executive Boards, the TNHB and TNSCB.

As we have seen, the World Bank did negotiate loan agreements in Chennai, with programme activity ready to commence in 1977. By 1980, the language and methods of affordability-cost-recovery-replicability pervaded town planning and housing administration. This was reflected in the new 1980 development plan, prepared by overseas consultants. This new plan was termed a "Structure Plan", conveying the new fashion in town planning
which emphasised strategic development options rather than regulatory detail in urbanisation. In housing, the Structure Plan endorsed and elaborated the World Bank's theory of affordability, cost-recover, replicability and pushed housing the policy towards volume target planning. The process of housing change, since the World Bank entered into housing in Chennai in 1977, is very much about developing low-income housing policy and coming to terms with the overall volume of housing supply targets. Before examining the World Bank's involvement in some detail, we set the context by discussing the housing situation and the change process in the years 1977 to 1984.

3.2.5 The Housing System and Housing Change

The years 1977 to 1984 contained the World Bank's participation in the Madras Urban Development Project I, 1977-80, and the Madras Urban Development Project II, 1980-84. This participation changed housing policy and housing practice, and one could understand these changes. However, the nature of housing is such that what is inherited from the past; in terms of housing stock, history and the activities of people and markets; projects its characteristics into the future. In other words, what one could see in the housing in Chennai in 1977-84 reflects the past as well as current housing events.

The private markets make two main forms of housing provision. Low-income households occupy rental rooms in tenements: rents are affordable, but conditions are frequently crowded and unhygienic. It is a

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typical market response to mass poverty. In Chennai the overall shortage in housing supply constrains moderate-income households to take up this rental housing-being an alternative to squatter settlement where poorer households find their housing provision\textsuperscript{1}.

In the high-income sub-market at the end of the 1970s and into the 1980s, prices of houses and flats were in the range of Rs.70,000 to Rs.300,000, depending upon size and location. A purchaser could obtain a loan from the HDFC or other financial institution to finance just over half the cost of the dwelling. This left a large sum of some Rs.30,000 to Rs.1,50,000 to be saved and placed as down payment. Clearly this was all outside the range of the lowest-income groups where households had annual incomes of less than Rs.8,000. The developers also had problems of financing their developments. They might be able to borrow to finance land acquisition, but not for the building and construction. For this they depended upon purchasers having arranged their loans to pay for development costs in stages during the building process. These complications all have the effect of holding back supply, inhibiting the full expression of demand. The Government has two housing agents. As was mentioned earlier the TNSCB has responsibilities in slum clearance and upgrading and the TNHB builds public housing for sale. The flats in the TNSCB's re-housing activities cost Rs.10,000 in 1978, and the rents for the re-housed slum dwellers were heavily subsidised. In fact, many poor families sublet the tenancies and returned to live more cheaply in squatter settlements. The clearance and

\textsuperscript{1} Cedric Pugh, 1978, \textit{Housing and Urbanization, A study of India} Sage publications, New Delhi, p.233
redevelopment approach was dominant until the mid 1970s. The TNHBs 'permanent construction' units at Rs.12,000 in 1978 were similarly unaffordable to the low-income households, who might have been able to buy at about Rs.4,000. However, the waiting list for this housing was extensive among the middle-income households because they could not afford the much higher prices in the private market. As we saw above, the private market was providing to high-income households at Rs.70,000 and higher. Some middle-income households were able to take up opportunities in the cooperative housing sector, which was supported by Government finance. But the overall picture was one of large deficits in supply, leading to the further generation of squatter settlements and slum living conditions. It was the Low Income Group, which was most adversely affected.

The TNHB began to review its policies and budget allocations in 1976. In effect, this meant that the former emphasis on 'permanent construction' was to come under close scrutiny. 'Affordability' was set as the key criterion in the scrutiny. The analytical exercise in this scrutiny was straightforward. The procedure to assess affordability is to divide the households into several income groups, with focus upon the low-income groups. Householders will spend their budgets on housing and non-housing requirements (including such essentials as food). In the lowest-income groups some 80 per cent (and more) of household expenditure is upon food. Then it is assumed that housing would be purchased over a number of years by repaying loans in instalments. Also, in many cases, households can be

expected to have the capacity to make initial down payments. In Chennai, the policy analysts set housing affordability at six month's income for the down payment, and a 'house' price of no more than double the annual income. Predictably, on this basis it was found that typical public housing implied subsidies ranging up to 80 per cent of building costs among Low Income Groups. Income among Low Income Households is often intermittent, though some saving is possible. From this particular perspective of 'analytical' affordability the World Bank's approach looked better. In response to this the TNHB was ready to accept a switch in favour of sites and service schemes, and in ideology, the housing planners became converts to the affordability-cost-recovery-replicability theory. It is, of course, possible to take other perspectives on the question of 'affordability'.

3.2.6 Tamil Nadu Housing Board

The main aim of the Tamil Nadu Housing Board is to cater to the Housing needs of the people of different income groups such as Economically Weaker Section, Low Income Group, Middle Income Group and Higher Income Group. The Tamil Nadu Housing Board provides developed plots with all infrastructure facilities for all the income groups at affordable prices.

3.2.7 Highlights of Operation

The physical target for the year 2000-2001 was 7800 units. Cautious decision had been taken to construct houses, only in places where there was possibility of sales of Housing stock, so as to avoid further
accumulation of unsold stock. In view of this the achievement during the year 2000-2001 was 6157 units incurring an expenditure of Rs.127.42 crores, against the target of Rs.124.00 crores$^1$.

There are various reasons for not achieving the physical target, within the stipulated period as mentioned below:-

i) Due to heavy unsold stock in some of the divisions, new works have not been taken up. The unsold housing stock in the State level and Chennai City level are shown in Appendix I and II of this thesis.

ii) The participant Contractors have obtained Stay from the Court, for acceptance of Tender, resulted in delay in completion of the work.

iii) Procedural delay in getting statutory approvals from various authorities.

iv) Slow progress in TNGRH Scheme due to delay in approval, for getting external finance.

Wherever there is heavy unsold stock, effective steps are taken to sell the unit by reducing the selling price, extending the repayment period, stabilising the price by freezing interest charges, and relaxing the condition for the issue of sale deed as per the guidelines issued by the Government in G.O.Ms. No.29 (Hg. & U.D. dept.) dated: 22.1.2001$^2$.

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$^2$ Ibid, p. 3.
3.2.8 Programme of TNHB During 2001-2002

During 2001-2002, the Board has planned to incur Rs.125 crores to develop 5078 dwelling units consisting of plots, flats and houses. Some major schemes to be implemented during 2001-2002 are as detailed below:¹

i) A scheme consisting of 76 HIG flats at Korattur, Chennai will be taken up at a cost of Rs. 2.80 Crores.

ii) A scheme will be implemented to construct 48 HIG flats at Periyar Nagar, Erode. The cost of the scheme will be Rs.1.90 Crores.

iii) The Tamil Nadu Housing Board has planned to construct 50 houses at Sivakasi in Virudhunagar district at a cost of Rs.1.38 Crores.

iv) It is planned to construct 34 houses in Vellore phase V at Sathuvachari at a cost of Rs.2.13 Crores.

v) The Tamil Nadu Housing Board has formulated to develop 6.25 acres of land at Vishnukanthi in Kanchipuram district at a cost of Rs.1.10 crores².

3.2.9 Financial Resources of TNHB

The major resources of funds for implementing works are the following:

i) HUDCO

ii) State Govt. assistance by way of loans, grants etc.,

iii) Housing Development and Financing Corporation.

¹ Annual Report 2000-2001. Published by Tamil Nadu Housing Board, Chennai, p. 3.
² Ibid, p. 3.
iv) L.I.C. Housing Finance.

v) Nationalised Banks.

vi) Revenue from the Boards assets.

vii) Fixed Deposits from public.

Presently, several Housing Financial Institutions have come forward, to extend housing finance to individual allottees considerably at lower rate of interest. Hence the allottees are tied up with Housing Financial Institution, so as to get benefitted with loan at the lower rate of interest, and at the same time to enable the Tamil Nadu Housing Board to realise the full cost of the houses. This will enable the Tamil Nadu Housing Board to improve the liquidity. The statement of housing stock as on 1.4.2001 and sales details are shown in Appendix III of this thesis.

3.3.0 Tamil Nadu Slum Clearance Board

The existence of slums in urban areas indicates the poor level of living of a significant percentage of the population. The concentration of the economic activities in urban areas is the major magnetic force which attracts the work force from the rural to urban areas. Such people who migrate to urban centres have neither any skill nor income for their livelihood. They get employment in service sectors and find it difficult to get affordable houses due to their meager income and they encroach upon vacant Government/Private lands near their work spot and put up hutilments there. Such settlements lacking sanitation facilities, later change into slums amidst unhygienic surroundings. Such habitations subsequently develop into slums
and proliferate further due to natural population growth and continued migration.

The slums have become the common feature of every city or town. Unless drastic and timely measures are taken, the problem of slum will assume mammoth proportions, leading to a total disarray of urban development. Housing in a pleasant environment is one of the basic necessities of human beings. Taking stock of the situation, the Tamil Nadu Slum Clearance Board was set up in 1970, with the following objectives, for the clearance and improvement of slum areas, to mitigate the sufferings of the slum dwellers and to provide a better urban development with tenurial rights to the erstwhile slum dwellers. The activities of the Board were initially confined to Chennai city and subsequently extended to all the Corporations, Municipalities and Town Panchayats in Tamil Nadu in a phased manner.

3.3.1 Policy on Slums

i. The slums located in congested unhygienic areas of the urban centres shall be cleared and tenemental schemes put up.

ii. Wherever in-situ development is feasible, such slums shall be identified and taken up for in-situ improvement and for provision of basic facilities.

iii. Wherever neither tenemental scheme nor in-situ development is feasible, rehabilitation through “Sites and Services” approach in
nearby locations shall be followed. Under this approach, the cost of development will be kept within affordable limits.

iv. It promotes participation of the slum dwellers in clearance and improvement of slums.

v. It aims to provide good shelter to the slum dwellers at affordable cost.

vi. In view of the pressing need for solving the problem of slums within the limited financial resources, the emphasis will be on clearance and improvement of slums.

In order to translate the above policy into concrete programmes the following strategies have been evolved:

i) The residents of the slums located in congested unhygienic areas of the urban centres are rehoused in multi-storied tenements in the same areas.

ii) Besides improving the slums with basic infrastructure, land tenures are provided to make the areas habitable.

iii) The slum families living in areas required for public purposes like MRTS, alignment and areas like road margins, and river margins are rehabilitated near city limits in tenements at alternative locations.

The Tamil Nadu Slum Clearance Board is the official machinery of the Government for implementing the policy in slums. The Board is governed by a Chairman, Managing Director and 10 Directors representing
various departments of the Government. The Tamil Nadu Slum Clearance Board has been implementing various programmes with a view to ameliorating their sufferings and to improve the living standards.

3.3.2 Slum Clearance Programme

More than 35 per cent of the population in Chennai city are living in slums and 50 per cent among them are in dense slum areas. These areas are devoid of any basic amenities and a single hut is being shared by 2 to 3 families. The families living in these habitations are subjected to frequent fire accidents and seasonal flood threats. The Tamil Nadu Slum Clearance Board is providing multi storeyed tenements to resettle the slum families living in areas wherein, “as is where is” development is not feasible and dense in nature.

The slum clearance programme envisages the storeyed tenements with adequate infrastructure like water supply, sewerage, roads and street lights etc. The eligible slum families are enumerated and identity cards are issued. The beneficiaries are permitted to have temporary shelters in the nearby places during the period of construction. The Tamil Nadu Slum Clearance Board constructs multi-storeyed tenements with adequate infrastructure on the land thus got vacated. The tenements so constructed are allotted to the slum families who were living there earlier. The Tamil Nadu Slum Clearance Board constructs as many number of tenements as the number of families in a particular area. This programme is being funded with 70 per cent loan assistance from the HUDCO at 13 per cent interest per annum repayable over a period of 15 years. The remaining 30 per cent is provided by the
Government as grant. The unit cost of a tenement at present works out to Rs.1.50 lakhs\(^1\). The Tamil Nadu Slum Clearance Board makes sure that the transit camp put up to resettle the slum families are cleared soon after the allotment. Only those families who have the documentary evidence in the slum are eligible for allotment. The Tamil Nadu Slum Clearance Board has constructed 68310 storeyed tenements at a cost of Rs.251.95 crores since its inception.

The TNSCB was also ready to adopt changes in policy, giving much greater scope to the city improvement approach to slum clearance. As we saw earlier the TNSCB had inherited the clearance and redevelopment approach from its forerunner, the City Improvement Trust. The World Bank, quite reasonably, was partial to the in situ approach on the basis of its favourable economics and its prospects for better administrative performance. In fact, during the early 1970s the TNSCB had already gained some valuable experience in administering the Central Government’s funding provisions for slum areas. The TNSCB was beginning to move away from administering ‘spot’ projects, towards formulating a seven-year programme to bring mass improvement to slum areas. This was made more feasible and timely in the light of World Bank finance which began to flow from 1977, and to a new Central Government initiative, accelerated Slum Improvement Scheme, was also launched in 1977. The result was that some 1.4 million

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slum dwellers could be brought within the medium-term budget and policy planning.¹

Moreover the TNSCB has implemented various housing and welfare programmes to ameliorate the living conditions of the slum families at a cost of Rs.571.64 crores² up to 31.03.2001. The various scheme implemented by the TNSCB upto 31.03.2001 is shown in Appendix IV in this thesis.

In this Chapter an attempt in made to bring out the relationship between the national level housing shortages and the various institutions offering housing finance. A brief description of the State Level housing characteristics is given. In the closing pages an attempt is also made to present the housing situation in Chennai City. The next Chapter elaborates the performances of the various HFI’s functioning in the city of Chennai. Since there are innumerable players in the field, it was important to the researcher to make a discrete selection on the basis of performance of these Institutions during the study period.


Annual report, Tamil Nadu Slum clearance Board, Government of Tamil Nadu, Chennai, p.3.
Chapter IV

Performance Appraisal of Housing Financial Institutions in Chennai City