CHAPTER - II

Review of Literature

2.1. Introduction

The proverb that 'wherever man lives, he constructs his own house' has been prevalent in one form or the other in all societies and at all times. This reflects that housing is an individual responsibility. However, times have changed. Today, the situation has drastically changed and housing has become so important an issue that the United Nations declared 1987 as the 'International Year of Shelter for the Homeless' (IYSH), to draw the attention of the governments, intellectuals, academicians, policy makers, politicians, social groups and others connected with the problem of housing in framing suitable policies to bring about an improvement in the housing situation. The different dimensions of housing such as land, cost, technology, building materials, infrastructure, and finance have been debated. Related issues like policies and strategies of government on human settlements; social housing, people's participation and role of voluntary action groups have drawn the attention of researchers in the field. As a result, vast literature has emerged on housing and related subjects. However, it is tedious to review the entire gamut of literature, more so because the available studies are largely devoid of serious theoretical insights. An attempt has, however, been made to review and identify the main trends in the growth of housing and other related issues. The available literature has been reviewed under different dimensions like housing finance, management and implementation, policies and strategies, urban housing, rural housing, self-help housing, technology and building materials and so on. In the present study, only a few studies have been quoted under each dimension. The omission of several other studies is not deliberate, but unavoidable. Therefore, the review of literature for the present study has been categorized under different parts for the convenience of analyzing:
• the theoretical background for housing;
• the housing finance systems evolved and adopted globally;
• the housing finance systems in India, in general, and Karnataka, in particular; and
• emergence, characteristic features and causes of the informal finance for housing in the developing countries including India and Karnataka, in particular.

2.2. Theoretical Background

Housing did not receive much attention until the mid 90s. As stated earlier several economists have contributed to a development of the theoretical background for housing. The literature available on the theory of housing describes housing from various dimensions. It has been viewed from economic dimension, from social dimension, from humanitarian and developmental dimensions. Charles Abrams (1964) who is considered as the key pioneer in the housing studies looked at it from an economic dimension. To him housing was a neglected subject as it had been ignored in policy development and programme implementation. His work concentrated on the problem of migration and squatting. He was of the opinion that housing had to be linked to the saving investment process in the economy, in general and encourage self-help processes as a solution to squatter housing. Burns (1964, 1977) further added to the opinion of Abrams. To him spending on construction had multiplying effects on income and employment and for every dollar spent on housing at least two dollars would be generated and also contributed to the reduction of capital-output ratios in the other sectors of the economy. Frankenhoff’s (1966) theory, to a large extent, added similar views to the views of Abrams and Burns. However, his theory questioned the validity of the capital-output
ratio as a guide for housing investment. To him housing cannot be defined by its capital value, rather some part of the stock value should be assigned to housing-related infrastructure. Frankenhoff states that one need not measure the productivity of factories by the rental value of the buildings rather than by the returns from the goods and services produced in it combining labour and capital.

In the mid 70s, John F.C. Turner (1967) gave a sociological dimension to housing. He glorified social housing to the maximum. To him public policy should focus on giving security tenure on land and accepting progressive physical development, not instant development. The policy should further provide sites and services, enabling families to self-build their houses on land with a legal title. Turner, in his subsequent writings (1979, 1978), stressed the need for self-help housing as it instilled a sense of accomplishment; it raised morale, and also reduced the cost of construction. To him self-help housing also lead to deprofessionalisation of housing and break-down of bureaucratic centralization and authoritarian hierarchy.

Becker (1973), Stretton (1976) and Apps (1981) through their publications gave housing an entirely different dimension. They looked at housing in a broader perspective. Both Beckar and Stretton gave importance to housing as a production unit in the domestic circle. According to them, housing is a central, social and economic asset in the domestic sector, which lead to such things as housework, cooking, gardening, hobbies and neighborhood social development. And any omissions of this domestic sector lead to an understatement and distortion of economic activity.
2.3. Global Housing Finance Systems

Since the end of 1970s, there has been a growing interest in the international comparative housing research in many countries although many such international comparative housing studies had already been published in the 60s (Wendt, 1936; and Donnison 1973). It took almost two decades before further studies of this type were initiated. This was because of the reason that housing research in the 70s lost contact with the general theoretical and methodological developments then taking place in social science. However, there was a favourable turn in the 70s and since then there have appeared in quick succession a series of international comparative housing and building studies (Kemeny 1981; Hallet 1977; Lundqvust 1988, 1990; Van Vliet 1987, 1990;). Many papers presented further added to the literature on comparative housing studies through works of Wynn, 1983; Polly, 1992; Michael Harlow (1985, 1995) an in-depth investigation of the housing situation in various countries. Studies based on previously identified problems were carried out by many authors (Kemeny 1987; Lundquist 1988; Ball et al., 1988; and Kroes et al. 1988). Authors such as Schmidt (1989), Donnison and others aimed to compare specific instrument of policy rather than concentrating on the main lines of policy. They have tried to look into the introduction of alternative forms of mortgage and schemes to promote owner-occupation.

Comparative housing studies were also carried out with regard to housing policy adopted in different countries, housing system, housing financial markets, and housing finance. In recent years, plenty of literature however, on housing finance especially housing finance in the developed countries (Papa 1992; Karn and Wolman 1992; Boelhouwer and Heijden 1992; Doling 1997) are available. Heijden and Boelhouwer in their, work based on the study of seven European countries, reveal that there has been a parallel approach in the literature available in these countries. This difference is
because of the presence of factors such as, like legal, fiscal, and administrative arrangements different instruments used to provide housing finance. Many countries have adopted the Individual housing allowance system to finance housing in a big way (Howenstinem 1986). Private renting has been practised in many countries. Yates in the case study of Australia has discussed the private rent thriving in Australia with individual landlords with a tax framework who have invested the majority of investments. In contrast, the private rented sector in England had lost its significance by the late 1980s (Crook & Kemp 1990). Many authors have further discussed the significance and the usefulness of the private rented sector. (Whitehead 1994; Pfeiffer & Dubel 1994) in housing.

2.4. Housing Finance Systems in India and Karnataka

The literature on housing finance in India may be further reviewed under four categories: Housing Situation in India, Policy foundation for housing in India, The sources of housing finance in India, and Housing finance in Karnataka.

Housing in India has gained much importance since the mid 1980s, especially after the declaration of the year 1987 as the 'International Year for Shelter'. Housing, being a State subject, is considered as belonging to priority sector. Recently, there has been renewed interest in housing. Looking at it from social and economic perspectives, many authors have focused on the general housing situation in the country (Roa, B Bhaskar 1975; Chander 1976; Gosh 1977; Cedric, 1990; Sharma, Sivaraju and Reddy 1990; Banerji & Guha 1990; Gupta, 1993; Bhooshan & Misra 1979; Correa 1977; Shankar 1982; Unni 1974). The various aspects of housing like shortages, the demand, supply, and the efforts of the Government and other institutions to fill this gap, investment in housing and other related subjects have attracted these intellectuals. The
Housing situation in India differs between rural and urban areas. The rural housing situation is deplorable in terms of both quality and quantity. The rural housing is more dominated by kutch houses, which is deprived of basic amenities, good neighborhood facilities. Many social scientists have focused their studies on the rural and urban situations in India. (Jayaram & Sandhu 1950; Kumar and Lakshmipathy 1990; Shah 1994; McDonald 1979; Jones 1979; Anatharam, 1962; Balasubramaniyam 1973; Chandramouli 1975; Desai 1977; Ghosh 1977; Gokhale 1977; Mahesh 1975; Mayo 1981; Mitra 1971; Mohan, Dinesh & Varma, Chandran, 1976; Sivaramkrishnana 1969; Tangri 1968; Verghese 1977; Chaubey, 1998; Gugler 1977; Malhotra 1993, Banerjee and Guha, 1990; Baldwin 1977; Iyer 1985; Jagdish 1979; Mathur 1977; Pandey, 1975; and Singh 1969).

Housing policies play an important role in the development of housing in India. The Five-year plans have adopted a policy for increasing the housing stock, provision of house sites to the rural siteless families and assistance for house construction for those who already own a site and developing low-cost technology is to suit the paying capacity of the targeted groups. However, a full-fledged National Housing policy was formulated only during the seventh plan period. The National Housing Policy is claimed to be innovative in its nature, and commits itself to providing housing for all, in general, and weaker sections in particular. The implementation and success of the national Housing Policies implemented has attracted the attention of various social scientists who have attempted to review the policies in their works (Mahadeva 1994; Kumar & Lakshmipathy 1994; Jayaram & Sandhu 1950; Cedric 1990).

The sources of housing finance in India have been broadly classified as Institutional and non-institutional. The Institutional sources have been further classified
as the General Housing Finance Institutions and the Specialized Housing Finance Institutions. The non-institutional sources include the informal sources of housing finance. A number of books regarding the various sources of housing finance have emerged in recent times for example Varghese 1980; Sharma 1990; Sarma 1989; Cherunilaum 1989; and Mahadeva. 1996;). Apart from the budgetary allocations of the Government, the financing by the commercial banks and the cooperatives, there are a few other institutions, which have been established either in the public, joint or private sector for financing construction of houses. These institutions known commonly as Housing Finance Institutions (HFIs) provide finance for housing directly or indirectly. Many reports and documents have been published by the financing institutions to bring out the functioning of these institutions (RBI report 1976; NHB report 1992 and1996; NBO Directory 1996). Of the housing finance Institutions the most important are the National Housing Bank, which is a wholly owned subsidiary of the Reserve Bank of India with the objectives to promote a sound, healthy, viable and cost effective housing system to cater to all segments of the population, to make housing more affordable, to augment the supply of building materials for credit and real resources to the ‘the small man first’ (NHB 1992 &1996; Peer, 1997; Vora 1999; Sarma 1989; Mahadeva. 1996). HUDCO is another institution in the public sector, which provides finance to housing. In fact, it is more popular as techno-financing institution. It not only provides finance to housing but also for the infrastructure development. It is a major multi-dimensional and multi-functional organization addressing the entire gamut of shelter issues in the country. (NHB 1992; NBO Directory 1996; World Bank. 1984; HUDCO 1995; Mahadeva. 1996; HUDCO 1990, Chakrabarty 1996; Gupta 1985). In the private sector, the role of Housing Development Finance Corporation (HDFC) is predominant. It finances housing both directly as well as indirectly. The primary objective of the institution is to enhance the residential housing stock in the country through the
provision of housing finance and to promote house ownership. (NBO 1996; Sivarmkrishnan 1989; Peer 1997;). The Specialized Housing Companies today are providing loans to housing activity on a large scale, and mention can be made of Riceland Leasing Limited, Vysya Bank Housing Finance LTD, Vijaya Home Loans Ltd., Can-Fin Homes Ltd., IND-Bank Housing Ltd and others. Though these companies play a significant role in providing finance they have yet to attract academic literature on their functioning by scholars.

Karnataka is one of the 28 states of India. The housing finance system and the various schemes adopted are similar to the ones adopted by the other states of the country. The Ninth Plan estimated the housing shortage to the extent of 3.9 lakhs in the rural areas and about 3.7 lakhs units in the urban areas. Many studies have been carried out regarding the housing situation of Karnataka in recent years (Cherunilam 1989; Roa 1992. Sarma 1989). As such the schemes that are implemented are in accordance of the National Housing Policy. The housing finance system followed in the state is similar to the one followed for the country as a whole. The housing finance is provided by the budgetary allocation of the state Government. Under the public housing schemes various schemes like the Bhagya Mandira, Indira Awas Yojana, Ashraya, Neralina Bhagya People’s Housing Scheme and others have been implemented to improve the existing stock and enhance the stock of houses.

2.5. Informal Finance for Housing

Various institutions both in the public and private sector provide housing finance. However, the finance thus provided is inadequate. In fact the difference between the supply of and demand for finance has been widening. This gap has been
filled up by the informal finance. A general feature of the Asian countries is that there exists side by side with the formal financial sector a highly heterogeneous and dynamic informal financial sector. The informal finance is much less 'visible' than the formal finance though their volume in terms of investment is quite large. Informal financial markets are markets for cash rather than credit, which do not involve directly the regular commercial banks, registered securities markets and others. Bottomley and Tun Wai (IMF 1957) were the first to make a reference to this financial source. They have referred to it as 'Unorganized Markets'. As in several cases, the financial markets seem highly segmented as compared to the 'Organized' financial market dominated by the banks. Some of the literature has referred to the informal market as the 'Indigenous Markets', and it has also been referred to as the "Bazaar Financial Markets". The literature available on the informal finance can be broadly categorized under: General Informal Financial practices, and Informal Housing Finance.

The literature on general informal financial practices reviews the studies on the emergence of informal finance globally, and its role in the Indian Monetary System in particular, with its main characteristics of the Informal Credit Markets (ICM). The studies reveal that the most important characteristics of the ICM are 'Informality', 'Adaptability' and 'Flexibility' in their operations. Informality is characterized by highly personalized loan transactions entailing face-to-face dealings with the borrowers and flexibility in respect of loan purposes, interest rates, collateral requirements, maturity periods and direct rescheduling. The literature reviewed has categorized four broad types of informal credit sources: Direct but intermittent lending by individuals or institutions with a temporary surplus of funds, lending by individuals or institutions specializing in lending; lending by lenders whose main activity lies in markets other
than credit but who tie credit transactions to the transactions in the market; and finally, group finance.


Informal finance for housing plays an important role in housing development; it is truer in the case of developing countries, in general, and in India, in particular. The informal source for housing finance is any assistance, which is neither financed by formal institutions nor governed by the guidelines or framework of the government or banking operations. Hence, it includes the finance that is funded by moneylenders, individuals, friends and relatives. As in other developing countries, informal housing finance is said to play an important role in meeting the requirements of the urban population. Literature on the informal housing finance is only a few. Lee (1988) summarize the findings of the few studies available in India and other developing countries in order to highlight the importance of informal finance. However, an attempt has been made here to review the available literature in the developing countries, in general, and India, in particular. Various studies carried out reveal that the informal finance is prevalent to a large extent in most of the South East Asian Countries. Struyk and Turner (1986) find that only a small percentage of recent home buyers in Philippines and Korea had received any formal financing for the construction of houses. Renanud (1984) find that in 1977, the formal institutions financed only 25 per cent of the housing investment in the Philippines. Likewise, in Thailand, low-income
households almost exclusively used informal sources and had virtually no access to formal institutions for borrowing. In Tunisia, in 1982, only 4 per cent of the total investment in the private housing sector came from institutional financing. Smith (1977) in his study reveals that the urban poor in Malaysia had limited access to the institutional housing credit.

In the Indian context, most of the low-income households have no access to the institutional finance. In the absence of formal housing finance, a variety of credit union caters to their demand. These sources although flexible are very expensive. Hence, the scarcity of loanable funds in the formal sector is one main reason for the emergence of informal finance for housing in India. Mehta & Mehta, 1991; Buckley, Walker, & Persand 1989; Carmon & Gvrell 1982; Burns 1983; Ward, 1982), Okpala (1994) identifies pitfalls and potentials in the development of formal housing finance system. The study conducted by the Asian Development Bank (1983) reports that informal housing finance is of considerable significance in India and 60 to 80 per cent of the provision for shelter has been accomplished through the informal sector. Lall (1982) finds that the informal housing market comprising of indigenous bankers, relatives and friends, is the main source of housing finance. Another study by Lall (1984) investigates and quantifies the importance of the informal housing finance. Accordingly, owners of formal houses were found to have mobilized almost 80 per cent of the their resources through informal sources of finance, while owners of informal houses raised 90 per cent from these sources. Timberg and Aiyan (1984) report that informal banking services were available to a range of ethnic groups in an impressive variety of forms.

Informal money is found to be only slightly more expensive than the organized sector. Gupta (1985) argues that borrowing from the unorganized money market was
more attractive and easier than from the formal sector, but does not say unorganized money market as a provider of housing finance as a whole. Sivashanmugham and Ahmed (1988) find that 1.7 per cent of the low income households in Delhi borrowed money from costly sources and 22 per cent from friends and relatives although the Delhi Catholic Dioceses instructed, that no beneficiary should borrow from costly sources. Kaul and Kaul (1988) examine the concept of affordability of housing and availability of loans to MIG and HIG families. The study reveals that the High Income Groups (HIG) and Middle Income Group (MIG) have limited access to formal housing finance while the EWS families with low credit-worthiness are practically inaccessible to formal financing sources. As per the study the households with an average income of Rs.750 per month have also not been able to avail finance from the formal sources. On an average 24.65 per cent of the families are eligible for formal finance while the remaining 75.35 per cent depend on the informal sources of housing finance. Mehta and Mehta (1989 and 1991) reveal that the use of formal sources of finances by the urban poor, for their housing up-gradation, is relatively low and own savings and borrowings from friends and relatives account for almost two thirds to three fourths of up-gradation budgets. Further, they bring out the reasons as to why the poor are not accessible to formal finance. As per their findings, to avail mortgage finance, legal titles to land and house are required. Apart from this, approval of building plans by the local authorities and above all, a regular stream of monthly income is a necessity. All these have denied the urban poor the access to the formal finance. Due to the gradual awareness of existence of informal finance for housing, many research studies were conducted to ascertain the extent of informal finance to housing. One such study NIUA (National Institute for Urban Affairs) (1992) reveals that housing finance market in India is overwhelmingly dominated by the informal sources, which reach out to a wide range of households. The reach of the formal housing finance system is limited to only 4.5 per cent of the
households. The study also points out that although the formal sources operate at a comparatively larger scale than what is generally visualized, it now provides only one-third of the total housing finance whereas the remaining two-thirds is provided by the informal source (NIUA report 1992).

Informal finance for housing has its own advantages. However, it is not free from some drawbacks. These drawbacks have many a times prompted the integration of informal sources of finance with formal sources. Thus, the issue of integrating the formal sources of finance to the informal sources of finance has been a major issue that has been discussed recently. The central issue of focus of these discussions is sustainable availability, affordability, and accessibility of housing finance to households. Evidence currently indicates that a dominant proportion of housing in developing countries is accounted for by informal non-institutional sources but it has been increasingly strongly argued that development of a formal institutional housing finance system is indispensable for effectively addressing the quantitative and qualitative housing inadequacy problem (Okpala 1994; Srivastava 1992; Acharya and Madhur 1983; NHB 1992; UNCHS 1991, USAID1989; Marudachalam, 1994).

The foregoing review, brings out the importance of and the extent to which informal finances are used by a large number of people in house construction specially those belonging to the Middle Income Group (MIG) and the Lower Income Group (LIG) both in the rural and the urban areas. The review also brings out clearly the ground realities of formal and informal housing finance.