HOUSING FINANCE AND INDIA'S URBAN POOR

Problems and Prospects

by

Devendra B. Gupta, Sanat Kaul, Rita Pandey

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NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY
18/2, SATSANG VIHAR MARG
SPECIAL INSTITUTIONAL AREA
NEW DELHI 110 067

FOREWORD

The study on "Housing Finance System for the Urban Poor" presented here was entrusted to the NIPFP by the Planning Commission. The main focus of the study is on identifying some of the major problems which the urban poor experience in accessing loans from formal sector financial institutions as also the problems which these institutions face in advancing housing loans to this highly deprived section of the society. The study also aims at throwing up some ideas as to how to bring about an interface between the formal sector institutions, financial and non-financial, and the urban poor.

The study was conducted by a research team led by Professor Devendra B. Gupta along with Mr. Sanat Kaul and Dr.(Mrs.) Rita Pandey.

The results of the study are based on case studies as well as active research carried out on Delhi's squatters and slum dwellers. Besides results of similar experiments currently under way in Indonesia and Bangladesh are cited.

The Institute is grateful to the Planning Commission for sponsoring the study and for the interaction provided by its officials during the course of the preparation of the study.

The Governing Body of the Institute does not take any responsibility for the views expressed by the authors in the report. That responsibility belongs to primarily to the authors.

July 1990

A. Bagchi
Director

PREFACE

The focus of the study is on low income households who are unable to derive benefits from existing housing finance institutions, which use very restrictive affordability criteria based on conventional loan terms, largely due to their limited income and assets. These households, nevertheless are usually capable of saving specifically for the purpose of housing. Also we assume that these households are capable to paying back loans when made on innovative, non-conventional basis. In this study, non- conventional loans or financing implies devising/modifying loan terms, guarantees, collateral and/or eligibility terms as would permit low income households to qualify for, and to afford, housing loans for which they are hitherto ineligible due to their financial, economic and social circumstances.

The study is confined to urban areas where nearly 20 per cent to 35 per cent of the population lives in dismal and sub-human conditions in slums and squatter settlements. In some large cities and metropolitan areas, the slum population may indeed be much larger.

These slum dwellers and squatters are usually poor, and because of high costs of acceptable dwellings are outside the formal housing system. They are also excluded from conventional financing mechanism due to restrictive loans terms[1]. The benefits of formal sector finance is thus accruing largely to the non-poor.

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1. High interest rates are repeatedly offered as an important factor for keeping many low income households out of the conventional financing mechanism. However, as indicated in report, our investigations reveal poor taking loans even at 5 per cent per month for housing. This, of course, does not imply any plea for charging market interest rate from the poor.

Indeed, as many studies show, the poor, without any alternative, have therefore to rely on own resources usually raised at very high costs. It may not be an exaggeration to assert that the poor, despite their very low incomes, have indeed some propensity to save for a 'durable' which will convince them to its accessibility, and that it can be procured/purchased in convenient small instalments. The desire to save may be further strengthened if the deposits are safe, and hedged against undue inflation. Unfortunately, as yet, there is little attempt on the part of formal sector financial institutions to contribute to the housing finance needs of the poor[2].

The study in the context of low income households has attempted to outline the limitation of the existing housing finance system, and analyse the major problems inherent in attempts aimed at providing housing finance to the low income households using conventional means. It will be appreciated that, while it is true that if the constraints to effective targeting of benefits to the poor may be traced to the conservative policies adopted by formal sector financial institutions, the constraints inherent in the target group, mainly low income households are no less important in restricting their capacity to exercise effective demand. Thus for any housing finance system aimed at the low income households the main task will be to overcome the obstacles imposed by conventional housing to suit the financial and other socio-economic circumstances of these households. The study

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2. Exceptions being, for example of banks providing highly subsidised small housing loans to scheduled castes/scheduled tribes. These are obligatory loans and the banks are reported to be rather tardy in loan recovery perhaps because these loans carry guarantees to the tune of 75 per cent of loan amount.

presents a tentative model of housing finance for discussion and debate. It is based on the on- going action research being carried out under Punervaas movement.

In this study we received research/field support from Amar Sahu, Vinay Sidh, Suresh Chandra Arya, V. Geeta, Sunita Srivastava and Vasundhra Chandra. Needless without their help, it would have been difficult to carry out this study.

The authors would like to place on record their very special gratitude to Dr. Rakesh Mohan, who as Adviser in the Planning Commission, inspired us to initiate this study. We would also like to thank the Planning Commission for providing funds to carry out this study and to Shri Rakesh Chandra, Consultant, Planning Commission for his help and guidance. In the course of the study we also benefited from discussions with a large number of professionals in the area, and we would like to thank them (list of names at the end of the report).

For constant encouragement and advice in our endeavour, we would like to place on record our gratitude to our Director, Dr. Amaresh Bagchi.

Discussions at the Punervaas group were extremely helpful in clarifying many of our thoughts and we are particularly indebted to everyone who took part in these discussions at one stage or the other. We are particularly grateful to Shri Manjit Singh, Commissioner Slums (DDA); Shri H.C Joshi, General Manager, Delhi Cooperative Housing Finance Society; Shri K.S. Mehra, Registrar, Delhi Cooperative and Dr.(Mrs.) Kiran Martin, President of ASHA.

For excellent secretarial assistance, we would like to thank the Administrative Staff of the Institute, especially Shri R. S. Tyagi. We would also like to thank Shri N. Natarajan for looking after the production aspects of the study.

This study is a joint effort of the three authors: Dr. Devendra B. Gupta, Shri Sanat Kaul and Dr.(Mrs.) Rita Pandey, and they together bear the responsibility for any shortcomings of the study.

Devendra B. Gupta

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Abbreviations

AIDIS	All India Debt and Investment Survey, 1981-82.
APRCA	Asian Pacific Regional Credit Association.
ASTRA	Indian Institute of Science, Bangalore.
CHFC	Central Housing Finance Corporation.
CPFC	Central Provident Fund Commissioner.
CRR	Credit Reserve Ratio.
DCA	Delhi Catholic Archidiocesce.
DCHFS	Delhi Cooperative Housing Finance Society Ltd.
DDA	Delhi Development Authority.
DFC	Department of Financial Companies, Reserve Bank of India.
DJP	Development Justice, Peace.
EPF	Employees Provident Fund.
EWS	Economically Weaker Sections.
FSS	Farmers Service Society.
GBP	Grameen Bank Project.
GDP	Gross Domestic Product.
GIC	General Insurance Corporation.
GOI	Government of India.
GPF	General Provident Fund.
GRHC	Gujarat Rural Housing Corporation.
GRUH	Gujarat Rural Housing Corporation.

Abbreviations (Contd.)

HDFC	Housing Development Finance Corporation.
HFI/HFC	Housing Finance Institution/Company.
HIG	High Income Group.
HLAS	Home Loan Account Scheme.
HSP	Home Savings Plan.
HUDCO	Housing and Urban Development Corporation Ltd
ICICI	Industrial Credit and Investment Corporation India.
IFCI	Industrial Finance Corporation of India.
ILB	Indian Labour Bureau
IMRB	Indian Market Research Bureau
LIC	Life Insurance Corporation.
LIG	Low Income Group.
LIHs	Low Income Households
MIG	Middle Income Group.
MMDA	Madras Metropolitan Development Authority.
MOUD	Ministry of Urban Development.
NCHF	National Cooperative Housing Federation.
NCU	National Commission on Urbanisation.
NHB	National Housing Bank.
NDP	Net Domestic Product.
NHP	National Housing Policy.

Abbreviations (Contd.)

NIBM	National Institute of Bank Management.
NIPFP	National Institute of Public Finance and Policy.
NIUA	National Institute of Urban Affairs.
NSS	National Sample Survey.
PACCs	Primary Agriculture Credit Cooperatives
RBI	Reserve Bank of India.
RLEGP	Rural Landless Employment Generation Programme.
SC	Scheduled Castes
SEWA	Self-Employed Women s Association
SLR	Statutory Liquidity Ratio.
ST	Scheduled Tribes
ULCRA	Urban Land Ceiling and Regulation Act, 1976.
UTI	Unit Trust of India.

Measures and Conversions

Rs 16.5	=	US$ 1
Rs 10 lakh	=	Rs 1 million
Rs 1 crore	=	Rs 10 million.

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CHAPTER I

INTRODUCTION

A major task facing the housing sector in this country relates to the provision of adequate shelter to the poor. Constant and steep rise in prices, especially in large and metropolitan cities, have virtually eliminated the poor out of the land and housing markets. Widening disparity in income has reduced the scope for integrating them into the formal housing market even further. Also, the poor do not have access to finance from the existing formal housing finance institutions owing to their low/irregular/uncertain incomes and their inability to furnish acceptable collateral security. Despite various government schemes and initiatives to help the poor, the housing situation remains rather dismal.

The main purpose of the study is to examine the extent to which the formal sector financial institutions are able to meet the needs of housing finance of the poor. Inter-alia, it identifies the major problems faced by the poor and other low income households in obtaining funds for housing from the formal financial institutions. An attempt is also made to suggest a framework for fostering an effective link between the formal sector financial institutions and the low income households in order to meet the financial needs of the LIG for house ownership. The study is confined to urban households, although the framework may find applicability in the rural context, of course, with suitable modifications. We should however like to point out that, given the abject poverty of the Indian masses, provision of housing to all the low income households is a rather difficult target to achieve, at least in the forseeable future, unless shelter programmes are linked to all round improvement in the economic and social status of the poor. The model proposed in this study therefore takes this fact into account.

In carrying out this study we first review the current housing situation vis-a-vis the trends in urbanisation. Since a large number of low income urban households are located either in slums or else live as squatters on encroached land, the problem of shelter of slum dwellers and squatters forms the main theme of this study. In this context, the problems of specific classes such as the scheduled castes and scheduled tribes are also discussed, especially because various government housing schemes and commercial banks devote a substantial proportion of funds on these classes. We have however not touched upon the housing problems of self-employed working women, although admittedly this is important. But as would be clear later, the housing problems of this class can be adequately covered by the model suggested here. An analysis of the trends in urbanisation and the current shelter scenario clearly demonstrates that unless innovative solutions are found, the shelter situation is unlikely to show any appreciable improvement in foreseeable future.

This is followed by presenting a socio-economic profile of the urban poor in terms of their education and occupational patterns, income and asset status, and expenditure behaviour. It also provides an idea of the saving potential of the poor, especially in the context of rent paying capacity of the low income households. Since indebtedness is an important associated aspect, an idea is also provided about the current indebtedness of the urban poor.

We then discuss the extent to which the poor have benefited through various government programmes and policies in the provision of housing, indicating their inbuilt shortcomings. We also outline some of the major problems faced in home ownership by the poor. In this context mention may be made of two major bottlenecks, namely, land and finance. So far as finance is concerned, it is not always the shortage of housing funds, but the inherent weakness of the system to bring the low income households and the formal sector financial institutions together. In this context, we first outline the existing structure of formal sector financial institutions and magnitude of the current flows of funds into the housing sector. We also discuss the inappropriateness of various existing saving and lending instruments to serve the financial needs of the poor. This is followed by a presentation of a number of case studies to emphasise that, despite the funds availability, there are certain important factors which inhibit the poor to reach the formal financial sector.

The study concludes by identifying the missing links in this interface and provides a framework for effecting such an interface. Inter-alia, the experience of an on going action research in shelter provision to low income group households is discussed to demonstrate the working of the model.

CHAPTER II

HOUSING : MACRO-ECONOMIC CONTEXT

2.1 Introduction

Almost one third of India's population in urban areas lives in slums and squatter settlements usually will low, irregular and uncertain earnings and also with low levels of literacy. In order to improve their housing conditions the government has implemented a number of schemes. This chapter outlines some of these initiatives indicating their major drawbacks. We also review the current housing situation (both quantitatively and qualitatively). Phenomenon of rural to urban migration has been shown to be a major cause of growth of urban slums and squatters. To begin with we first provide an idea of macro-economic situation in terms of growth in urban population, income and employment status and literacy level of households. We then indicate the current housing situation in the country. Finally, trends in urbanisation are presented.

2.2 General Situation : Macro-Economic Context

As is well known India has a large population of nearly 800 million persons living in an area of 32.87 lakh square kilometres. The average household size has been around 5.7 but recently it has shown a slight rising tendency. Nearly one quarter (or 200 million persons) of India's population lives in urban areas, and it is increasing at almost 3.9 per cent annually when compared to an overall growth rate of 2.2 per cent per annum. Nearly 40 per cent of India's urban population is concentrated in cities with population of over half a million. It is in these cities where the low income households face major housing problem.

While India's national income has been rising, 3.8 per cent annually during 1951-1986, 4.6 per cent a year during 1980-85, much of it has been taken away by a rising population. For instance during 1965-1985 the GNP in per capita terms grew at 1.8 per cent annually, although since 1980 it has improved to an annual average of 2.8 per cent. GNP in per capita terms was Rs 2151.8 at factor cost (1987-88). So far as savings and capital formation are concerned, the performance has been commendable, although recently some fall in saving rate has been observed. The gross domestic savings rate currently is around 22-23 per cent, the net savings being a little above 13 per cent.

Literacy rates have improved from about 17 per cent in 1951 to 36 per cent in 1981. If correction is made for the population of children under the age of 5 years, it turns out that 50 per cent of the educable population is literate.

The proportion of people living below the poverty line has been steadily falling, and according to current estimates a little over 35 per cent of India's population is in poverty (Rs 700 per household per month at mid 1988 - prices). In urban areas the number of such poor is close to 50 million people. In the four largest cities of Delhi, Bombay, Calcutta and Madras, a little over half of the population is estimated to experience poverty. Many of these poor are people who have some kind of jobs; their poverty is largely the result of low productivity. Also a very large of these poor work in the informal sector. At present almost half of total labour force in urban areas would belong to this sector.

In India, while the unemployment rates are not high (e.g., urban unemployment rate was 6.4 per cent in 1983-84), the extent of underemployment (in the sense of working short hours) is large.

2.3 Housing Scenario in India

In India, like in most developing countries, growth in supply of housing has lagged behind the growth in demand for housing leading to substantial shortage of acceptable housing at affordable prices. The total backlog of housing is estimated at 29 million dwelling units of which about a quarter are for urban areas. Among major reasons for such deficit are non-availability of developed land at reasonable prices, lack of housing finance at affordable terms, and high prices of building materials. A major reason for situation is the existence of various regulations and controls in the economy.

The importance of land for shelter is well recognised. A rapid rise in population results in higher demand for land for different uses especially for residential purposes. Demand pressure on land for residential purposes is relatively greater in urban areas due to economic growth that has taken place in the past years. Consequently a general trend of high rates of increase in urban land prices has been observed in almost all the cities of India[1]. But the rates of price increase vary significantly in different cities. Increase in land prices which consequently results in escalating housing costs is attributed largely to the shortage of developed land[2]. Further, withholding of land from the land market for speculation, deficiency in zoning laws and their enforcement are other factors which make the land even more scarce commodity in the market. The implications of high price of urban land are far reaching. The most immediate impact is felt on the rising costs of housing and housing services. Seriousness of the problem can be judged from the trend in the increasing share of land cost in total cost of houses. Land costs constitute a high proportion of the total cost of house which is considerably higher in large towns and metropolitan cities. A consequence of this is high densities with great pressure on basic services like water supply, electricity, sewage, etc. Slums are in fact, to a large extent, a direct outcome of the rising land prices. Realising these problems, the major public intervention in the land market came in the form of Urban Land (Ceiling and Regulation Act) (ULCRA), 1976. While the objective was to promote equity in land holdings and help in moderating the rise in urban land prices, the actual effects of this are by now known to be quite the opposite. Land supply in the market has become worse as, (i) the Act has frozen the supply of land in the land market and (ii) the public sector finds it difficult to develop and release the acquired land in the market due to both financial and physical constraints[3]. The only way of checking the excessive rise in land prices is to develop land and release it on a large scale in the market. Clearly this calls for action together with adequate funds to carry out the development of land.

Finance is yet another major constraint to the growth of housing sector. Trend of investment in housing as per cent of total investment in the economy is depressing. For instance, it has declined from 34 per cent in the First Plan to 7.5 per cent in the Sixth Plan. This has been marginally raised to about 9 per cent in the Seventh Plan.

Also the share of housing investment in GDP has fallen from 5 per cent in the 1960's to around 3 per cent in the 1980's which is very low when compared to other countries[4]. While it is true that involvement of the public sector in the provision of housing has been at best marginal (except of course some rental housing and social housing) and the bulk of housing has come from the private sector, it is disturbing to note that the share of public investment in the total investment on housing has fallen from 21.7 per cent in the First Plan to 11.5 per cent in the Sixth Plan, and 7.8 per cent in the Seventh Plan (Table 2.1). Housing contributed around 16.7 per cent to gross domestic capital formation in 1984-85.

The housing situation has worsened over the years in terms of overcrowding, low and declining per capita floor space and increase in slum and squatter population. The reason being that this sector did not get the required priority that it seemed to have deserved in our Five Year Plans. Moreover no serious attempt has been made as yet to draw up a comprehensive housing programme, although the situation might undergo some change with the setting up of National Housing Bank and the announcement of a National Housing Policy (which itself is likely to undergo change). Each plan allocated such meagre funds compared to the magnitude of the problem that they have hardly been adequate to make a dent into the housing situation[5]. As a result housing became more and more scarce for a large segment of population.

So far as the growth rate of housing stock is concerned, decennial growth rate of housing stock was 26 per cent during 1971-1981 compared to 14.7 per cent in the previous decade as against 26.3 per cent and 16.3 per cent rate of growth of households in 1971-1981 and 1961-1971 respectively (Table 2.2). Considering the growth rate of housing stock in rural and urban areas separately it is found that in urban areas it was 51.4 per cent during 1971-1981 compared to 31.2 per cent in the previous decade. In rural areas, the growth in housing stock has been much lower, being 19.1 per cent in 1971-1981 compared to 14.3 per cent in 1961-1971. The net result is overcrowding and increase in slum/squatter population. The relevant data on occupancy ratio which provides an idea about congestion and per capita living space is presented in Table 2.3.

Table 2.3 shows that average number of persons per dwelling has increased during the period 1961 to 1971. Also, occupancy ratio is higher in smaller units. The situation in respect of the number of persons per room does not seem to have changed during 1960-70. Although after 1971 no comparative figures are available but our judgement is that the situation has remained unchanged. This is based on observation that during 1971 to 1981 percentage increases in the housing stock and the number of households are nearly equal.

The above analysis has provided some evidence on the quantitative aspect of housing stock. Qualitatively the trend is far more depressing. Qualitatively the housing stock in the country has been broadly divided into four categories: pucca, semi-pucca, serviceable kutcha and unserviceable kutcha. Composition of national housing stock is given in Table 2.4. It is evident from the table that though there has been substantial increase in the proportion of pucca houses in urban areas during 1960's thereafter its pace has been rather slow. For example, while in 1960's proportion of pucca houses in urban areas went up from 44.7 per cent to 63.8 per cent, it increased by only 4 percentage points in the subsequent decade. Share of semi-pucca houses has gone down from 34.7 per cent in 1961 to 23.2 per cent in 1971. Subsequently only marginal change has been observed. Similarly, in rural areas the quality of housing stock has improved (in terms of the ranking of houses) though at a slow pace.

The supply and maintenance of certain infrastructure in India is grossly deficient, especially in respect of water supply, sanitation and solid waste management. It is estimated that nearly one fourth of India's urban population has no tap water supply of any kind, three quarters has no (waterborne) sanitation facilities, and one third has no electricity. Furthermore, 40 per cent of the urban water supply is polluted. This situation, however, varies from one state to another and from one city to another. Power supply is also inadequate with nearly 37 per cent households without any electricity connection. So far as solid waste collection is concerned, the situation is dismal, although some households resort to community arranged clean ups. Except in large cities, sewage system is either non-existent or is in a rudimentary stage. It should however be mentioned that, while the provision of public services still remain dismal over the period, access to these services has shown overall improvement especially in larger cities. Further, government assistance provided for infrastructure development in intermediate and small towns has also helped in improving the situation.

From the foregoing it is clear that not only the quality of housing stock but also the quality of services related to housing and health of people needs much more attention than is being presently given.

Expansion of housing supply has been affected also by a rapid increase in prices of key building materials - cement, brick, steel, timber, etc. The increase in cost of construction is far greater than the overall price index, especially between 1981-1984 (See Table 2.5). According to an estimate of National Building Organisation (NBO), over 65 per cent of the cost of house consists of the building materials. Therefore, even a moderate rise in price of building materials tends to raise the cost of construction significantly. In order to reduce the costs, some indirect concessions have been extended to certain building materials which mainly pertain to a cut in excise duty. They, however, have not contributed to any significant reduction in prices of these building materials. Besides fiscal concessions, encouraging the use of substitute building materials may go a long way in containing the costs of construction within reasonable limits. We know housing consists of a series of components that may be produced in various ways and with different costs and standards. For example - when land is scarce denser construction is one way to reduce land cost. Similarly, if cement and/or timber are scarce, some other materials natural or synthetic may be substituted in the production process. Restrictive nature of building bye-laws has however been a major deterrent in accomplishing the above.

Summarising, it can be said that the supply of housing especially for the poor, has not kept pace with the demand for housing. In urban areas the situation is very bad due to migration from small towns and rural areas as a consequence of industrial growth during the past 30-35 years. Influx of people has put pressure on land, urban services and other infrastructure. The outcome of which has been congestion, increase in number of pavement dwellers, growth in slums and squatter settlements, with unhygenic conditions, increasing rent and urban land price. It needs to be mentioned here that the policies which deal with housing problems in isolation will not be able to find any lasting solution to the housing problem in this country. What is required is planned effort in which housing, land, transport network, public services and employment are considered as a part of a package. We may also mention that migration to cities and other urban areas is a necessary correlate of a process of economic development, and it cannot be wished away. The poor would continue to pour in from rural and small towns to larger towns and cities so long as rural-urban wage differentials remain. These people have to be treated as an essential part of the urban life, and they are the responsibility of the people already living in these urban areas. After all, these migrants besides contributing importantly to the development of city, also help in providing a large number of domestic and other services which make urban living less expensive.

2.4 Housing Policy

Among the more important objectives of Indian economic planning having bearing on housing are: reduction in inequalities - economic and social, promotion of balanced regional development and a socialist pattern of society with public sector playing dominant role in key sectors of the economy. Thus, in uniformity with these plan objectives, public sector was assigned a direct role in the provision of housing, especially for the low income households. However, since the mid-seventies, the idea that has taken roots is that public agencies should supplement rather than replace peoples' action to get access to shelter. In this section we provide a brief description of the major initiatives that have eventually led to the evolution of a housing policy document. In this context mention may be made of the various plan schemes and programmes for housing. The Task Force Reports of the Planning Commission on urban development and management including housing, the Report of the National Commission on Urbanisation, the Report of the Study Team headed by Mr. J.B.D'Souza, the Reserve Bank of India Working Group Report, and Report of the Working Group on Housing for Seventh Plan constituted by the Planning Commission have gone a long way in seeing through the National Housing Policy (1988) and the setting up of the National Housing Bank. Indeed the intention of the Union Government was made known in advance through the Budget Proposals for 1987-88 which asserted this by stating that 'Housing is high on our list of priorities'. The International Year of Shelter for the Homeless seems to have acted as a catalyst to some of these decisions.

To begin with, the planners recognised a gap between cost and affordability of current housing available, and sought technological ways to reduce costs. Recognising the inappropriateness of this, the focus shifted to development and utilisation of indigenous local materials. Simultaneously, social housing schemes for the economically disadvantaged groups were initiated but soon recognised the marginal contribution of such attempts towards solving the housing problems, especially in view of the resource constraints. Another important realisation by the government concerned the general resistance to slum clearance and redevelopment programmes. This led to the acceptance of slum upgradation and environmental improvement strategy to deal with the problem of informal settlements. Another significant development in the shelter sector is the recognition of housing finance as an important parameter in increasing the housing supply. This resulted in the setting up of Housing and Urban Development Corporation (HUDCO)(1971), Housing Development Finance Corporation Limited (HDFC)(1977) and other housing finance institutions and eventually the setting up of National Housing Bank (NHB)(1988). Also, recognising land as another major constraint in the context of housing production, the government initiated a number of steps including the formation of urban development authorities entrusted with the task of bulk land acquisition, development and disposal. The Urban Land Ceiling and Regulation Act of 1976 already mentioned is a landmark, although its actual working is under severe attack.

There is now a growing realisation that public sector cannot adequately play the role of builders of housing units and instead would act as promoters and facilitators so as to create an appropriate enabling environment so that other parthers in the housing sector can successfully add to the national housing stock. Both National Housing Policy and the Seventh Plan have assigned a dominant role to the private sector. Also the household and cooperative sectors are assigned a significant role. It may be in order to quote Seventh Plan "The Government has to play an active role through developing necessary delivery system in the form of a housing finance market and taking steps to make developed land available at right places and at reasonable prices". The Seventh Plan also maintains that the legal framework should be adjusted to reduce the non-financial disincentives to housing investment such as rent control, costly building regulations and restrictive land-management policies, etc.

In the context of housing for the economically weaker groups mention may be made of National Housing Policy which seeks to accord priority to promoting access to shelter for the houseless and the disadvantaged groups. While many public sector institutions profess to favour housing programmes for the disadvantaged groups, it is difficult to say the extent to which this has really happened. One may however make a specific mention of the importance of legislative reforms which have been duly recognised in various policy documents. However in effect existing laws have been only marginally tinkered with.

It may be worthwhile to mention that the shift in approach has reflected itself in the following:

(i) Shift in programmes from Slum Clearance and Relocation to Environmental Improvement Schemes and later to site and services;

(ii) **Setting up specialised institutions for provision of housing finance - in early 1970s in the public sector and in 1980s encouragement to private sector institutions and involving commercial banks by setting specific targets;**

(iii) Recognition of importance of supply or availability of land led to experiments in Land Banking (DDA) and socialisation of land (Urban Land Ceiling Act);

(iv) Programmes to give secure tenure to slum dwellers;

(v) A comprehensive view of the housing problems and integration of housing projects with urban development and employment projects, and

(vi) Involvement of NGOs.

In conclusion it is appropriate to enumerate the four broad issues, identified in the World Bank Staff Appraisal Report on India's HDFC, which characterise India's emerging housing policy: (a) increased efficiency and effectiveness of resource utilisation, including affordable design standards and low-cost technologies; (b) market-oriented pricing and improved cost recovery and resource mobilisation; (c) strengthening of public sector management in terms of planning, budgeting and operations, and (d) a more rational allocation of responsibility between the public and private sectors.

2.5 Trends in Urbanisation

Since the focus of the study is on housing in urban areas, it would be useful to outline the major trends in the growth of urban population.

India's urban population is growing at a fast rate - and this rate is itself rising. This is clear from the figures presented in Table 2.6. Increase in urban population[6] owes its origin to three major factors: natural increase in population, reclassification of erstwhile rural settlements into urban, and massive rural-urban migration[7]. The last factor, namely, rural to urban migration (and even urban to urban migration, i.e., from smaller towns to larger towns and cities) has created a number of problems in urban areas. These migrants are usually poor and unskilled and mostly work in the urban informal sector. They mostly reside in slums and squatter settlements. While urbanisation creates many problems, it has certain positive features. This is evident from Table 2.7. One feature that clearly emerges is that more urbanised states generally indicate a larger share of their population in cities, as also in slums. So far as access to water supply and sanitation is concerned, a positive relationship is seen with the level of urbanisation. This is a welcome feature. As the National Institute of Urban Affairs (NIUA) study rightly points out that 'While urbanisation is helping the process of economic development and social change', it goes on to lament that 'it is not being managed properly' and suggests that the planners should seriously consider as to 'how to manage and administer the emerging forces of urbanisation'.

According to 1981 Census there were 3301 towns with varying population sizes[8]. Table 2.8 gives an idea of the distribution of towns and population by size of town. From Table 2.8 we see that towns with population of over a lac had sixty per cent of the urban population. It is however clear that towns of all sizes are experiencing rapid urban growth, although Class I and Class VI type towns show higher growth rates. It may be worth pointing out that Class I type cities went up from 148 in 1971 to 218 in 1981, and within them the number of metropolitan cities (million +) increased from 9 to 12 and of second level cities (5,00,000-9,99,999) from 12 to 30. At present there are almost 20 cities with over one million population[9]. As already pointed out that it is usually the large towns and cities which, because of the employment opportunities they offer, are the ones with large slum population. To illustrate this, towns with a population of over one million (as per 1981 Census) had a slum population of 30.78 per cent when compared to 10.66 per cent in towns with population of less than 1,00,000 and 18.93 per cent in towns with population between 1,00,000 and one million. Among the major reasons for high slum population, mention may be made of high land prices generally beyond the reach of most migrants. This compels these people to squat on any available public or private vacant land. Once settled, it becomes politically a volatile problem. Most encroachments are of course on land which to begin with is on the periphery but subsequently gets integrated into the city boundary, or on land lying unattended - whether in green belt or earmarked as project land for some future development. In many situations, part of the construction labour continues to remain living on the site, partly because they serve the interests of the community around the site. Since these drop outs and other slum dwellers are usually living on land on which they do not have any legitimate right, they seldom have the incentive to construct durable structures, mainly because of the threat of being forcibly moved out (or bulldozed) by local governments. Besides, their unusually low incomes make it difficult for them to think in terms of any meaningful investment in housing. The sites they squat do not have any civic aminities and other services or infrastructure, and they are compelled to live in most unhealthy and unhygenic conditions. The whole environment is highly 'conducive' to the growth of juvenile delinquency and crime. As stated, the problem is far more acute in large towns and cities and require urgent attention.

To summarise, rural poverty and vast employment potential of urban areas (especially large towns and cities) have led to massive rural to urban, and urban to urban migration. The result has been large slum and squatter population with, hardly any meaningful shelter for this population. Also to reduce further densification of large towns and cities with its consequent problems of slums and squatters, it is important that efforts are made to develop smaller towns. This can be done through provision of infrastructure and creation of employment opportunities in small and medium towns. We must however emphasise the fact that the phenomenon of migration is just one factor contributing of urban population and indeed as we saw natural increase factor itself is an equally important contributor to the growth of urban population (being 41.25 per cent when compared to 40.13 per cent due to migration).

NOTES

1. See Shelter Strategy - USAID 1989 and Devendra B. Gupta - Urban Housing In India, Staff Working Paper 730, World Bank, 1985.

2. The share of land cost to total housing cost has been steadily rising.

3. Large chunks of land are known to be under dispute and remain idle - and in many cases encroached by migrants.

4. See Gupta, Devendra B., Urban Housing in India, Staff Working Paper 730, World Bank, 1985.

5. Perhaps housing has so far been by and large regarded as a part of social sector with little economic effort. However, a moment's reflection would show that housing can really contribute to economic activity, including employment. Once this is realised, surely the planners would hesitate little to raise the plan outlays on housing.

6. As compared to an urban population of nearly 160 million in 1981, the urban population by the turn of the century is expected to be anywhere between 340 million and 350 million persons.

7. Contribution due to natural increase, migration and reclassification was 41.25 per cent, 40.13 per cent and 18.60 per cent respectively.

8. Class I towns with a population of over 1,00,000 persons and over are designated cities in the Indian Census.

9. By 2001, almost 40 cities in India will have a population of over one million.

TABLE 2.1

Investment in Housing During Different Plan Periods

Five Year Plans	Investment in housing as per cent of total investment in the economy	Share of public investment in housing	Total investment in housing (Rs in crore)
I Plan	34	21.7	1150
II Plan	19	23.0	1300
III Plan	15	27.4	1550
IV Plan	12	22.3	2800
V Plan	10	22.3	4680
VI Plan	7.5	11.5	12991
VII	9.0	7.8	3[illegible]458

Sources: 1. Handbook of statistics, 1982-83, NBO, New Delhi.

2. Five Year Plans of India, New Delhi.

3. Draft Housing Policy, May, 1990.

TABLE 2.2

Decennial Growth Rate (Percentage)

Year	Population	Households	Housing units
1951-61	21.7	13.7	23.0
1961-71	24.8	16.3	14.7
1971-81	25.0	26.3	26.0

Sources: 1. Handbook of Statistics, 1982-83, NBO, New Delhi.

2. Census of India, 1981.

TABLE 2.3

Occupancy Ratios in Different Sized Units and Percentage Distribution of Households by Size of Dwelling Unit Occupied

		Average Number of Persons				Percentage of Households			
		Urban		Total		Urban		Total	
		1961	1971	1961	1971	1961	1971	1961	1971
1.	One room	4.17	4.57	4.35	4.67	53.05	50.10	49.0	47.82
2.	Two rooms	2.69	2.86	2.63	2.84	4.66	26.93	26.43	28.17
3.	Three rooms	2.06	2.18	2.01	2.18	10.29	11.42	11.31	12.00
4.	Four rooms	1.73	1.83	1.69	1.83	5.35	5.71	5.85	5.98
5.	Five or more rooms	1.28	1.34	1.29	1.39	5.76	5.64	5.96	5.94
6.	Unspecified number of rooms					0.83	0.07	1.33	0.03

Sources: 1. Handbook of Statistics, 1980, NBO, New Delhi.

2. Census of India 1961 and 1971.

TABLE 2.4

Composition of National Housing Stock

(Million numbers)

	Pucca	Semi-pucca	Servi-ceable kutcha	Unservi-ceable kutcha	Total
1961					
Urban	6.3	4.9	-	2.9	14.1
	(44.7)	(34.7)		(20.6)	(100.0)
Rural	12.1	23.1	21.9	8.0	65.1
	(18.6)	(35.5)	(33.6)	(12.3)	(100.0)
Total	18.4	28.0	21.9	10.9	79.2
	(23.2)	(35.4)	(27.7)	(13.7)	(100.0)
1971					
Urban	11.8	4.3	-	2.4	18.5
	(63.8)	(23.2)		(13.0)	(100.0)
Rural	14.1	27.9	24.4	8.0	74.4
	(19.0)	(37.4)	(32.8)	(10.8)	(100.0)
Total	25.9	32.2	24.4	10.4	92.9
	(27.9)	(34.7)	(26.3)	(11.1)	(100.0)
1980*					
Urban	15.8	5.7	-	2.0	23.5
	(67.2)	(24.3)		(8.5)	(100.0)
Rural	16.1	32.0	27.9	7.9	83.9
	(19.2)	(38.1)	(33.0)	(9.4)	(100.0)
Total	31.9	37.7	27.9	9.9	107.4
	(29.7)	(35.1)	(26.0)	(9.2)	(100.0)
1985*					
Urban	18.0	6.5	-	1.8	26.3
	(68.4)	(24.7)		(6.8)	(100.0)
Rural	17.3	34.2	29.9	7.8	89.2
	(19.4)	(38.5)	(33.5)	(8.7)	(100.0)
Total	35.3	40.7	29.9	9.6	115.5
	(30.6)	(35.2)	(25.9)	(8.[illegible])	(100.0)

Notes: * NBO estimates

Figures in parentheses are per cent of total.

Sources: 1. Census of India, 1961, 1971.

2. NBO (1980).

TABLE 2.5

WPI (Base 1970-71)

	All commodities		Cement		Bar and Rods		Wood		Brick	
		Per cent change		Per cent change		Per cent change		Per cent change		Per cent change
1975-76	173.0		170.5		203.3		163.1		291.2	
1976-77	176.8	2.20	173.6	1.82	208.1	2.36	160.4	-1.66	344.4	18.27
1977-78	185.8	6.09	176.8	1.84	208.3	0.10	178.9	11.53	299.6	-13.01
1978-79	185.8	0.00	196.6	[illegible].20	241.6	15.99	192.9	7.83	314.2	4.87
1979-80	217.6	17.12	229.4	[illegible].68	315.1	30.42	219.2	13.63	351.5	11.87
1980-81	257.3	18.24	233.0	1.57	324.1	2.86	266.4	21.53	416.2	18.41
1981-82	281.3	9.33	269.9	[illegible].84	401.6	23.91	299.8	12.54	469.1	12.71
1982-83	288.7	2.63	364.6	35.09	401.6	0.00	313.1	4.44	556.0	18.52
1983-84	316.0	9.46	421.9	15.72	492.8	22.71	348.3	11.24	700.5	25.99
1984-85	338.4	7.09	463.7	9.91	539.4	9.46	369.3	6.03	862.6	23.14
1985-86	357.8	5.73	493.8	6.49	581.0	7.71	384.1	4.01	762.5	-11.60
1986-87	376.8	5.31	470.6	-4.70	581.0	0.00	385.4	0.34	867.4	13.76
1987-88	405.1	7.51	476.3	1.21	602.8	3.75	392.5	1.84	898.5	3.59
Annual change from 1970-71 to 1987-88	8.6			9.6		11.2		8.4		13.8

TABLE 2.6

Growth Rates of Urban Population

Year	Per cent of urban population to total population	Decadal urban growth rate (Per cent)
1951	17.29	41.43
1961	19.97	26.41
1971	19.90	38.23
1981	23.31	46.39

Source: Census of India, 1981.

TABLE 2.7

Correlates of the Levels of Urbanisation by States-1981

Correlates	Coefficient of correlation with the level of urbanisation
Urban access to water supply (1985)	0.71
Share of cities in urban population (1981)	0.69
Urban access to sanitation	0.69
Secondary sector (1981-82)	0.69
Per capita net national product (1981-82)	0.65
Tertiary sector (1981-82)	0.61
Urban literacy rate (1981)	0.58
Slum population (1981)	0.29
Population (1981)	0.09
Area (1981)	0.09
Primary sector (1981-82)	-0.77
Per capita expenditure on public administration and other services (1981-82)	-0.46
Urban death rate (1982)	-0.34
Urban poverty (1983-84)	-0.34
Urban birth rate (1982)	-0.29

Source: State of India's Urbanisation, National Institute of Urban Affairs, New Delhi.

TABLE 2.8

Distribution of Towns and Population by Size of Town

	Town type	Number of towns	Per cent of population	Growth rate (1971-1981)
1.	1,00,000	218	60.5	41.51
2.	50,000-99,999	270	11.5	36.97
3.	20,000-49,999	743	14.3	39.10
4.	10,000-19,999	1059	9.5	35.37
5.	5,000-9,999	758	3.6	36.86
6.	Less than 5,000	253	0.5	40.07
	TOTAL	3301		

Source: Census of India, 1981.

CHAPTER III

SOCIO-ECONOMIC PROFILE OF URBAN POOR

3.1 Introduction

In evolving a viable housing finance system for a particular community or class of communities, it is useful to have an idea about their affordability. In this chapter an attempt is therefore made to analyse the income, consumption and saving behaviour of the low income households. Inter-alia, asset status, indebtedness and occupational pattern of these households are also analysed. Besides, an attempt is made to assess their perceptions in regard to the priority accorded to home ownership. To carry out the analysis, we have largely relied on existing information collected by the National Sample Survey Organisation (consumption expenditure surveys), Reserve Bank of India (All India Debt and Investment Survey), Indian Market Research Bureau (IMRB), Indian Labour Bureau (Family Budget Surveys) and the National Institute of Bank Management (NIBM). The analysis has been supplemented by a specific survey of Delhi's low income households especially those living in slums/squatter settlements. Each of these data is analysed separately. An attempt is then made to construct a broad socio-economic profile of these households with a view to eventually evolve a housing finance system which is appropriate to the needs, perceptions and circumstances of these households.

Before we describe the features of the urban poor as revealed by each survey, it is in order to briefly indicate the dimensions of poverty in India. Also the affordability criteria used by the government for providing housing to low income households are briefly indicated.

3.2 Urban Poverty

As already indicated India is a poor country with a large part of its population working in informal sector. In 1984-85, nearly 37 per cent of India's population lived below the poverty line. This percentage is 27.7 for urban areas. At 1984-85 prices, the poverty line for urban households was Rs 122 per capita per month for urban areas (or Rs 7,300 per household per annum). While the incidence of poverty has declined over the period, the per capita consumption has hardly shown any rise. For example, during 1977-78 and 1983-84 (both expressed in 1983-84 prices), the urban consumption expenditure rose from Rs 158 to Rs 164, a mere 0.6 per cent rise a year. It is in order to point out that while the incidence of poverty is greater in rural areas, the nature of poverty in urban areas is somewhat different. In rural areas, at least in periods of agricultural prosperity, the situation is not all that depressing. In urban areas, however, a large part of population continues to live in abject poverty from one year to another. The situation is particularly deplorable in large towns and cities, especially the metropolitan ones where over one third of city's population is either pavement dwellers or living in slums and squatter settlements[1]. Their earnings are generally irregular and low [according to National Institute of Urban Affairs (NIUA) survey of slums, 1987-88, two third of slum households had incomes ranging from Rs 300 to Rs 900 with median income of Rs 721 per month]. These people are generally unskilled labourers or semi-skilled workers and are mostly engaged in informal activities[2]. Their savings, if any, are also low. One reason for low savings may perhaps be the non-availability of saving instruments appropriate to the nature of their earnings. Most people living in slums and squatter settlements are generally from rural areas and/or small towns[3], and they indicate on one hand the employment potential of such urban areas, and on the other, the incidence of rural poverty[4].

3.2.1 **Scheduled Castes and Tribes:** Apart from a highly skewed distribution of incomes, a significant feature of the Indian social scene is the existence of a large population of Scheduled Castes and Scheduled Tribes[5]. These people are generally poor and have a high incidence of illiteracy. Since they are generally discriminated against, the Indian Constitution has provided certain safeguards[6], and the government policy has been to provide them with opportunities to level up with the rest of the society. In formulating various policies, with focus on economic-social upliftment of people, due attention is paid to devise special programmes for the poor and socially depressed classes.

3.2.2 **Income Criteria for Housing:** In the context of defining the poor and economically weaker sections of the society apart from formulating special schemes for Scheduled Castes and Scheduled Tribes, the Government also uses the income criterion for defining eligibility for socially-oriented programmes. For this, the basis is usually the following HUDCO classification:

	Category	Monthly household income (Rs)
1.	Economically Weaker Section (EWS)	Below 700
2.	Low Income Group (LIG)	700 - 1500
3.	Middle Income Group (MIG)	1501 - 2500
4.	High Income Group (HIG)	Above 2500

The above income levels for various categories do get revised taking into account the price changes.

3.3 Socio-Economic Profile

We now outline briefly the income, consumption, savings, asset and indebtedness status of urban households in India based on various surveys. First the results of the All India Debt and Investment Survey (AIDIS) and the National Sample Survey Organisation (NSSO) are presented. This is followed by an analysis of family budget survey data conducted by India's Labour Bureau. This is done for, seven sample industrial cities. As the housing problem is acute in metropolitan cities, the IMRB data in respect of 12 metropolitan cities is also analysed. We also analyse National Institute of Bank Management (NIBM) data on household savings as this has important bearing on the nature of lending instruments. Finally, the results of our field investigation of low income households of Delhi are presented.

3.3.1 All India Debt and Investment Survey and National Sample Surveys

3.3.1.1. Expenditure Patterns: From the view point of shelter policy, it would be appropriate to give the distribution of households by expenditure class. The relevant data is provided in Table 3.1 based on National Sample Survey [NSS (1983)] expenditure data. From this table, we find that nearly 12-15 per cent of total household expenditure is devoted to housing, including on rent. The rent for the owner occupied houses is also imputed. The maximum feasible rent as indicated in the table is broadly in accordance with the norms adopted by the Planning Commission to work out the affordability limits of house cost.

3.3.1.2 Asset and Saving Patterns: Nearly one fourth of India's households are residing in urban areas of which 33 per cent are estimated to belong to the self-employed category, the remaining are in the non-self-employed category. According to the All India Debt and Investment Survey, 1981-82, (hereinafter called AIDIS), as on 30.6.1981, the average value of all items of assets owned by a urban household was Rs 40,573. Within the urban sector, the average asset of a self-employed household was higher compared to that of the non-self-employed (Rs 55,320 and Rs 33,457). Another interesting feature of asset holding of urban households is the concentration of over 70 per cent of the assets with top 25 per cent of the household. This is evident from Table 3.2.

Analysing the asset composition, we find building is the most important asset with its share of 36 per cent in the total value. Land is a close second with a share of a little over 32 per cent of the total value of urban assets. Further, financial and consumer durable assets are also important in the asset portfolio of urban households. Table 3.3 gives an idea about the pattern of assets of urban households.

3.3.1.3 Indebtedness: So far as indebtedness is concerned, in per cent terms, 17.36 per cent households were in debt with an average debt of Rs 5,930. The aggregate debt-assets ratio was 2.5 for urban households (not much of a difference is observed between the self-employed and non-self-employed).

It would be worthwhile to briefly analyse the cash debt outstanding according to credit agencies since it tells us of the extent of relative dependence of the households on institutional and non-institutional sources for their credit needs. Table 3.4 reproduced from AIDIS (1981-82) provides the percentage distribution of cash dues outstanding by credit agency. It shows that nearly 60 per cent of the cash dues of households are from institutional sources, cooperatives, commercial banks and Government being the three important institutions. Among non-institutional sources, households relied more on friends and relatives for credit followed by professional money lenders. An interesting fact revealed by AIDIS (1981-82) is that nearly 60 per cent of cash debt is for productive purposes.

3.3.1.4 Mortgage: To avail of the credit facilities around 45 per cent of urban households provided personal guarantees and another 27 per cent mortgaged immovable property. Only about 3 to 4 per cent of the households offered jewellery and ornaments as security. Shares, securities and insurance policies are offered as security by nearly 3.2 per cent urban households.

3.3.1.5 Summarising: **We find that preference for productive assets is higher among urban households. Among other assets importance of buildings is greater as its share is over 35 per cent in total asset holdings. Also as expected,** urban households show considerable preference for consumer durables and financial assets in their asset portfolio.

3.3.2 Socio-Economic Profile of the Poor (Based on Family Budget Surveys of Labour Bureau): We have so far analysed household incomes and savings behaviour employing National Sample Survey and AIDIS data. There is another important source of income data, which is collected by the Labour Bureau (1980-81) for industrial workers in connection with the construction of cost of living indices. Since industrial workers constitute an important segment of the low income households, an attempt is made in this section to briefly analyse their socio-economic profile. We have taken only seven cities for this purpose. The seven cities are: Agra, Darjeeling, Kanpur, Howrah, Bangalore, Nasik and Jaipur. The Family Budget Survey data 1980-81 is used for this purpose. The sample included industrial workers families having 50 per cent or more of their income from manual work during the reference period belonging to 7 sectors of employment, namely, registered factories, mines, plantation, ports and docks, electricity generating and distributing establishments, public motor transport undertakings and railways. The analysis is confined to workers' families education status, income levels, expenditure pattern and more importantly incomes spent on housing and indebtedness.

3.3.2.1 Workers by Sex and Age (Child/Adult): The estimated number of workers, which includes women and child workers, showed wide inter city variations ranging between 20,622 in Agra to 2,53,685 in Bangalore. The share of women workers in total employment is rather low except in Darjeeling where women workers are more than men workers (See Table 3.5).

The sample consists of both regular and casual workers. The proportion of regular workers when compared to casual workers is larger in all the cities, range being between 75.94 per cent in Agra to 99.06 per cent in Jaipur.

3.3.2.2 Literacy Levels: Information relating to literacy is reported in respect of each member of the family. The levels of literacy among people are presented in Table 3.5. All members aged 5 years and above have been taken into account. It is seen that except Bangalore and Nasik 35 per cent to 50 per cent people are illiterate. Incidence of illiteracy is highest in Howrah, (50.9 per cent) while in Agra and Darjeeling illiterates accounted for 42.2 per cent and 48.07 per cent respectively. The graduates were reported to be highest (3.03 per cent) in Agra while in Darjeeling none of the households had education upto graduate level.

3.3.2.3 Family Composition and Income Patterns: Table 3.5 presents the average number of earners, earning dependents and non-earning dependent per family. It is indicated that Darjeeling had the highest average number of earners (1.68) per family. The biggest average family of 5.48 members is reported in Nasik while Howrah reported smallest average family of 3.36 members. The average monthly income per worker ranged between Rs

254.28 in Darjeeling to Rs 697.06 in Nasik. As would be recalled that this survey was conducted in 1980-81. Thus incomes are at 1980-81 prices. We know that for being eligible for socially oriented housing programmes the Government uses the income criteria of households. In this context, it would be interesting to give the following classification used by the DDA in 1980-81 for its social housing schemes.

Name of the housing scheme	**Eligibility criteria**
1. EWS Scheme	Household income below Rs 600 p.m.
2. Janata Scheme	Household income between Rs 600-1200 p.m.
3. LIG Scheme	Household income between Rs 1200-2000 p.m.

Following this criteria we find that majority of the workers, except those in Nasik, fall into the EWS category which is the focus of our study. Using information relating to average family size and average number of earners per family, the average income per family and per capita per month income is computed for all the cities. The average income per family is worked out to be below Rs 600 in three cities, namely, Agra, Darjeeling and Howrah while in other four cities it ranged between Rs 702.26 to Rs 1010.74. Per capita income ranged between Rs 93.48 in Darjeeling to Rs 184.44 in Nasik. The reported incomes therefore suggest little scope for additional savings by households. Data relating to current savings of the households is not available but information relating to monthly expenditure of households suggest that household savings, if any, are very low. However, a clearer picture of households' economic status emerges on examining the distribution of people by income classes as presented in Table

3.6. It is apparent from this table that a little over 2/3rd of the people in Agra, Darjeeling and Howrah fall in the income range of Rs 300-Rs 750 while in Kanpur more than 57 per cent and in Jaipur little less than 50 per cent people reported earnings in this income range. In the other two cities modal income was comparatively high. In Bangalore 35 per cent people had earnings between Rs 1000-1500, 19.6 per cent had incomes between Rs 750-1000 and 24 per cent reported earnings between 300-750. Unlike other cities Bangalore and Nasik reported 18 per cent people each in the income range of Rs 1500 and above. In Nasik little less than 1/3rd reported earnings between Rs 1000-1500.

3.3.2.4 Expenditure Structure and Budget: Detailed data relating to monthly expenditure is used to analyse households expenditure in relation to income and in general to study the pattern of expenditure of various types more importantly on housing which is expected to give a clue about households affordability for housing. Expenditure for the purposes of survey was taken to represent expenditure on current living. This comprises of consumption and non-consumption expenditure. Consumption expenditure included all purchases relating to food, clothing, transport, education, recreation, fuel, etc. while non-consumption expenditure consisted of expenditure relating to taxes, remittances to dependents, subscriptions, interest paid on loans, etc. The capital outlays, i.e., amount spent to increase the assets or decrease the liabilities is termed as disbursements. The main heads of which are savings (financial), investments - both in financial and physical assets - and debts repaid.

The structure of household expenditure is given in Table 3.7. It can be seen that the average monthly consumption expenditure has been quite close to the average monthly income per family. However in some cities it is even more than the average monthly income per family. On considering total expenditure the Budget showed a deficit in the range of Rs 112.58 in Kanpur to Rs 422.68 in Bangalore. Howrah is the only exception where deficit was rather small, i.e., Rs 21.32. The average total expenditure did not show any clear cut trend with average income per family. A large part of the expenditure is devoted to food and related items, leaving little for the non-food items. As mentioned earlier, that total outflow of money from a family consists of expenditure and capital outlays while capital outlays consisted of savings and investment and debts repaid. In the absence of a full break-down of capital outlays the magnitude of savings and Investments is not known. However, the magnitude of deficit indicates that a large part of the capital outlays has been probably devoted to repayment of debt, a large part of which might have been raised for consumption. To support current earnings households may either borrow or liquidate their assets. The information regarding asset holdings and how much of these was liquidated is not available. In view of the high incidence of indebtedness it seems less plausible that the households had any major asset holdings.

3.3.2.5 Expenditure on Housing: Expenditure on housing consists of rent paid and house maintenance expenditure. From the view point of housing finance policy it would be interesting to analyse household expenditure on housing as it gives an idea of household's affordability for housing. The relevant data is provided in Table 3.7. It is seen that the average expenditure on housing per family ranges between Rs 30.87 in Agra to Rs 80.18 in Kanpur. From the view point of the shelter policy it would be appropriate to give expenditure on housing as proportion of household income. We find that average household housing expenditure was only about 6 per cent of income in Agra, Nasik, Howrah, Jaipur and Bangalore while in Darjeeling and Kanpur households on an average devoted 8.4 per cent and 11.4 per cent of their incomes on housing respectively. Maintenance expenditure is generally low, ranging between Rs 1 to Rs 6, except in Kanpur where maintenance expenditure accounted for nearly half of the total housing expenditure - which is probably because of low quality of dwellings. Expenditure on housing, however, appears to be weakly related with incomes. About 5.8 per cent of household consumption expenditure was devoted to housing in all the cities except in Kanpur where housing expenditure accounted for a little over 12 per cent of total household consumption expenditure.

3.3.2.6 Indebtedness/Interest Rates/Nature of Security: While discussing the structure of household expenditure it has been mentioned earlier that the average budget deficit per family was positive in all the cities. To meet the deficit a family may borrow. Though information on number of families under debt is not available, the average amount of debt per indebted family by major sources of loan is presented in Table 3.8. It is revealed that the major sources of loan are provident fund, friends and relatives, money lender, cooperative credit society, shopkeeper and employer. The average amount of outstanding loan per indebted family was quite high (varying between Rs 441.70 in Darjeeling to Rs 2822.37 in Nasik) in relation to their incomes. Average debt per indebted family did not show any clearcut trend with either income or expenditure per family. Due to non-availability of data relating to distribution of indebted families by income class it is not possible to say as to which income class has had greater incidence of indebtedness. Further, from the view point of housing finance policy it would have been interesting to analyse the distribution of debt by purpose of raising loan. Lack of relevant data did not permit us to do so.

It would be worthwhile to analyse the cash debt outstanding by credit agencies as it provides an idea of the extent of relative dependence of the households on institutional and non-institutional sources for their credit needs. Table 3.8 provides the distribution of average cash loans per indebted family by major sources of loan. It is found that the ratio between institutional and non-institutional loans ranged between 0.27 in Agra to 43.0 in Howrah with cooperatives, provident fund and employer as the three important lending sources. The terms and conditions attached to loan determine the effective cost of loan. However, information is available relating to only rate of interest and collateral given (Item 4 of Table 3.8). It is seen from this table that the rate of interest on loan varied between nil to 25 per cent and above. Households raised 49 per cent, 39 per cent, 30 per cent and 43 per cent of total loan interest free in Agra, Darjeeling, Jaipur and Nasik respectively. Interest free loan is mainly provided by employers, friends and relatives, shopkeepers and provident fund. Institutional sources including provident fund and employer usually charged a rate of interest between 5-15 per cent. Rate of interest above 15 per cent was charged by money lenders, shopkeepers and in some cases also by friends and relatives. A large proportion of loan is reported to be obtained on personal guarantees. This has happened in the case of loans from friends and relatives, provident fund, shopkeepers and employers. Most preferred collaterals are LIC policy, ornaments and jewellery, and land. Jewellery, ornaments and LIC policies are seen to be more important collaterals. Surprisingly, land was found to be the least important asset used as collateral for raising loan. This could be due to two reasons: one, land may be a small component of total asset holdings, and two, share of loan for housing in total loan is marginal. Also, and perhaps more important reason with land are the problems of foreclosure in case of default in repayment of loans.

3.3.2.7 Summarising: We find that majority of the households had earnings in the range of Rs 300 to Rs 750 and per capita incomes about Rs 93.48 to Rs 184.44. An analysis of household expenditure revealed that in all the 12 metropolitan cities majority of households spent more than their earnings. The magnitude of deficit on the average ranged between Rs 112.58 to Rs 422.68 per household, except in Howrah where deficit was rather small, i.e., Rs 21.32. A large part of the expenditure is devoted to food and related items, leaving very little for non-food items and housing. Due to lack of data, a precise idea of the magnitude of household savings could not be obtained.

Regarding household expenditure devoted to housing we find that housing expenditure (in per cent terms) on the average varied between 6 per cent to 11.4 per cent. Further, housing expenditure is seen to have weak relationship with income. So far as maintenance expenditure is concerned, it is found to be generally low except in Kanpur. This exceptional case may be because of the low quality of dwellings.

So far as the indebtedness is concerned, the average amount of outstanding debt per indebted family varied considerably, ranging between Rs 44.70 to Rs 28 22.37. The dependence on loans from institutional sources when compared to loans from non-institutional sources is generally indicated to be greater. A large proportion of loan 80-90 per cent, except in Agra, was obtained on personal guarantees. Among land, jewellery and financial assets, land was indicated to be the least preferred collateral. An interesting feature revealed by these surveys is the preference for movable assets as collateral rather than immovable assets like land. This clearly has an important bearing in the context of devising lending instruments for advancing housing funds to LIHs.

3.3.3 Analysis of the Indian Market Research Bureau (IMRB) Data: In this section we analyse the income and occupational distribution of population in 12 metropolitan cities of India using the Indian Market Research Bureau (IMRB) data for the period 1980-81. Tables 3.9 and 3.10 present the data according to income and occupation.

A perusal of these tables shows the existence of wide inter-city variations in income distribution. For instance, in Bombay about 9 per cent of the households had incomes below Rs 350 whereas corresponding figure for Kanpur and Nagpur was 25 per cent, and 30 per cent for Madras. However, a majority of the households are indicated to have household incomes below Rs 1,500 with about 20 per cent of households having incomes below Rs 350, 37.2 per cent between Rs 351-Rs 750 and 28.5 per cent between Rs 751-Rs 1,500. This distribution is likely to have changed since 1980-81, mainly because of the changes in both income and prices. If we construe people below Rs 750 as constituting low income households then nearly 60 per cent of the households would fall in this category. Juxtaposing income distribution with occupational distribution, we find a little under half of the adult workers belong to the category of non-professional workers (both skilled

and unskilled workers). Also nearly 1/5th of the workers are reported to be unskilled workers. Clearly these people would have relatively low and unstable incomes.

In summary, in metropolitan cities, at least 1/5th of the households have had incomes below Rs 350 and the same percentage is of unskilled workers. Clearly, these would also be the households most of whom would have very poor housing for themselves. They are then the people who, in the context of housing, require various kinds of assistance for home ownership.

3.3.4 Saving and Investment Pattern of Urban Households (The National Institute of Bank Management Survey): In this section we analyse the NIBM data for 1986 on saving and investment of households in India. An attempt is also made to examine the behavioural relationship, if any, between the trends in savings and investment and social profile of households. Social profile of households here includes age, literacy level and occupational pattern. Out of a sample of 90,000 households 2/3rd belonged to the urban areas with 67 per cent bank savers and 33 per cent non-bank savers. An individual can save/invest in various forms of physical and financial assets. Distribution of household savings in physical and financial assets is presented in Table 3.11. The average level of savings in various physical and financial assets is given in Tables 3.12 and 3.13 respectively.

According to the survey a saver on the average invested more than twice the amount on physical assets than in financial assets. Almost one half of the bank savers invested in financial assets and this investment accounted for 52 per cent of their total savings whereas only 46 per cent non-bank savers invested in financial assets which was 24 per cent of their total savings.

Table 3.12 presents level of investment in various physical assets. It is indicated that while house/property was the most preferred asset among bank savers land was found to be very popular among non-bank savers. Further, nearly one tenth of savers invested in land, house and property - which accounted for 33 per cent of total investment in physical assets (in case of bank savers)and 45 per cent (in case of non-bank savers). Around 5 to 8 per cent savers in all invested in gold, ornaments which accounted for 4 to 8 per cent of total savings in physical assets. Majority of savers (3/4th) invested in consumer durables, and its share was 38 per cent in total savings in physical assets.

A perusal of Table 3.13 shows that investment in company deposits was most popular among bank savers followed by UTI and bank deposits. Non-bank savers on the average invested more in UTI than in other assets.

The investment of savers in bank deposits accounted for 78 per cent of total financial savings. More than half of bank savers invested in LIC and PPF schemes which accounted for 18 per cent of their total financial savings. Among bank savers 26 per cent invested in post office and this investment accounted for only 8 per cent of total savings. Around 50 per cent of non-bank savers invested in post office savings and this investment accounted for 45 per cent of total financial savings.

3.3.4.1 Profile of Savers by Income: Savers have been classified according to their yearly income into 6 income categories upper limits of which are: Rs 6,000, Rs 12,000, Rs 18,000, Rs 24,000, Rs 60,000 and above Rs 60,000. It has been found that nearly 11 per cent of bank savers had earnings less than Rs 6,000 while for non-bank savers this figure was 61 per cent. Approximately 1/3rd each of bank savers had their incomes in the range of Rs 6,000 to Rs 12,000 and Rs 1,200 to Rs 24,000 respectively. Further, more than 23 per cent bank savers had earnings more than Rs 24,000. Non-bank savers had rather low earnings when compared to bank savers.

Relating income status to education levels of households it was found that for all income groups there is no significant variation in the educational level of people (bank savers). In case of non-bank savers too no significant relationship could be established between education levels and incomes.

Distribution of savers by age and income group revealed that 39 per cent bank savers with incomes of below Rs 6,000 are in the age group of 30-50 years. However, non-bank savers earning below Rs 3,000 are below the age of 20 years.

3.3.4.2 Profile of Savers by Occupation: Sample is classified into 5 occupation categories: Professionals, Service Workers, Production Workers, Agriculturists, Retired Persons, Students and Others. Majority of bank savers (85 per cent) were found to be either professionals or service workers, whereas less than 10 per cent are production related workers. Around 30 per cent of non-bank savers are production workers and 63 per cent are either professionals or service workers.

3.3.4.3 Profile of Savers by Education: Banking seems to be a habit of literate persons as only 6 per cent bank savers are illiterate while 40 per cent of them are either graduates or post-graduates. Level of literacy is rather low among non-bank savers. About 1/3rd of non-bank savers are illiterate while the rest of them have education upto higher secondary level.

3.3.4.4 Profile of Savers by Age: Majority of bank savers (59 per cent) are middle aged, i.e., between 30 and 50 years. Around 1/4th of bank savers are above 60 years of age. Middle aged non-bank savers also constitute a large proportion (56 per cent) of non-bank savers. About 1/5th of non-bank savers are between 20 and 30 years of age.

3.3.4.5 Summarising: A saver on the average invested more than twice the amount in physical assets than in financial assets. However, bank savers invested more in financial assets than non-bank savers. Land and house property were the preferred physical assets among households. As far as investment in financial assets is concerned company deposits were more popular among bank savers followed by UTI and bank deposits while non-bank savers on an average invested more in UTI than that in other assets.

Nearly 28 per cent savers had earnings less than Rs 6000. Around 30 per cent non-bank savers are production related workers. This figure is less than 10 per cent for bank savers. Nearly all bank savers are literate, with 40 per cent either graduates or post-graduates. Level of literacy is rather low among non-bank savers. For instance, 30 per cent are illiterate and 63 per cent had education upto higher secondary level. Given the above information no clear cut relationship is indicated between the saving pattern and social status of households. However, it may be mentioned that income and education levels have some bearing on the choice of saving/investment instruments.

3.3.5 Survey Results of Delhi's Low Income Households (NIPFP Survey): An attempt is made in this section to assess the perceptions and affordability of households in regard to home ownership. To carry out this, information has been collected through a field survey of Delhi's low income households. The survey deals with encroachments, resettlements, slums and EWS, Janata and LIG housing units. Encroachments included in the study are basically slum camps. The sample is drawn on a purely random basis. Its total size is 145. The sample includes both beneficiary (88) and non-beneficiary (57) households of the government housing/housing finance schemes. The focus of the survey has been on the following:

(i) Socio-economic status of the respondents which included - education, occupation, current income level, and present tenure status;

(ii) Current expenditure on housing which consisted both rent and maintenance expenditure;

(iii) Rent paying capacity/willingness to pay rent if the need arose;

(iv) Financial aspect of housing if there was an opportunity to own a house:

- (a) Sources of funds;
- (b) Amount which could be generated, and
- (c) How much downpayment they could afford if it was conditional.

(v) **Choice of/preference for shelter given their current income level; and**

(vi) **Difficulties perceived in participating in the formal system of housing finance.**

As mentioned earlier the survey dealt with slums, resettlements and EWS, LIG and Janata housing units. Five slum settlements are included in the study. One of them namely, Jama Masjid slum unit is under public ownership declared as slum since 1972-73, while the rest of slums have been developed on encroached land where no tenancy or ownership rights exist. Respondents of Jama Masjid slum unit enjoy tenancy right and pay rent to the DDA. The rent was fixed long back and has not been revised since then. Maintenance of house is looked after by the tenants. Respondents' expenditure on maintenance worked out to be more than they spent on rent. The respondents feel that the housing related amenities like electricity, approach roads, lighting, drinking water, latrine, etc., are quite satisfactory. Drainage facilities are reported to be unsatisfactory. In encroachments however sewage, electricity, toilet facilities are either non-existent or in a bad shape largely due to poor maintenance. The condition of dwellings are found to be in no better shape. While 67 per cent of the respondents said that their houses were dilapidated, 14 per cent thought it was satisfactory. None of the respondents paid any rent although they incurred expenditure on maintenance of their dwellings. Janata colony included in the study was constructed in 1976 by the DDA. Houses in this colony are found to be in good condition. Also housing related services are reported to be satisfactory. Rohini unit came into being as a result of implementation of one of the housing schemes of the DDA. Under this scheme the land was given at subsidised rates. Within this unit there has been cross subsidisation of the cost of land. The resettlement units are also developed by the DDA to help the EWS and also to relocate encroachers. The benefits under this scheme consisted of land - free of cost - and sometimes some building material and cash. Size of the plot is usually 21 sq. yards.

Before providing the details on income and choice of dwellings, a brief account of respondents' occupation and education level is in order. Out of a total 145 respondents, 56 are self-employed, 21 are in service while 63 work as casual labourers. In encroachment units none of the respondents is in service. They are either self-employed-vendors, owners of small tea and stationary shops, barbers, tailors, mechanics or work as casual labourers. Occupations of the respondents are similar in all the units except in one unit where most self-employed have either auto parts shop, Kabari shop, or meat shop. More than 1/3rd of total respondents are educated upto 5th standard, 31 had secondary education and only 17 are graduates. Education and occupation do not seem to have any definite relationship. A look at the incomes of the respondents shows that out of 139 employed, 64 per cent respondents have irregular incomes (See Table 3.14). For the whole sample weighted mean and median incomes worked out to be Rs 1,206.54 and Rs 1,092.86 respectively. Also, a large intra-unit variation in incomes is indicated. For instance, mean incomes in encroachment, slum, resettlement, Janata and Rohini units are Rs 988.10, Rs 1,613, Rs 1,158.16, Rs 1,583 and Rs 1,495.83 respectively (Refer Table 3.15). This shows encroachment units having the lowest mean income while Jama Masjid slum has the highest mean income. This seems to support the view that security of tenure and living conditions have a bearing on productivity. Respondents' incomes, however, does not show any relationship whatsoever either with their education or occupation.

We now analyse current expenditure. Expenditure on housing here comprises of rent paid and maintenance expenditure. Only 64 households answered this question[7]. None of the respondents spent more than 15 per cent of income on housing. 24 out of total 64 spent in the range of 2 to 6 per cent of their incomes while 23 are spending 6 to 10 per cent of their incomes. 7 are spending less than 2 per cent of their income while the rest 10 people are spending 10 to 15 per cent of their income on housing. The expenditure on maintenance on these dwellings is generally high; and it is particularly high in relation to rents in units located on unauthorised lands. The high expenditure on maintenance and low rental is presumably because of the low quality make-shift shelter requiring constant repair (See Table 3.16).

Rent paying capacity is an important indicator of people's affordability of housing. Respondents not paying any rent or paying very low rent currently were asked how much rent they would pay if the need arose and if provided better living conditions. Most respondents said that they found the existing location convenient and would not like to shift despite various incentives like better living conditions and tenancy rights. 54 per cent of those responded indicated that they are either in no position to pay or are not willing to pay any rent. 7 per cent are willing to pay in the range 0-5 another 7 per cent in the range 5-10 per cent of their incomes. 8.7 per cent are willing to pay 10-15 per cent of their incomes as rent while 15.8 per cent have a rent paying capacity in the range of 15-20 per cent of income (Refer Tables 3.17 and 3.18).

From above it can be inferred that the respondents are aware of the fact that their rent paying capacity is much below the market rent[8] at locations which are preferred by them. Since location ranked higher to tenancy right and good living conditions in their preference for various attributes of housing they presumably opted to squat on public lands.

Another important aspect relevant for policy formulation is the relative preference for home ownership and other related housing attributes for home ownership[9]. The respondents were asked to give their relative preference for the following, given their current income -

(a) Structure of the house; (b) Size (Plinth area and covered area); (c) Distance from work place; (d) Infrastructure; (e) Drinking water and toilet facility.

Structure consists of (a) Pucca; (b) Semi-Pucca; (c) Serviceable kutcha and (d) Unserviceable kutcha house. The size of the house is measured by (i) the plinth area and (ii) covered area. The covered area included (a) number of rooms; (b) kitchen; and (c) bathroom. Infrastructure implies road, sewage, lighting, schools, health centre, public transport, etc.

Regarding preference for structure, only 65 households responded, out of which 32 wanted Pucca and 19 Semi-Pucca houses. 23 respondents opted it as 2nd preference while 16 opted it as 3rd preference and the rest gave it low priority. Relating this aspect to respondents' current income, contrary to intuitive thinking, no relationship could be established. Thus preferences appear to be generally need based rather income determined. A similar pattern emerges when responses relating to the size of house are analysed. Size of the house seemed to be an important item of concern for all as everyone answered this question. 66 per cent have shown high preference for plinth area. Plinth area of 50 yards is opted by

~~most. Only a few respondents asked for 20-25 yards plot[10]. These~~ responses contrary to our expectations have absolutely no relationship with income, and instead correspond to the family size.

Distance from work place is another important item from the view point of housing policy. Distance means both time and money which would affect all, especially the casual labourers due to part-time nature of their jobs. Even those for whom dwelling is a work place would be adversely affected if they are moved away from places where they have markets for their products. 34 per cent respondents opted for distance as first preference, and 36 per cent felt that they should not be more than 5-10 km. away from work place. The rest did not consider distance as important. Infra-structure held more or less the same position. Overall it was put last on the scale of preference. Interestingly, irrespective of their income level most respondents would prefer independent drinking water and toilet facilities rather than sharing it on community basis. Some people however are seen to be realistic when they say that at their levels of income they could only have shared facilities of drinking water and toilets.

Another major constraint to housing of the low income households is the non-availability of funds owing to their low/irregular incomes and inability to offer acceptable collateral. Questions relating to financial aspect of housing in the questionnaire have been framed for both owners and non-owners of house. The non-owners were asked how would they generate funds for housing while owners were asked how they financed their houses.

Non-owners were given the following options:

a. If they could save, and if yes, then how and how much;

b. **If they could raise loan, if yes, then specify sources and amount from each source, and**

c. In case downpayment was conditional would they be willing to pay it, if yes, they how much and how this amount would be generated.

The respondents answers can be summarised as: All the respondents thought they could save additionally for home ownership. either by curtailing consumption or by working extra hours, or both. 19 per cent wanted to generate additional savings by curtailing consumption, 51 per cent by working extra hours and 17 per cent wanted to do both, the remaining unable to indicate the effort they planned for additional savings (See Table 3.19). The additional savings as per cent of income is given in Table 3.20, while Table 3.21 contains additional savings in rupees.

In reply to question or downpayment, 28.5 per cent are seen to be not willing to make any downpayment. 7 per cent could pay in the range of Rs 500-1000, 35.7 per cent said they can pay between Rs 1000-2000, 11.9 per cent could pay in the range of Rs 2000-3000, 4.7 per cent said they could manage about Rs 4000 while one respondent could pay Rs 10,000 (Table 3.22). As already mentioned, Jama Masjid unit people are not prepared to make any downpayment. Interestingly, the responses given above are from respondents in encroachment units. The downpayments are arranged either by liquidating assets or through borrowings from relatives and friends which are not considered loans. When the question of loan was asked all the respondents answered in positive regarding their awareness of loan facilities from public agencies such as banks, government and LIC. They said they would rather prefer to take loan for housing from public agencies rather than seek loans

~~from private money lenders. The reasons for preference for public~~ agencies were more or less the same - rate of interest is low, repayment is spread over a sufficiently long period, and loan may sometimes be written off. Some respondents said they often need money for consumption, repair of present shelter, and illnesses among family members. Such needs are usually met fr n loans from private money lenders. The reason assigned being the inability to get loans from public agencies for such purposes because of collateral requirements. In contrast private money lenders accept a wide range of goods as collateral. Also the disbursement of loan by private lenders is instant. There is however a limit to obtaining loans from private money lenders because of the limited asset holdings of the households needed for provision of collateral.

House owners were questioned on how they financed their houses. As mentioned earlier, three out of the five settlements, namely; Janata Colony-Qutab Enclave, Resettlement units and Rohini are developed by the DDA. These housing schemes were implemented from time to time for various income groups. The benefits under the schemes consisted of land - free of cost or below market rate, or fully constructed houses at subsidised rates, and subsidised/free building materials and/or cash grants. Out of a sample of 145, 88 respondents are beneficiaries of these housing schemes. 49 respondents are from resettlement units, 36 are from Rohini unit while 3 belong to Janata Colony Qutab Enclave. In all only 12 respondents took loan as downpayment/total cost had to be paid off. Eight of them belong to Rohini, two each stayed in resettlement and Janata Colony. In Janata Colony fully constructed houses were allotted to the beneficiaries. The price of these houses was fixed at Rs 23,000. As per the terms of payment this amount could be paid in equal instalments of Rs 200 p.m. in 20 years with no downpayment or in equal instalments of Rs 165 p.m. in 12 years with a downpayment of Rs 6,000. Only one respondent each availed of the first and second options. Third respondent paid off the entire cost of house at the time of allotment. Funds were raised by selling the village land. The other two respondents took loans from the informal market but did not want to specify the amount of loan and agency name (See Table 3.23).

In resettlement housing scheme land was given free of cost, besides sometimes building materials and cash grants were also provided. Here only two respondents took loan for house construction (See Table 3.23), the remaining relied on incremental housing through own savings, liquidation of assets, and borrowings from friends and relatives. However we could not get amounts generated from each source[11]. In Rohini on account of differences in plot sizes allotted to different income groups, cost of plots varied. The information about the manner of payment of land cost was provided by the DDA. At the time of registration about 33 per cent of the cost was required to be paid, the balance could be paid within a year from the date of registration. Eight respondents in Rohini raised loan from the formal sector - amount of loan and other terms are presented in Table 3.23. Only 3 of these respondents raised loans from formal financial institutions, the remaining took loans from their respective employers. Those who did not raise loans from the formal financial market were asked the reasons as to what prevented them from approaching the formal housing finance market. The responses were mixed. Some respondents while aware of loan facilities, thought they were not eligible for these loans. Others felt that cumbersome procedures and paper work were too much for their level of literacy. They mentioned of the problems in understanding the technicalities and the problems involved in dealing with the officials. Some respondents were even asked to pay a 'loan clearance fee' amounting to almost 25 per cent to 30 per cent of the total loan thus making the effective cost of loan unaffordable. Lack of information on procedures, loan amount and terms of repayment also acted as deterrent in obtaining formal sector loan. Non-flexible repayment schedule is also reported to be another deterrent factor.

Respondents were also asked to give their suggestions in regard to improving upon the functioning of formal sector housing finance system. Their responses were: (a) housing finance institutions should operate at very local level; (b) loan procedures be made simpler and disbursement made expeditious; (c) repayment terms be made flexible in adjusting to the particular requirements of people given the nature of their income, and (d) measures should be taken to provide/improve information service.

3.3.5.1 **Specific Features of the Survey**: Some interesting points emerged during the course of discussions with the Mukhia, Choudhary, Pradhan and other dwellers of the units surveyed.

(a) In encroachments more than 10 per cent huts belong to people who come from relatively prosperous sections. The huts have been made in anticipation of benefits usually given to encroachers by the public authorities whenever slum clearance is undertaken.

(b) There are households who after deriving benefits from various public housing/sites and services schemes have once again become slum dwellers/squatters.

The reasons for liquidating the benefits appear to be: (i) distance from place of work; (ii) monetary gain; (iii) insecurity in a heterogeneous social environment with people from different states, castes, etc.; (iv) they found it unaffordable, and (v) dwelling size smaller compared to need, especially for the self-employed needing more space to carry out economic activities.

(c) In Janata Colony more than 50 per cent of the actual beneficiaries are reported to have sold their houses. Out of the rest many beneficiaries have given their houses on rent. The second owners as well as the tenants refused to respond to our questionnaire which restricted us to a rather small sample. Anyone who earned below Rs 700 per month was eligible for this scheme. As per the terms of payment, a monthly instalment of Rs 200 was required to be paid which works out to be 28.5 per cent of beneficiaries' income at Rs 700. The respondents deemed it to be quite high. The respondents also felt that space utilisation and planning could be improved upon to make it functionally more useful.

3.3.5.2 Summarising: We find higher preference for home ownership. Also almost everyone showed willingness to generate additional savings for home ownership. High priority accorded to home ownership is presumably because of the social security and status it bestows.

There is a general preference for security of tenure. A general feeling is that the dwelling size should have some relationship with family size rather than with the income levels alone. Realising their low paying capacity and limited affordability for market related finance, they suggest highly subsidised housing with low interest rates and sufficiently long repayment period.

Analysis of relative preferences for location vis-a-vis other attributes of housing has clearly brought out that any housing scheme intended to house the people at a distance far away from work place would be less attractive. Any failure on this front would encourage passing off the benefits to relatively better off sections with intended beneficiaries once again resorting to encroachments. This is because of the priority attached to housing close to work place. There is however one major danger with schemes which have a high subsidy content. For instance, while it is true that high cost of sites/houses without suitable subsidies would make the scheme less attractive for the poor, given their low affordability, there is also the risk of these sites/housing changing hands in favour of the less poorer households. In our discussions, it has also been revealed that many households living in encroached land, despite already deriving benefits from government social housing/sites and services schemes, have continued to remain where they were. Some of the reasons may be: (i) long distances from work place; (ii) small size of the dwellings compared to personal and economic needs; (iii) feeling of insecurity amongst unknown people; (iv) uncongenial environment with people of different castes/region/religion and (v) different needs, perceptions and priorities. It may, however, be mentioned that there is a trade off between productive and non-productive assets. While it is true that better living conditions improve productivity of dwellers and tenure status provides a sense of security, a person without employment security would feel more secured having a productive asset (a small tea shop, vegetable shop and like) rather than a house/site. Hence some households have sold sites/house provided under social housing schemes, to acquire assets which would earn them their livelihood.

3.4 Summarising

It is found that a large part of urban population lives in poverty with low per capita incomes. More than 50 per cent of these people are illiterate. They are mostly unskilled, self-employed workers engaged in informal activities and are generally self-employed mechanics, vendors, owners of small shops. An analysis of expenditure levels of households revealed that the expenditures usually exceeded their earnings by about Rs 100 to Rs 400 per month. The magnitude of deficit is reported to be relatively higher at the lower levels of income. A large part of households' consumption bill constituted food and - related items leaving little for non-food items such as housing. On the average 12-15 per cent of income is reported to be spent on housing and its maintenance. Interestingly, housing expenditure as proportion of income showed regressive trend. Maintenance expenditure is found to be generally low except in Kanpur where it accounted for nearly 50 per cent of the total expenditure on housing. This is probably due to inferior quality of dwellings requiring constant repair.

So far as asset holding pattern of households is concerned, it is found to be positively skewed with over 70 per cent of the total assets held by top 25 per cent of the households. In view of this it is safe to infer that bulk of the low income households have little scope for using asset to finance their housing. Analysis of asset holdings by asset types revealed a higher preference for financial assets when compared to physical assets. Among physical assets, land and buildings were seen to be the most preferred assets. Income and educational levels are indicated to determine to an extent the choice of assets. For instance, majority of 'bank savers' were reported to be engaged in formal sector, with education upto higher secondary level and in the age group of 30-50 years. Such information is not available about the investors in other financial assets. However, the above is likely to hold true for people investing in these financial assets also. Debt-asset ratio of households is found to be 2.5 which suggests high incidence of indebtedness. However, dependence on loans from institutional sources when compared to non- institutional sources is found to be higher. A large proportion of loans is reported to be obtained on personal guarantees. Jewellery and LIC policies are seen to serve as important collaterals, with land as the least important asset used as collateral.

Analysis of households' responses about house ownership and its financing revealed that there is a general preference for security of tenure. Despite low saving capacity (due to low per capita income levels) a large number of the households showed willingness to generate additional savings specifically for home ownership. The analysis also suggested that dwelling size should have some relationship with family size rather than with the earning levels. Further, there is feeling that heavy subsidy should be provided to keep the housing costs within their reach by keeping the interest rates low. There is also a plea for more flexible repayment terms, with a sufficiently long duration for repayment of loans. An interesting revelation is high preference for location vis-a-vis other attributes of housing.

All what has been analysed in this chapter in regard to affordability, needs and perceptions of the low income households about home ownership is based on a variety of information drawn from different sources, and many times with varying universes and concepts. Despite this we believe we have been able to gain some insights into these issues. One fact which seems to have emerged is that, while low income households may not be presently spending much on housing and related services, given an opportunity for home ownership, many of these households would be willing to step up their savings; and even liquidate other assets in favour of home ownership tenure security while important closeness to work place is high on priority. Also there is strong preference for some extra space with the dwelling to carry out economic activity. Another interesting feature which emerges concerns relating dwelling size with family size rather than income/earning levels. Further, there is greater dependence on non-institutional sources for housing funds with movables like jewellery and LIC policies serving as collateral. Land is least preferred collateral, perhaps largely because of the problems of foreclosure in the event of defaults in loans repayment.

NOTES

1. It is estimated that in 1990, the slum population in urban areas would be of the order of 51.2 million when compared to an estimated urban population of 241.5 million. Clearly a large part of slum population would be in metropolitan cities where their percentage is estimated to be around 33 per cent.

2. Although no firm estimates are available, but it is believed that the informal sector provides probably a half of all employment in urban areas.

3. We do not wish to surmise that the poor are synonymous with rural-urban migrants, and therefore curbing migration would reduce urban poverty. A migrant is generally more ambitious, and perhaps has entrepreneurial qualities - and indeed, a long term resident may be less prosperous than the migrant!

4. Since these migrants are either landless rural labour or marginal farmers they remit most of their savings to their homes to meet the cash needs. However, those migrants who decide to stay back would be willing to put their savings into shelter, provided they are assured of tenurial rights at least of some kind. As we would see later, there are migrants who liquidated their assets in their respective villages for home ownership in cities (See Ekta Vihar experiment in Delhi).

5. According to 1971 Population Census, the share of Scheduled Castes and Scheduled Tribes population in total population was respectively 14.60 per cent and 6.94 per cent. There are 470 individual Scheduled Castes and 260 Scheduled Tribes.

6. Provisions, for instance, are made in the Constitution for the educational and economic interests of the weaker sections of the society and to protect them from social injustice and all forms of exploitation.

7. Those who did not respond are house owners. Further, for most of them maintenance expenditure is insignificant as their houses are relatively new, requiring no significant expenditure on maintenance.

8. Weighted average rent paying capacity worked out to be 10 per cent of income, which amounts to Rs 98.81.

9. This question was put only to those who did not as yet owned a house.

10. Some respondents did not specify the size but they said that plot should be as big as the existing one on which the currently resided.

11. The Respondents of resettlement units revealed that their savings are largely devoted to incremental housing undertaken by them.

TABLE 3.1

Distribution of Urban Households by Expenditure Class : NSS Data

Monthly expenditure class (Rs)	Urban areas		Approximately actuals on rent (Rs)
	Percentage of households	Maximum feasible expenditure on housing (Rs)	Urban
0 - 165	0.28	35	45
165 - 220	0.43	35	36
220 - 275	1.05	45	36
275 - 330	2.32	60	43
330 - 385	3.71	70	46
385 - 470	7.65	85	54
470 - 550	8.86	110	62
550 - 690	14.83	145	82
690 - 825	12.07	195	95
825 - 1100	16.89	290	130
1100 - 1375	10.34	400	169
1375 - 1650	6.80	575	217
1650	14.77	636	353
TOTAL	100.00		

Source: National Sample Survey (1983).

TABLE 3.2

Asset Ownership as on June 30, 1989 : AIDIS Data

	Percentage share of assets owned by					Coefficient of concentration
	Lowest			Top		
	10 per cent	25 per cent	50 per cent	25 per cent	10 per cent	
Urban house-holds	0.1	0.8	5.4	79.1	57.0	0.7040
All house-holds	0.3	1.4	8.1	74.1	51.5	0.6542

Source: AIDIS, 1981-82.

TABLE 3.3

Pattern of Assets of Urban Households As on 30.6.1981 : AIDIS Data

	Item	Per Cent
1.	Productive assets of which	38.2
	a. Land	32.4
	b. Livestock and poultry	0.8
	c. Implements and machinery	5.0
2.	Building	35.7
3.	Consumer durables	15.1
4.	All financial assets	11.0
	TOTAL	100.0

Source: AIDIS, 1981-82.

Percentage Distribution of

Type of household	Govern-ment	Cooper-ative society or co-opera-tive bank	Commer-cial bank in-cluding regional rural bank	Insu-rance	Provi-dent fund	All Institu-tional agencies
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Rural-All Households	4.0	28.6	28.0	0.3	0.3	61.2
Rural-Cultivators	3.9	29.8	28.8	0.4	0.3	63.2
Rural Non-Cultivators	4.5	13.9	17.3	-	1.0	36.7
Urban-All Households	14.6	17.5	22.5	2.1	3.2	59.9
Urban-Self-Employed	8.9	15.6	31.2	1.9	0.1	57.7
Urban Non-self-Employed	19.7	19.1	14.8	2.3	5.9	61.8
All Households	7.4	25.0	26.2	0.8	1.2	60.6

TABLE 3.4

Cash Dues Outstanding by Credit Agency

Land-lord	Agri-culturist money lender	Profes-sional money lender	Trader	Relative and friend	Other sources	Source not spe-cified	All non-institu-tional agencies	Total
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
4.0	8.6	8.3	3.4	9.0	4.9	0.6	38.8	100.0
3.7	8.3	7.8	3.1	8.7	4.5	0.7	36.8	100.0
8.4	11.4	13.4	5.8	14.4	9.4	0.5	63.3	100.0
1.0	3.6	8.[illegible]	[illegible]	15.2	6.0	0.6	40.1	100.0
0.8	6.5	9.1	5.9	14.2	5.1	0.7	42.3	100.0
1.1	1.2	8.8	3.8	16.2	6.7	[illegible]	38.2	100.0
3.0	6.9	6.5	3.9	11.1	5.3	0.7	39.4	100.0

Source: AIDIS, 1981-82.

TABLE 3.5

Socio Economic Profile of Workers in Selected Cities : Labour Bureau Data

		Agra	Darjeeling	Kanpur	Howrah	Bangalore	Nasik	Jaipur
1.	Number of Employees	26,622	62,481	97,459	1,14,8[illegible]	[illegible]	37,046	28,[illegible]
	a. Men (per cent)	97.34	49.0	97.46	96.8	85.5	89.23	96.46
	b. Women (per cent)	1.00	50.6	2.25	3.18	13.45	10.41	3.30
	c. Child (per cent)	1.66	0.32	0.29	0.07	1.03	0.36	0.24
2.	Regular workers (per cent)	75.94	82.4	79.9	88.71	82.5	93.22	99.06
3.	Casual workers (per cent)	24.0	17.56	20.0	11.29	17.5	6.77	0.04
4.	Education level							
	a. Illiterate (per cent)	42.2	48.07	34.98	50.90	23.50	21.57	34.56
	b. Primary level (per cent)	18.28	47.59	42.30	37.51	42.35	45.69	41.75
	c. Secondary level (per cent)	35.8	4.31	8.22	11.53	33.51	31.91	23.55
	d. Graduate & above (per cent)	3.03	-	1.48	0.06	0.64	0.83	0.12
5.	Average monthly Income per worker (in Rs)	390.95	254.28	580.38	478.66	592.28	697.06	564.79
6.	Average family size	3.89	4.57	4.05	3.36	5.08	5.48	4.04
7.	Economic status of family members							
	a. Average number of earner per family	1.25	1.66	1.16	1.14	1.16	1.05	1.17
	b. Average number of earning dependents per family	0.09	0.30	0.05	0.06	0.40	0.40	0.33
	c. Average number of non-earning dependents per family	2.55	2.59	2.85	2.14	3.52	4.04	2.67
8.	Average Income per family (in Rs)	523.87	427.19	702.26	579.18	923.96	1010.74	717.28
9.	Per capita Income (in Rs)	134.67	93.46	173.39	172.36	181.88	184.44	177.54

Source: Family Budget Survey, 1980-81.

TABLE 3.6

Distribution of Workers by Income and Expenditure on Rent : Labour Bureau Data

Income class	Agra (a)[1] Number of people per cent	Agra (b)[2] Expenditure on rent	Darjeeling (a)	Darjeeling (b)	Kanpur (a)	Kanpur (b)	Howrah (a)	Howrah (b)	Bangalore (a)	Bangalore (b)	Nasik (a)	Nasik (b)	Jaipur (a)	Jaipur (b)
<Rs 60	0.33	-	-	N.A	0.05	N.A	-	4.27	0.23	-	0.17	-	-	-
Rs 60- 100	0.51	7.26	-	N.A	0.29	N.A	-	-	0.03	9.42	1.75	5.39	-	-
Rs 100- 150	0.70	12.59	0.13	N.A	0.76	N.A	1.07	-	0.70	-	0.92	-	0.15	-
Rs 150- 200	0.62	-	0.26	N.A	1.04	N.A	0.82	4.41	0.35	13.34	0.38	-	0.15	-
Rs 200- 300	3.54	1.52	9.33	N.A	4.51	N.A	1.83	4.27	2.51	10.72	1.10	-	2.33	7.74
Rs 300- 500	30.10	5.35	27.21	N.A	16.46	N.A	24.35	4.93	11.03	7.00	9.47	6.52	17.93	16.14
Rs 500- 750	37.87	4.64	37.97	N.A	41.26	N.A	48.78	4.38	13.01	5.45	16.74	4.75	28.86	[illegible]
Rs 750-1000	8.06	6.14	18.46	N.A	17.93	N.A	10.26	7.82	19.66	4.27	21.65	4.57	14.65	6.08
Rs 1000-1500	14.27	2.49	5.33	N.A	11.71	N.A	10.43	[illegible]	34.65	4.74	29.79	4.42	26.68	7.56
Rs 1500 and above	4.00	2.03	1.31	N.A	5.99	N.A	2.46	4.94	17.83	3.22	18.03	2.97	8.73	5.96

Notes: 1. Includes people aged 5 years and above.

2. Represents average expenditure on rent as per cent of average total expenditure by income class.

Source: Family Budget Survey, 1980-81.

TABLE 3.7

Income and Expenditure Status of Workers in Selected Cities : Labour Bureau Data

	Agra	Darjeeling	Kanpur	Howrah	Bangalore	Nasik	Jaipur
1. Average income per family (in Rs)	523.87	427.19	702.26	579.18	923.96	1010.74	717.28
2. Modal income class (Rs)	300-750	300-750	500-750	300-750	1000-1500	1000-1500	500-750
3. Expenditure (in Rs)							
a. Average consumption expenditure	522.70	503.10	617.67	418.21	1060.18	1026.12	624.74
b. Average non-consumption expenditure	44.09	9.70	63.18	87.27	32.46	60.63	57.90
4. Average Capital Outlays	101.77	66.27	133.99	95.02	234.00	288.92	203.46
5. Total (3 + 4)	668.56	579.07	814.84	600.50	1346.64	1375.67	886.10
6. Deficit (5 - 1)	144.69	151.88	112.58	21.32	422.68	364.93	168.82
7. Average expenditure on housing (Total)	30.87	36.03	80.18	33.61	54.89	54.43	40.28
a. As per cent of income	5.9	8.4	11.4	5.8	5.9	5.4	5.6
b. As per cent of consumption expenditure	5.9	7.2	13.0	8.0	5.2	5.2	6.4
8. Average expenditure on rent only	29.96	34.72	41.44	33.61	51.39	48.99	38.90
a. As per cent of income	5.7	8.1	5.9	5.8	5.6	4.8	5.4
b. As per cent of consumption expenditure	5.7	6.9	6.7	8.0	4.8	4.8	6.2

Source: Family Budget Survey, 1980-81.

TABLE 3.8

Indebtedness of Workers : Labour Bureau Data

			Agra	Darjeeling	Kanpur	Howrah	Bangalore	Nasik	Jaipur
1.	Average amount of loan per indebted family (in Rs)		1387.16	441.70	1890.08	973.24	2435.36	2822.37	1749.2
2.	Average amount of loan per indebted family by important sources								
	a.	Friends and relatives (per cent of total loan)	48.94	-	-	-	26.36	12.24	12.58
	b.	Money lender (per cent of total loan)	20.11	5.42	-	2.0	23.08	-	45.73
	c.	Co-operative credit society (per cent of total loan)	13.23	30.24	-	11.0	8.06	25.0	-
	d.	Provident fund (per cent of total loan)	5.2	24.67	-	[illegible]	8.20	38.31	14.06
	e.	Shopkeeper(s)/employer(E) (per cent of total loan)	-	35.61(s)	-	-	19.92(E)	16.23(E)	17.32(E)
3.	Institutional/Non-institutional debt ratio		0.27	1.34	-	[illegible]	0.73	6.49	0.54
4.	Interest charged (on amounts given as per cent of total)								
	a.	No interest	49.0	39.11	-	11.54	21.11	43.44	29.0
	b.	5-10 per cent	16.2	46.8	-	85.26	14.70	23.38	20.16
	c.	10-15 per cent	6.3	1.0	-	0.56	6.64	13.74	12.89
	d.	15-25 per cent	16.2	-	-	-	10.27	22.11	26.17
	e.	25 per cent and above	19.0	9.92	-	2.84	24.54	0.58	11.49
5.	Security provided								
	a.	No security (per cent loan)	53	80	-	[illegible]	85	82	85
	b.	LIC policy (per cent loan)	38	2	-	-	-	3	5
	c.	Ornaments & jewellery (per cent loan)	8.95	3	-	5	10	-	-
	d.	Land (per cent loan)	-	3	-	-	-	8	-

Source: Family Budget Survey, 1980-81.

TABLE 3.9

Distribution of Household by Income Classes : IMRB Data

(Households in thousand)

Household Income	Bombay	Calcutta	Madras	Bangalore	Ahmedabad	Hyderabad	Pune	Delhi	Kanpur	Nagpur	Lucknow	Jaipur	Total
Total Number of Households	1490	1582	725	427	421	408	296	1044	270	225	168	152	7206
Upto Rs 350	135 (9.1)	435 (27.5)	217 (29.9)	69 (16.1)	54 (12.9)	73 (18.0)	47 (15.9)	176 (16.8)	69 (25.7)	55 (24.5)	37 (22.2)	21 (13.7)	1388 (19.26)
Rs 351 - Rs 750	495 (33.2)	619 (39.1)	248 (34.1)	137 (32.1)	175 (41.6)	159 (39.0)	93 (31.5)	410 (39.3)	122 (45.0)	93 (41.2)	71 (42.6)	65 (42.8)	2687 (37.28)
Rs 751 - Rs 1500	517 (34.7)	350 (22.2)	183 (25.3)	145 (34.0)	135 (32.[illegible])	128 (31.5)	100 (34.0)	295 (38.3)	63 (23.1)	54 (23.9)	41 (24.7)	43 (28.3)	2054 (28.50)
Rs 1501 - Rs 2500	205 (13.7)	120 (7.6)	51 (7.0)	49 (11.5)	35 (8.3)	36 (8.7)	38 (13.0)	99 (9.5)	13 (4.7)	17 (7.7)	13 (7.9)	16 (10.6)	692 (9.6)
Above Rs 2501	138 (9.3)	57 (3.6)	27 (3.7)	27 (6.2)	21 (5.1)	11 (2.8)	16 (5.6)	64 (6.2)	4 (1.6)	6 (2.7)	4 (2.6)	7 (4.7)	382 (5.3)

Note: Bracketed Figures are Percentages.

Source: Indian Market Research Bureau.

TABLE 3.10

Distribution of Adults by Occupation Categories : IMRB Data

(In thousands)

Occupations	Bombay	Calcutta	Madras	Bangalore	Ahmedabad	Hyderabad	Pune	Delhi	Kanpur	Nagpur	Lucknow	Jaipur	Total
Total number of working adults	3067	3234	1350	917	793	735	574	2133	513	350	308	289	14734
Professionals and executives	242 (7.9)	248 (7.7)	122 (9.0)	118 (12.9)	46 (5.8)	77 (10.4)	47 (8.2)	241 (11.29)	22 (4.3)	33 (9.4)	31 (10.06)	29 (10.03)	1256 (8.5)
Clerks	1003 (32.7)	1179 (36.5)	451 (33.4)	303 (33.0)	273 (34.4)	238 (32.38)	188 (32.7)	723 (33.9)	207 (40.35)	142 (40.6)	133 (43.18)	97 (33.56)	6193 (41.0)
Business	207 (6.7)	57 (1.8)	30 (2.2)	35 (3.8)	57 (7.18)	21 (2.85)	18 (3.1)	133 (6.2)	17 (3.3)	17 (4.85)	13 (4.2)	18 (6.2)	623 (4.2)
Self employed professionals	99 (2.8)	113 (3.5)	18 (1.3)	16 (1.7)	10 (1.26)	8 (1.08)	28 (4.9)	37 (1.7)	9 (1.7)	4 (1.1)	7 (2.3)	6 (2.1)	355 (2.4)
Skilled workers	807 (26.3)	922 (28.5)	407 (30.15)	269 (29.3)	244 (30.76)	224 (30.47)	153 (26.6)	551 (25.8)	132 (25.7)	116 (33.1)	77 (25.0)	80 (27.7)	3982 (26.0)
Unskilled workers	709 (23.1)	714 (22.1)	323 (23.9)	176 (19.19)	162 (20.4)	167 (22.7)	141 (24.6)	447 (20.9)	126 (24.5)	76 (21.7)	47 (15.25)	59 (20.4)	3147 (20.86)
Others	471 (13.3)	553 (17.1)	370 (27.4)	267 (29.1)	116	286	125	319	59	112	45	52	2775
Students and non-working women and others	2324	3245	1595	1038	928	970	625	2070	573	534	339	345	

Note: Bracketed Figures are Percentages.

Source: Indian Market Research Bureau.

TABLE 3.11

Households Average Savings in Physical and Financial Assets : NIBM Data

Savers	Physical assets	Financial assets
Bank	5900	2300
Non-Bank	1900	700

Source: NIBM Survey.

TABLE 3.12

Average Amount Invested in Physical Assets : NIBM Data

Assets	Bank Savers	Non-Bank Savers
Land	16100	9800
House/property	26500	7900
Business assets	12900	2200
Farm assets	1100	2100
Gold/jewellery	3800	1900
Consumer durables	3100	1000

Source: NIBM Survey.

TABLE 3.13

The Average Level of Savings in Financial Assets : NIBM Data

Assets	Bank Savers	Non-Bank Savers
Company deposits, etc.	6000	800
UTI	4000	1600
Bank	2300	-
LIC, PPF, etc.	1900	700
Chit funds	2300	900
Post office	2000	700

Source: NIBM Survey.

TABLE 3.14

Distribution of Respondents by Nature of Income : NIPFP Data

Number of Respondents	Nature of Income	
	Regular	Irregular
139	46 (33.1)	93 (66.9)

Note: Bracketed figures are percentages.

Source: National Institute of Public Finance and Policy Survey.

TABLE 3.15

Distribution of Respondents by Income Classes : NIPFP Data

Earnings Per Month	Number of Respondents					
	JJ	JJR	Janata	Slum	Rohini	Sample
Less than upto Rs 500	7	8	-	-	4	19
500 - 800	9	8	-	-	2	19
800 - 1000	11	7	-	3	7	28
1000 - 1500	9	14	2	2	8	35
1500 - 2000	3	4	-	7	-	14
2000 - 2500	0	5	1	3	9	18
2500 and above	3	3	-	-	6	12
	42	49	3	15	36	145
Mean Incomes	988.10	1158.16	1583.33	1613	1495.83	1206.54
Median Incomes	936.00	1053.00	1375.00	1678.57	1312.00	1092.86

Source: NIPFP Survey.

TABLE 3.16

Current Expenditure on Housing : NIPFP Data
(In Per Cent Terms)

As Per Cent of Income	Number of Respondents
0 - 2	7 (10.9)
2 - 4)) 4 - 6)	24 (37.5)
6 - 8)) 8 - 10)	23 (35.9)
10 - 15	10 (15.6)
TOTAL	64 (100.0)

Note: Bracketed figures are percentages.

Source: NIPFP Survey.

TABLE 3.17

Rent Paying Capacity : NIPFP Data

(In rupees)

Amount in Rupees	Number of Respondents
Nil	31 (54.3)
0 - 50	3 (5.3)
50 - 100	5 (8.7)
100 - 150	4 (7.0)
150 - 200	7 (12.3)
200 - 250	7 (12.3)
	57 (100.0)

Note: Bracketed figures are percentages.

Source: NIPFP Survey.

TABLE 3.18

Rent Paying Capacity (In Per Cent Terms) : NIPFP Data

Rent Paying Capacity as Per Cent of Income	Number of Respondents	Per Cent Respondents
Nil	31	54.3
0 - 5	4	7.0
5 - 10	4	7.0
10 - 15	5	8.7
15 - 20	9	15.8
20 - 25	4*	7.0
	57	100.0

* Out of these 9 respondents one household has dairy business, two have building material shops while one person is unemployed but has four sons-all working and married. Each household has occupied lot of space not less than 500 sq. yards. All these people specified some amount which they thought they could pay as rent - which worked out to be between 15-20 per cent of their incomes. They all said that unless they are given as big plots as they currently have they would neither like to move from here nor would they pay the specified amount of rent. However, it is noticed that their income is either underreported or reported wrongly. For instance a respondent who has four earnings sons has reported his income as Rs 1,000. When we visited his house it was found that he has two hand pumps, four semi-pucca houses with two rooms each, separate coocking and bathing space. Similarly, person in dairy business reported his earnings to be Rs 2,000 which seems incredible. Similarly, respondents having building material shop reported their incomes as Rs 1,000 each, though both maintain a scooter.

** Their current earnings are in the range of Rs 300 to Rs 500. These people expect their children to start earning in the near future. If that materialised they thought they could pay x amount as rent. This x amount worked out to be 20-25 per cent of their reported (current) incomes.

Source: NIPFP Survey.

TABLE 3.19

Additional Savings Generation for Housing : NIPFP Data

Additional Savings would be Generated by	Number of Respondents
(i) Curtailing consumption	11 (19.2 per cent)
(ii) Working extra hours	29 (50.8 per cent)
(iii) Both (i) and (ii)	17 (29.7 per cent)
	57

Source: NIPFP Survey.

TABLE 3.20

Additional Savings (In Per Cent Terms) : NIPFP Data

Savings As Per Cent of Current Income	Number of Respondents
Nil	11 (19.29 per cent)
0 - 5	11 (19.29 per cent)
5 - 10	11 (19.49 per cent)
10 - 15	7 (12.2 per cent)
15 - 20	7 (12.2 per cent)
20 - 25	5 (8.8 per cent)
Above 25	5 (8.8 per cent)
	57

Source: NIPFP Survey.

TABLE 3.21

Additional Savings : NIPFP Data

(in rupees)

Additional Savings	Number of Respondents
Nil	11 (19.29 per cent)
Rs 1 - 50	8 (14.0 per cent)
Rs 50 - 100	11 (19.29 per cent)
Rs 100 - 150	0 (Nil)
Rs 150 - 200	8 (14.0 per cent)
Rs 200 - 250	5 (8.8 Per cent)
Rs 250 - 300	5 (8.8 per cent)
	57

Source: NIPFP Survey.

TABLE 3.22

Responses with Regard to Development : NIPFP Data

Downpayment in Rs	Number of Respondents
Nil	12 (28.5 per cent)
500 - 1000	7 (16.6 per cent)
1000 - 2000	15 (35.7 per cent)
2000 - 3000	5 (11.9 per cent)
3000 - 4000	2 (4.7 per cent)
4000 and above	1 (2.3 per cent)
	42

Source: NIPFP Survey.

TABLE 3.23

Housing Loan: Name of Agency, Amount of Loan and Rate of Interest : NIPFP Data

Sl. No.	Respondents Occupation	Name of Units	Income Group in Rs	Loan Giving Agency	Amount of Loan in Rs	Interest Charged
1.	Service	Rohini	500-1000	[illegible] (Employer)	23,000	8.3 per cent
2.	Service	Rohini	1500-2000	IFDC (Employer)	47,800	N. A.
3.	Service	Rohini	1500-2000	FCI (Employer)	60,000	As per rule
4.	Service	Rohini	15009-2000	Mother Dairy (Employer)	1,00,000	As per rule
5.	Business	J. J. R.	1500-2000	State Bank of India	6,500	N. A.
6.	Service	J. J. R.	1500-2000	Punjab National Bank	15,000	N. A.
7.	Service	Rohini	2000-2500	Ministry of Industry (Employer)	76,000	8.5 per cent
8.	Govt. Service	Rohini	2000-2500	Department where working	67,000	8.5 per cent
9.	Govt. Service	Janata Colony	1000-1500	Private Money lenders	N. A.	N. A.
10.	Govt. Service	Janata Colony	1000-1500	Private Money lenders	N. A.	N. A.
11.	Business	Rohini	500-1000	H. D. F. C.	N. A.	N. A.
12.	Business	Rohini	2500-3000	Ministry of Environment and Forest (Employer)	63,000	N. A.

Source: NIPFP Survey.

CHAPTER IV

LOW AND MIDDLE INCOME GROUP HOUSING : PROBLEMS AND PROGRAMMES

4.1 Introduction

We have so far been concerned with providing a background to the study in terms of (i) some macro-economic parameters of Indian economy; (ii) broad trends in urbanisation, and (iii) housing situation in the country. An attempt was also made to construct broad socio-economic profile of the low income households using both the available information as well as the one specifically collected from the field on income, savings, consumption, asset and indebtedness. This, in the context of home ownership would hopefully to provide useful clues in regard to the aspects of affordability.

To begin with some of the major problems experienced in home ownership are outlined. These problems are essentially concerned with three major inputs to housing, namely, finance, land, and building materials. The emphasis is on low and middle income households. Inter-alia, some of the existing government housing schemes and programmes, especially for the low income households are described. An indication is also given about the major sources of funds on which these households depend for home ownership. We begin by outlining the basic requirements which need to be met in order to obtain housing funds from formal sector financial institutions. Then issues relating to land and building materials are discussed. In our description, we have, as already mentioned, confined ourselves essentially to the problems faced by the low income households, although this has not always been possible - and even not considered necessary, as issues in housing of low income households cannot completely be isolated from those of the non-low income households because of some kind of complementarity between them. Also some idea is provided about major government efforts to provide housing to rural population - as this again has some relevance to the issues of housing of urban poor - since a large number of the urban poor are from rural areas.

4.2. Access to Loans from Formal Sector Financial Institutions

Eligibility criteria for housing loan in India is restrictive, based on formal sector norms adopted from the western model of mortgage. In order to be eligible for a loan from a formal sector institution, the following norms are usually followed:

4.2.1 Mortgage: First class English mortgage - this means that the land should be fully covered by all legal titles, whether freehold or leasehold, permission of lessor is necessary. Equitable mortgage is also becoming popular with banks and HDFC as it is a simpler procedure and bypasses the high cost of registration.

4.2.2 Regular Income: Normally regular income becomes a necessary qualification. This would generally mean formal sector employment/proprietorship of firm. Income tax certificate is also an additional requirement. For non-taxpayers proof of assets, like agricultural land is necessary (irregular, informal sector income normally does not qualify). The formal sector employment in India consists of about 32 million employees. These people are normally required to subscribe to Provident Fund, and are eligible to housing loans from these funds. The government employees amongst them are additionally entitled to Government's House Building Advance (many of them are unable to avail withdrawal from the GPF or HBA as they are unable to produce municipal certification; and eventually some of them getting pushed to informal housing market).

4.2.3 **Municipal Certification of Maps of the Building** against which loan is proposed. This automatically excludes the so called unauthorised sector, even though the land may be legally owned, but not be according to zoning plans.

4.2.4 **Affordability Criteria:** The amount of loan is based on affordability criteria which take into account (a) length of service left from retirement and (b) 25 per cent of income is the maximum permissible for the repayment of instalments of both principal and interest. This provision is modified generally to include the family income (in case more than one person in the household is on a regular salary) in order to take into account the total eligible net household income.

It should however be pointed out that there are variations within the sector especially between the private financial institutions and public sector institutions (like HUDCO and State Corporations) and the Cooperatives. The interest rates also vary. While HUDCO and HDFC offer varying interest rates through the practice of internal cross subsidization of interest, based on income or quantum of loan criteria. Cooperative structure offers only a fixed interest loan for all.

So far as persons employed in the formal sector are concerned, they are able to obtain loan from their respective Provident Funds and also from formal sector institutions, subject to their fulfilling certain conditions. For government servants and employees of other public sector undertakings Housing Building Advances are also available. The disadvantaged groups belonging to Scheduled Castes and Scheduled Tribes are entitled to obtain loans from Scheduled Commercial Banks.

So far as persons in the informal sector are concerned, apart from loans from informal sources they have to essentially depend upon loans from HUDCO and State Housing Board. These people, because of their uncertain earnings, and inability to furnish acceptable collateral, are unable to obtain any loans from other housing finance institutions.

So far as access to loans from financial institutions is concerned, most people with regular incomes and in the organised sector are able to obtain loan from HFIs and Banks. But those in the informal sector have to look around for specific schemes of the government where these people are specifically permitted to procure loans on special terms.

We may point out that it is difficult to give an idea of the proportion of people who benefit from financial institutions so far as loans for housing are concerned, but it would be reasonable to expect that their number will be substantial within the organised employment sector. The same cannot be said of the informal sector, except for the socially disadvantaged classes for whom financial assistance is made available mainly through scheduled commercial banks.

4.3 Constraints and Obstacles to Housing in India

In this section we are concerned with discussing briefly some of the major constraints to increasing housing supply in India.

4.3.1 Land: A major constraint to housing has been the inadequate supply of developed urban land. The policy response to this problem has mainly consisted of two kinds of measures, both of which probably have had counterproductive effects. The first, best exemplified by urban land policy in the development of Delhi, has consisted of schemes for large scale acquisition, development and disposal of land. The idea is, for the public sector, to acquire in advance large tracts of land in and around developing cities; to develop the tracts and then to sell parcels at essentially cost-plus prices to selected and deserving sections of the population and at auction prices to others. The objective is to control unwarranted increases in land prices. The private sector is then excluded from land development. The eventual result of such a programme is often counterproductive. There are two problems. First, it is difficult for a public authority to develop land fast enough to keep pace with demand because of both financial as well as implementation cost constraints. A queue for developed land therefore develops. It has not proved to be easy to devise equitable procedures for the allocation of land such that the poor actually have improved access. The effect of the first problem has been the expansion of black market and an increase in effective price of land, the latter further preventing the access to the poor.

The second major response is the imposition of the Urban Land Ceiling and Regulation Act of 1976. This indeed is known to be one of the most significant factors inhibiting the land markets over the last decade, a period of rapid urban growth. The idea is to acquire all excess land held by individuals over stated limits to permissible holdings. These limits varied by city size, the limit being 500 square metres in the larger cities. It was expected that the public sector would be able to acquire large tracts of land by this procedure, develop them and allot plots to the poor at affordable prices. The actual effects have been quite the opposite. For example, although the Act has a few tightly specified exemptions, it effectively prohibits transactions in land holdings above specified sizes which vary with the population size of the city. The owners of land are required to register their holdings and surrender the excess to the State government at compensation fixed at 8.3 times the actual income gained from the land over the preceding five years. It is, however, interesting to point out that the government has in fact taken physical possession of only about 2 per cent of the estimated amount of excess land. The original intention of the Act was to reduce the concentration of holdings by the rich, reduce speculation, and generally bring about a more equitable distribution of land ownership. The effect however of this frozen urban land market has been a steep rise in land prices. Clearly, the high land prices have made private land development unaffordable in the centres of the large cities. This has resulted in private developers moving to the fringes of the large cities where the Act is not applicable. It has resulted in enormous extra costs in transportation, infrastructure, etc., apart from extending the size of the urbanised area.

There is now a debate in regard to the problems created by this Act. A suggestion has also been made to repeal this Act. The political feasibility of this to happen is however doubtful. There is also a suggestion to delete `C´ and `D´ categories of urban agglomerations from the provisions of the Act as it is felt that there is no shortage of land in these agglomerations when compared to urban agglomerations in `A´ and B´ categories. Even here a policy of guided development by private/cooperative sector is suggested. Also for speedy development of vacant land, substantial tax on all vacant lands has been suggested. Further, in regard to large scale land acquisition by public authorities for its development and disposal, there is a consensus that such a step should be taken with great caution especially after Delhi experience.

Table 4.1 shows that out of a total of 1,66,192 hectares of land estimated as excess over the urban land ceiling, only 8.7 per cent has been acquired. Of this only 0.37 per cent was actually used by government for construction though 2.32 per cent of the excess land was taken possession of. While no specific correlation could be established, there has been a dramatic increase in land prices in urban areas after the ULCR Act came into force. The Act, on the other hand, has certainly not prevented speculation or profiteering. The Commission has recommended that while the Act should be retained, it should be rationalised and made easy to implement. Further, it has suggested some steps by which it could be made effective and land utilisation can be optimized. Clearly, some modifications in the Act is necessary to enable the use of the frozen land to be partly released for the EWS. Necessary modalities could be worked out for use of such land on a sharing basis between the public authorities and the owners of such frozen land.

4.3.2 Rent Control Laws: Apart from the land factor, rent control laws also influence housing supply. In India, almost half of the urban housing is rental housing. The rent control laws in respect of rents and occupancy rights apply to a large part of the older stock of housing occupied mainly by low-income households. Because rents are frozen at low levels, structures have been ill maintained and very little rental housing is built because it is considered as a less profitable investment given the current regulations. Also the property assessments for tax purposes are generally based on controlled rental values, which are maintained far below the real market values. One effect of this has been a low tax base and hence a tremendous loss in the municipal revenues through property tax. It should however be admitted that while there is a general realisation about the various problems created by rent control laws, there is a very little that has been done. The exception being the Delhi Rent Act where rents may be revised every 3 years, to ensure a sufficient return to the owner and encourage adequate property maintenance. All rental units priced above Rs 3,500 per month are now out of the rent control and a grace period for newly-constructed units is being extended from the current five years to ten. It is difficult to assess at this stage the extent to which these reforms would help in enlarging the rental housing but there is enough to restore the incentives needed for substantial continued investment in rental housing.

4.3.3 Land Titling and Transfer: In India the procedures relating to sale and registration of property are known to be cumbersome and the various taxes are so high that there is inherent temptation to evade payment and avoid registration of conveyance deed altogether. According to an estimate nearly 70 to 75 per cent of the cost of land transactions is not reported. Also a large number of transactions go unrecorded, partly for these reasons, and also to avoid the restrictions on resale of government provided housing to circumvent high titling charges and capital gains taxes. The system of power of attorney has come to stay. Also many allottees prefer to keep their premises vacant, despite their desire to sell them. Clearly, this leads to waste of scare housing. Recently DDA has permitted the transfer of the premises on the condition of payment of a transfer fee of 50 per cent of profit. However, it is learnt, not many people have come forward to take advantage of this opportunity as the amount involved is stated to be high and in many cases beyond the capacity of the transferee.

Registration and titling constraints have also inhibited the operation of the mortgage market. Many mortgage lenders insist upon legal evidence of clear title on land from the borrowers. A large number of urban households in India do not always have such evidence although there is little risk of others contesting occupancy rights. The HDFC has adopted a somewhat flexible policy in this regard. At present for the investigation of the title in respect of immovable property one is required to make an investigation for a period of 30 years. Investigation of title for such a long period is not only costly and cumbersome but sometimes almost impossible. To reduce hardships and difficulties arising out of such long investigation there is a feeling amongst the policy makers that the limitation period for both individuals and government be reduced to a maximum of 12 years. This is also likely to reduce litigation.

4.3.4 Building Materials and Building Byelaws: Innovation in building materials poses a major challenge in the Indian context. With the rising cost of traditional building materials like iron, cement and wood, etc., it has now become a matter of necessity to introduce new but appropriate technology. There are a number of institutions working in this area. HUDCO has opened up Building Centres in nearly all the State Capitals. Their main focus is on innovating with locally available materials to bring down the costs of construction. Mud as a medium of house building is invoking fresh interest. ASTRA (Indian Institute of Science, Bangalore) has developed stabilized Red Blocks by pressing a mixture of soil and cement (or soil and lime & cement or soil + lime) in machine at a suitable moisture content and has developed unbaked blocks thereby saving energy and money on heating. In the same way Lawry Baker has developed in Kerala special construction techniques which reduce costs. Development Alternatives, a society in Delhi, is also doing useful work in this area. Finally, the Government's Central Building Research Institute is carrying out studies on alternative building materials. However, to go for untested alternative to traditional construction material is a risk, which the poor cannot be made to bear. None of these technologies can be tried out on slum dwellers and squatters who still prefer the traditional bricks or plastic and tin sheets. It would be preferable if the CPWD and PWD are persuaded into trying out these new techniques.

A major obstacle in the use of low cost technology is the building byelaws and regulations. These laws do not encourage the use of new materials as they are more specification oriented than purpose oriented. The resulting minimum costs are usually too high compared to incomes of most people. The low income households have little choice but live in dwellings which cannot be legalised under existing byelaws. The new National Building Code which has considered this is yet to be implemented by local authorities.

4.3.5 **Lending Sources:** Bertrand Renaud[1] has identified a three tiered housing market in developing countries. The first tier is the high quality private market which has access to formal sector housing credit. The second tier consists of public sector housing consisting of middle income groups. The third tier, by far the longest, represents the lower income group which has little or no access to formal housing finance and generally provides its own housing generally through informal borrowings.

As pointed out earlier, informal housing finance is considerably more significant than formal housing finance system in India. This is especially true of the low and middle income households, as well as of those households which are outside the organised employment sector. Most studies show that on the average only around 20 per cent of the cost of new housing is raised through formal borrowing. In a study by the NBO (1972-1974) of the households who financed house construction from borrowings, 53 per cent had borrowed from friends/relatives and money lenders and the remaining 47 per cent from established institutions like employers, cooperative banks/societies, commercial banks, etc. However, the lower middle income households (less than Rs 350 and Rs 350-600) have mainly relied upon money lenders, the upper middle income groups (Rs 601-1500) on banks, and higher income groups (above Rs 1500) on LIC. Money lenders charge as much as 2 to 5 per cent interest per month, compared to 6-16 per cent per annum by formal sector financial institutions and HFIs. The average period of repayment varied from 4 years to 21 years, this period being highest (17 to 21 years) in case of borrowings from government and housing associations/agencies, 9-12 years from employers, LIC and banks, and 20 years in case of cooperative societies, provident funds and money lenders.

The heavy dependence of low income groups on money lenders is because these people are unable to offer any security or proof of regular income to formal sector institutions. Also the time taken and the cumbersome procedures and paper work involved in securing loans from formal sector financial institutions act as major deterrents. Besides, the costs involved in title search and other legal expenses sometimes make loans from financial institutions expensive. The delays in repayment on a regular basis involve penalties, and hence many households prefer to keep away from seeking housing loans from financial institutions.

4.4 Low and Middle Income Group Housing

While the efforts of the government at meeting the housing aspirations of the poorest of the poor have not been well perceived, with allotment of sites in rural areas and slum upgradation and sites and services in urban areas, the potentially explosive crisis of housing for low and middle income groups has been somewhat defused. The public sector has played a major role in low and middle income group housing through setting up of State

Level Housing Boards, and City Housing Authorities. Practically every State has a Housing Board or a Housing Authority, and major towns have one or more similar institutions. These institutions generally acquire land at below market rate under the Government's Land Acquisition Act, develop it and then construct upon it identical, unimaginative, poor quality, unsatisfactory housing for low and middle income groups. The main attraction of the Schemes of Housing Authorities is provision of well located land at a subsidised rate which would otherwise be beyond reach of the beneficiaries. Normally these authorities work on the "Self-Financing", basis, i.e., payment is made in stages during the period of construction and the flat/house is handed over after payment of full costs. In some cases they tie up a housing loan from the State government or HUDCO. Rarely do they goes to a Bank/LIC or any other financing agencies. The individuals concerned who go in for "Self-Financing" schemes usually tie up their finances with their Provident Fund or with HDFC or some Urban Cooperative Bank. Normally, the upper limits of these loans are less than 50 per cent of the cost of the flat and therefore the individuals have to meet the balance out of their own savings or borrow from friends or sell some other asset. The terms of these loans consist of interest generally charged at the rate of around 14 per cent per annum with repayment over 15 years on Equated Monthly Instalment basis. There is generally no flexibility in repayment schedule either in the EMI or in the interest rates (Of late HDFC has introduced some flexibility in the repayment schedule). Since the middle class is extremely keen to acquire the property, there are very few defaults in repayment. However, the output of flats/houses of these institutions, on the average, is much below the demand. Further, there are generally long delays in delivery and poor consumer satisfaction in terms of the quality of construction.

The cooperative sector also offers the Low and Middle Income Groups attractive opportunities to acquire property. While the cooperative housing sector has had excellent results by way of lower cost of construction with superior construction, they are generally dependent upon the government for below market cost developed plots out of the acquired lands of the government. Often, government tends to deny land to cooperatives in favour of their own Housing Authorities, as a result the cooperatives generally tend to remain short of land with long list of societies awaiting allotment.

In the context of housing finance the Cooperative Sector, however, has an edge over the Housing Authorities and private developers as they have within their sector a fairly elaborate institutionalised and efficient housing finance structure. Each State has an Apex Housing Finance Cooperative of which a Primary Cooperative becomes a member and shareholder. Thereafter, on allotment/purchase of land, the primary cooperative is entitled to a group housing loan after mortgaging the entire property to it. The Apex Finance Cooperatives, in turn, seek funds mainly from LIC, HUDCO, GIC. Some of the Apex Societies have also floated their own debentures or mobilised deposits from member societies awaiting allotment of land. The term of cooperative sector housing loan include an interest at the rate of around 12.5 per cent per annum with 20 years repayment period. The cooperatives also offer Group Insurance to all loanees at an additional cost of less than 0.5 per cent to ensure that in the event of death of a loanee no money is recovered from his/her heirs. In addition, all housing loans are covered by a General Insurance Master Policy against fire, earthquakes, riot etc. Some innovations with respect to family income or age restrictions have also been attempted. So far the repayment record of Primaries Cooperative to Apex Housing Finance Cooperatives and of Apex to financing institutions are very satisfactory, especially compared to that of Housing Authorities.

For the low and middle income class housing, one major initiative taken by government is to subsidise the cost of land. By a process of cheap acquisition and allotment of land to public sector and cooperative housing schemes, the government has succeeded in meeting partially the demand of the low and middle classes. Within this sector, in some cases, there has been a further cross-subsidisation of cost of land. An interesting example is that of Rohini, a township of 2,497 hectares recently developed by the Delhi Development Authority in North West Delhi to accommodate 1,70,000 households or 8,50,000 persons (this includes the employment generated in Rohini also). 80,000 plots of sizes varying from 26 sq. metres to 120 sq. metres have been carved out. The size of plot is determined by the total household income, and plot price varies from Rs 100 per square metres for a plot of 26 square metres to Rs 200 per square metre for a plot of 90 square metres and above. Commercial plots are auctioned and fetch a much higher price. Similarly, the private sector developers in Gurgaon (outside Delhi) on being given permission to develop colonies, have been made to provide, at a subsidy from within their scheme, cheap plots of 50 square metres for the EWS.

4.4.1 Specific Problems: The low income households in India suffer not only from shortage of cash for down payment but also from lack of information. While there are a large number of schemes in operation for various income categories in towns and rural areas, there is no centralised information service in regard to these schemes and programmes. Lack of information is also a major factor responsible for lower income groups to be kept out of the organised sector housing. With extremely low levels of education (the level of illiteracy is sometimes as high as 70-80 per cent) and high degree of paper work required for getting an access to formal sector housing, the lower income groups tend to keep away, even if they could afford the formal organised sector housing. The formal sector regulations and technicalities inhibited the less educated lower income groups to fill up forms and sign them, not understanding what it means. Even if they are able to join a formal sector scheme, usually the high construction standards required under the existing building codes make the total cost prohibitive. The concept of 'incremental housing' has not found acceptance within the government/formal sector and hence, the poor per force, have to depend upon the informal sector for their housing needs.

4.4.2 Solutions and Initiatives: Whether it be rural areas or urban areas, land availability and land tenure form the base of the housing problem. The government has a scheme for distribution of house sites to rural poor and so far 8 million plots are reported to have been distributed. In the urban areas, however, there is no such scheme and the price of urban land being what it is, is beyond the reach of the poor, consequently, resulting in land encroachment by the poor. Also the low income group households tend to buy unauthorised plots from private developers who "illegally" convert agricultural land into residential colonies. The legal status of these lands is also not very clear as most of these are sold on "Power of Attorney" since even sub-division of rural holdings is prohibited by law. While no enumeration has been made so far, it is felt that the growth of squatter and unauthorised colonies is much faster than those of regular housing in urban areas in India. The Task Force on

Housing and Urban Development appointed by the Planning Commission offered two estimates: the low estimates provided 20 per cent of urban population in India in 1981 as slum population while the high estimate provided about 26 per cent. However, large metropolitan towns have a higher percentage - around 40 per cent residing in slums. This is a manifestation of the lack of perception of the Urban Authorities in anticipating the demands on the urban centres by the poor. This growth sector, being illegal, is beyond the scope of existing formal housing finance as mortgage and approved plans cannot be provided. While Slum Acts of various States have given legitimacy to notified slums and their improvement has now become a matter of State policy, the most neglected area is the so-called unauthorised colonies consisting of economically weaker sections who have some income to become eligible for a housing loan but cannot offer mortgage due to the illegal/irregular nature of their tenure. The housing that then comes up in these unauthorised colonies is incremental housing based on availability of finance by the owner from informal sector. The limited role of local bodies in these areas has resulted in deterioration in health and education of the residents.

It may also be pointed out that the State of Madhya Pradesh is the only State in India which has granted secure land tenure to urban squatters by passing an Act popularly called the "Patta Act". The State government has also undertaken to provide a single point electric connection to every unit in addition to water supply, laterines, paved roads, etc. The Patta Act entitles any landless person occupying upto 50 square metre of land for residential purpose on 10th April, 1984 to <u>non-transferable leasehold rights</u> (Patta) either over land occupied by him or any other land upto 50 square metre. Further, any person attempting to deposseess a patta-holder of his property is liable for punishment with rigorous imprisonment of upto 3 months or fine. While Pattas have been allotted on a large scale surprisingly no local municipality has sanctioned any building plan resulting in haphazard and unauthorised construction. Bhopal experience shows poor coordination and lack of foresight at the time of allotting pattas. Had municipal clearance procedure and housing loans been tied up, both of which were possible, things would have been much better.

In addition to what has been said above, a number of community based initiatives can be enumerated. It should however be pointed out that these programmes touch one generally confined to very small populations or communities. An organisation called the Self-Employed Women Association (SEWA) in Ahmedabad has attempted to help its members (i.e., the self-employed women) through a Cooperative Bank run by the organisation. The loans are usually of short term duration of upto three years, but no interest subsidy is provided. Once the members pay back the loan amount, a second loan can be granted. Besides several NGOs are also active in shelter programmes, although social hygiene, literacy and health care have been their prime concerns. Delhi Catholic Archiodesce, ASHA & TACET are some worth mentioning NGOs, which among other things, are also attempting to help the poor with housing finance, either directly or through the cooperatives. Chit Funds and Nidhis are other organisations which collect funds regularly from their members and advance loans to their members at varying terms for various purposes like consumption, etc., including for housing. However, the loans advanced by the NIDHIS for housing are estimated to be no more than 10 per cent of the total advances. A detailed description of some of these programmes operated by the NGOs is provided in Chapter VI.

4.5 Public Housing at the Central and Local Level for Low Income Households

Housing built by the public sector for general public (government employees' housing excluded) is the responsibility of State governments (Diagram 4.1). It is estimated that between 1961 and 1985, public sector was responsible for construction of 6,30,000 urban dwellings, being about 4 per cent of the total supply over the same period.

Public Sector Housing Delivery System

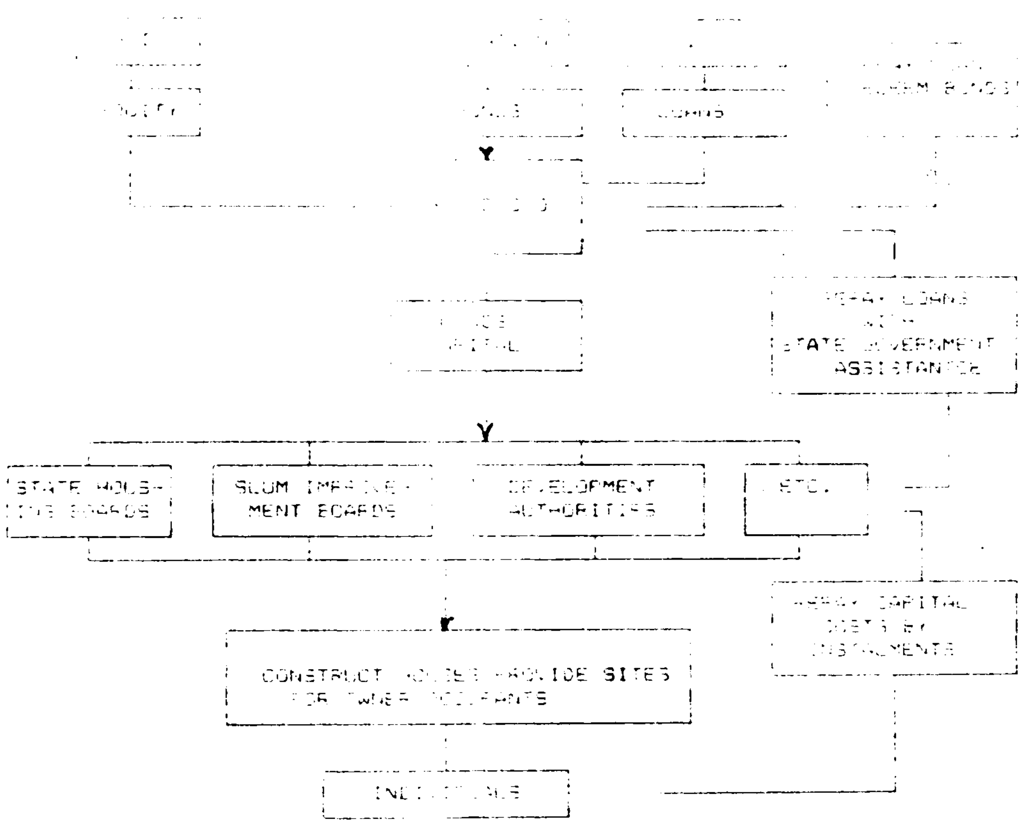


Diagram 4.1

The State governments carry out their shelter schemes through respective housing boards, urban improvement trusts, slum clearance boards, municipal bodies and public works departments[1]. A large part of capital finance of state level housing agencies comes from HUDCO which lays down norms for cost ceilings and physical standards for various schemes. In these schemes preferential treatment is given to housing for lower income groups. So far as rental housing is concerned, it is almost non-existent. It must also be mentioned that which HUDCO prescribes eligibility and other criterias, the responsibility for recoveries and other aspects of management rests with the local authorities. HUDCO gives loans under State government guarantee and therefore, has 100 per cent recovery.

Besides constructing houses both in rural and urban areas under its various schemes, the government, in as early as 1972 initiated slum upgrading and environmental improvement schemes in urban areas. While slum clearance and resettlement schemes continue in the housing programmes of many cities, recently preference is shown for upgrading of slums. The rationale for this appears to arise from the fact that in situ improvement of existing slum/squatter settlements is usually preferred to relocation and redevelopment; besides being financially less expensive as in situ development requires smaller investment. Environmental improvement schemes usually consist of providing paved roads/streets, street lighting, improved drainage and sanitation for disposal of waste and safe drinking water. Bustee Improvement Programme in Calcutta may be cited as an example of successful programme.

Two new developments also need to be emphasised. First is a trend towards providing tenure security to squatters with a view to encouraging use of more durable building materials in construction. Second, the setting up of Building Centres by HUDCO in various State capitals. This is done to encourage use of indigenous building materials and new construction technology with a view to reducing costs.

Another interesting development concerns financial assistance by HUDCO to private developers and builders on the condition that a specified proportion of new construction will be allotted to economically weaker sections and other low income households.

A major government initiative to help the economically disadvantaged groups is the scheme of sites and services. It mainly consists in providing serviced residential sites. The size of the plot is usually very small (e.g., 21 sq. metres). Although in most cases no superstructure is provided, there are instances where minimal structure or even core house is provided.

The rationale underlying the site and services programme is the inability of most poor households to pay for completed housing, but at the same time recognising their skills and ability to improvise shelter for themselves. Sometimes building loans are made available to these households. It should be in order to point that such a strategy of incremental housing can be seriously affected by building regulations which set out the kind of building materials to be used, the duration within which construction is to be completed and the utilisation of space. Some of these obstacles are, however, being overcome through specific modifications and relaxations in the rules/procedures. Despite the attractiveness of this scheme, there is a general preference for pucca public housing projects usually provided at a highly subsidised cost. A major problem from the viewpoint of the likely beneficiaries is that the sites close to place of work are high value land. Besides the principle of full recovery on market terms of land and its development costs may make sites and services programme less attractive for the poor. Further, there is also the possibility of sale and resale of these plots with the sites being eventually purchased by the relatively higher income households. A word about the resettlement colonies in this context is in order. The ownership of any of the pucca houses built for the target group in Delhi got transferred to higher income groups, and the original beneficiaries went back again to their original habitation as encroachers. It is, therefore, not surprising that there is some rethinking in regard to the Delhi experiment of relocation of squatters/slums dwellers.

Apart from sites and services programme which is operating in both rural and urban areas and several other programmes mentioned above there are a number of other schemes which have been initiated by the government. A brief description of some important housing schemes aimed at the economically weaker sections is provided below.

4.5.1 Allotment of House Sites and Construction Assistance: The scheme of the allotment of house-sites to the rural landless workers was initiated in 1971 with a view to ameliorate the lot of the rural poor in the country. Initially, the scheme was implemented by the Central Government but in 1974 transferred to State governments. It was also incorporated in 20 Point Programme in 1975. Subsequently, this scheme also became a part of the new

20 Point Programme in 1982 and also the 20 Point Programme - 1986. Originally, the scheme was intended to benefit the landless workers but later the scope of the scheme was enlarged to cover all the artisans which included SC and ST in the rural areas. This scheme also envisages provision of construction assistance to those provided with house-sites. During the Seventh Five Year Plan the financial norms of this scheme are Rs 500 for infrastructural development and Rs 2,000 for construction assistance.

This scheme is in operation in 18 States and 6 Union Territories. Until beginning of the Sixth Five Year Plan, 77 lakhs house-sites had already been allotted by various States/U.T. Administrations, leaving the balance of 68 lakhs house-sites to be allotted during the period of Sixth Five Year Plan. The scheme showed encouraging results during the Sixth Five Year Plan as from 1st April, 1980 to 31st March, 1985, 54.3 lakhs house-sites were allotted to rural landless families. This scheme has continued during Seventh Five Year Plan. During the first three years of the Seventh Plan 26.44 lakhs houses sites were allotted. It is significant to note that not only the original estimate of 145 lakhs landless famillties has not only been covered but more families have been covered taking into account the additional labour force joining the rural landless class. It is interesting to note that on the average one million plots have been distributed every year since 1980. However, the scheme of construction assistance has not been successful to that extent. Lack of funds available with the State governments is the main bottleneck. State governments complain of the inadequacy of the financial norms of Rs 2,000 for building huts due to the escalation in the cost of housing construction.

4.5.2 Indira Awaas Yojana: The Central Government Scheme for the benefit of SC and ST and freed bonded labourers was introduced in 1985. The scheme was initiated with a view to provide shelter to the section of population who are having poor and substandard housing facilities, with a thrust on employment generation. This scheme is being implemented with the financial grant/assistance by the Department of Rural Development under the Rural Landless Employment Guarantee Programme (RLEGP). A sum of Rs 10,200 per unit is given under the scheme. The following is the funding pattern:

Subsidy for dwelling unit	Rs	6,000
Infrastructural development charge	Rs	3,000
Low cost sanitation	Rs	1,200
TOTAL	Rs	10,200

Unit cost of assistance may be increased upto 39 per cent for housing in hilly areas, difficult and remote areas, with the prior approval of the Central Committee on RLEGP.

Since 1985, houses were provided to various States/UTs. While the scheme is being implemented by the Department of Rural Development, the Ministry of Urban Development is monitoring it. The information in respect of physical achievement is being obtained directly by the Ministry of Urban Development from State governments/UT. Administrations.

4.5.3 HUDCO and Rural Housing: HUDCO has also been a pioneer in financing the rural housing programmes. Since 1977-78 HUDCO started financing rural housing schemes with the objective of (a) meeting the public sector need of shelter (b) to promote community efforts and self-help (c) providing essential facilities like drinking water supply, low cost sanitation and smokeless Chullahs (d) encouraging adoption of appropriate construction technologies, and (e) using local materials and local skills.

HUDCO has sanctioned rural housing projects costing nearly Rs 700 crores with loans of over Rs 340 crores which would enable construction of nearly 1.5 million dwelling units in the rural areas.

It is adopting the following financial norms for the rural areas for the EWS category of population:

	EWS I (Landless labour)	EWS II (Other than landless)
Cost ceilings including land cost	Rs 6,000.00	Rs 10,000.00
Loan component (per cent of project cost)	50 per cent	59 per cent
Net rate of interest Minimum repayment period	6 per cent 11 years	[illegible] per cent 11 years
Monthly instalments on Rs 1,000 loan (Approximately)	Rs 10.37	Rs 10.88

All the urban schemes which are in operation would be available for implementation in rural areas.

4.5.4 Urban Housing: The Government's role in the field of urban housing has to be promotional. The major efforts have to come from the private sector. The Government's role is restricted to the improvement of slums, provision of housing to the weaker sections of the society, encouragement and support to housing finance institutions to promote channelisation of private resources into housing in a constructive way.

4.5.4.1 Housing for the EWS: The house building activity for the weaker sections of the urban areas was initiated during the Sixth Five Year Plan under which direct public sector investment is proposed. The scheme seeks to provide sites and services on cost price to the beneficiaries. In addition, the beneficiaries are provided a loan of Rs 5,000 per unit repayable during the period of 20 to 25 years at a concessional rate of interest. The income eligibility for the beneficiaries is Rs 700 per month.

Besides this, there are number of other schemes, namely, LIG housing, rental housing, middle income group housing, which have been promoted by the States governments by providing loan facilities to the beneficiaries (see Table 4.2). This adds to the efforts by the private individuals. The income limits for getting the loans from State governments is as follows:

Low Income Group	Rs 701 - 1500
Middle Income Group	Rs 1501 - 2500

NOTE

1. Bertrand Renaud: Housing and Financial Institutions in Developing Countries, World Bank, 1986 (mimeo).

TABLE 4.1

Some Estimates of Surplus Land Over Prescribed Ceiling Under the Law

	Item	Hectares	Percentage
1.	Estimate of excess vacant land after scrutiny	1,66,192	100
2.	Vacant land acquired and vested in government	14,589	8.78 of (1)
3.	Excess vacant land of which physical possession has been obtained	3,552	2.32 of (1)
4.	Land used by government for housing construction	621	0.37 of (1)

Source: The Report of National Commission on Urbanisation.

TABLE 4.2

Housing Schemes in Various States/UTs

Housing Scheme		Ceiling cost (Rs)	Subsidy (Rs)	Beneficiary's construction (Rs)	Loan amount (Rs)
Punjab					
Village housing project					5000
Low income group housing scheme					12500
Middle income group housing scheme					25000
Karnataka					
People's housing scheme		[illegible]000	2500	500	3000
Experimental low cost housing scheme		[illegible]000	2000	-	-
Tribal sub-plan		[illegible]000	2500	500	3000
Andhra Pradesh					
Semi-permanent rural houses		4000	3900	100	-
Rural permanent houses	(a)	8000	3750	250	4000
	(b)	9000	4750	250	4000
Urban permanent houses		13000	1000	300	10700
Weavers housing cum work sheds		9000	6000	-	3000
Orissa					
Village housing projects		6000	-	1000	5000
Goa					
Village housing scheme cum construction assistance		-	3000	-	-
Tamil Nadu					
Cooperative housing scheme		-	-	1500 -1875	6000 -7500
Village panchayat		-	-	-	10000 -20000
TAHUDCO'S Adi Dravidar housing scheme		-	6000	750	900

CHAPTER V

HOUSING FINANCE SYSTEM IN INDIA - INSTITUTIONAL STRUCTURE AND RESOURCES

5.1 Introduction

The major focus of this chapter is on the institutional structure of housing finance in India. First an overview of the housing finance system in India is provided. This is followed by presenting a brief description of the flows of institutional funds into the housing sector. Inter-alia, an idea is also provided about the likely flows of institutional credit for housing. Since, resource mobilisation strategies as well as lending operations are affected by various government regulations, a brief discussion on financial environment is also included. Insofar as the borrowers of funds are concerned, the nature of lending instruments offered by financial institutions is crucial. We have therefore provided an inventory of some of the major lending instruments currently offered by the HFIs. This chapter also contains three appendices, one on funds mobilisation, the second on collateral, and the third on inter-institutional flow of funds as all these issues are of considerable significance in a discussion on housing finance system.

5.2 Financial Framework

Since independence, the Indian financial system has over the period expanded rapidly and at the same time experienced reasonable stability. It should be pointed out that at the time of independence, India's financial system was rather small, although both savings and investment rates were not so low, being respectively around 10 per cent and 11 per cent of the GDP. Also most investment was made by the savers directly with only a small proportion of savings being intermediated through financial institutions. Banking system was mainly used to hold transaction balances. However since the beginning of planning in India in 1951, saving rate has gone up to almost 23 per cent to 24 per cent. This is despite India's low per capita income. This steep rise in savings has been accompanied by an increase in financial savings. It is argued that this has led to greater financial deepening. This is partly attributed to realistic interest rate policies. Interestingly also an increasing part of household savings is being channeled into financial system. This is clear from the fact that in 1950-51 the financial savings accounted for only 0.7 per cent of NDP compared to a current figure of 7.2 per cent. It may also be stated that deposits and provident fund have emerged as two most important holdings of household sector compared to currency and other claims on the government in the earlier period.

The rapid financial deepening featured increases in both the ratios of M_2 and credit to GDP, together with replenishment of the banking systems net foreign assets. A major factor responsible for depending is the monetisation of rural areas, mainly because of the branch expansion policy of the banking system. However, a detailed analysis would show that this financial depending has largely occurred in metropolitan and large urban areas which have experienced financial growth in deposits.

A salient feature of financial intermediation in India is the government presence and control. The Indian Government, through its various policies, including fiscal and monetary, and regulation, is able to influence directly and indirectly the flow of funds into the housing finance sector. For example, the government is able to exercise control on the investments of public institutional investors in specified sectors through its directions. Since the beginning of First Plan, the government has used its power to direct credit to certain priority sectors such as agriculture, heavy industry, small-scale industry, etc.

So far as credit directed to housing is concerned, a large part of it goes to housing finance institutions in the public and cooperative sectors, generally at below market rates of interest. Also, such Housing Finance Institutions (HFI) which can compete for credit also get it on subsidised terms. Further, since private lenders raise a significant part of their lendable resources from various financial institutions, the interest rates policy of the RBI influences the cost of their liabilities as well as the return on their assets. Also, for a variety of reasons, most private/joint sector HFIs follow the norms of HDFC.

It would be interesting to point out that the government regulates the distribution of capital to various sectors through directives to public sector financial institutions. For example, the government lays down the utilisation of resources by institutions such as the LIC, GIC, Commercial Banks, (most of whom are nationalised) etc. The LIC which is the largest supplier of funds to the housing sector has its limitations since the government ties down 75 per cent of the annual accretions to Central Government debt instruments, State governments, and 25 per cent can be devoted to other uses, e.g., government guaranteed debentures such as those of HUDCO. GIC should be able to increase its contribution to Rs 100 crores per annum during the Eighth Plan period. Similarly, the lending target for Commercial Banks is fixed by the government. Currently, it is 1.5 per cent of incremental deposits of commercial banks. A large part of these funds are to be lent to SC/ST at highly subsidised interest rate of 4 per cent.

5.3 Structure of Housing Finance System

In India, the Union Ministry of Urban Development is the principal agency concerned with evolving and directing the housing policy in India. In practice, however, it is the RBI and the Ministry of Finance which ultimately determine the volume and lending terms for housing. The NHB set up recently as a subsidiary of the RBI is likely to modify the existing housing finance scenario - although it is too early to precisely indicate the likely direction of change. However, it is reasonably certain that the NHB will have an important and a larger role to play in the context of housing finance, especially for the low income households.

Among the public sector institutions in the housing sector mention may be made of LIC, GIC, HUDCO (including State Housing Boards, Development Authorities, and Slum Clearance Boards) and the Cooperatives. For example upto March 31, 1988, LIC's contribution to housing development by way of loans amounted to a little under Rs 2,500 crores[1]. Similarly, HUDCO made available by early 1988 Rs 2,700 crores for over 3 million housing units since its inception in 1970. 90 per cent of the dwellings financed by it (in physical terms) were intended for the EWS and LIG. Similarly, the housing cooperatives with its two-tier structure have made a substantial contribution to housing especially for the middle and lower middle income households. For example, at present there are nearly 40,000 housing cooperatives with about 3 million members with 59 per cent of the housing coming up in LIG/EWS sector.

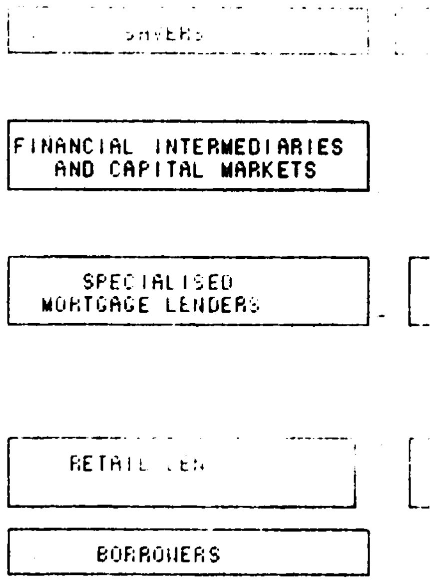
Besides the above mentioned institutions, there are a number of private and joint sector housing finance institutions. Mention may be made of the HDFC formed in 1977. Recently the UTI, LIC and HDFC have, in collaboration with commercial banks, promoted a number of housing finance institutions. Mention may be made of Can Fin Homes with Canara Bank, Central Housing Finance Corporation (CHFC) with Central Bank, Housing Promotion and Finance Corporation (HPFC) with State Bank of India and Infrastructure Lease and Finance Services with GIC.

In addition to these two types of institutions, there is the third category of institutions whose basic function is not housing finance but they do so as a part of diversifying their investments. Some of these are leasing companies Table 5.1 gives an idea about the growth of housing finance institutions in India.

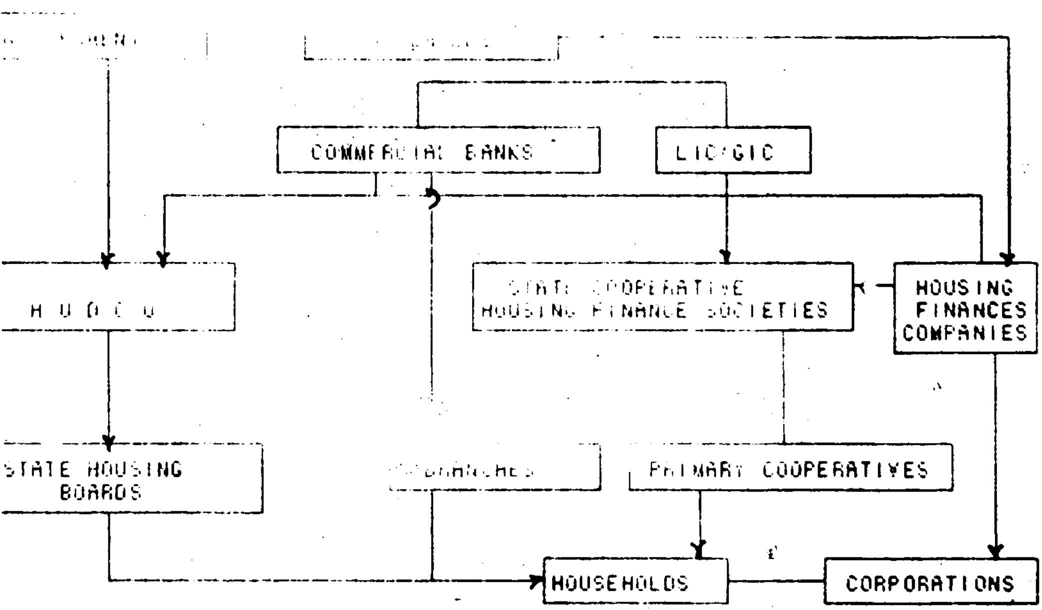
A major factor in the efficient working of private/joint sector housing finance institutions is the availability of loanable funds. These funds are currently raised either from savings and deposits of households and companies or through issue of equity capital or loans from banks A major question at this stage is the extent to which these HFIs will be able to rely on these sources of funds. Some doubts have been expressed about the financial integrity of many of the existing HFIs. Without going into this issue, it would be useful to mention that the recently promoted CANFIN Homes[2] has done reasonably well in mobilising deposits from households. Also with NHB now on the scene, it would be possible to monitor and regulate the functioning of housing finance institutions. Such a step is bound to build up the confidence of investors. In this context, it is appropriate to cite the experience of HDFC set up in 1977 which through managing its operations professionally has built for itself high credibility.

It is estimated that the formal sector, through government programmes and financial intermediaries, currently provides finance for about 2,75,000 units per year. The estimated formal sector housing advances at present would exceed Rs 10,000 crores, and after netting out inter-institutional flows, outstanding total advances would be around Rs 5,000 crores. It may be mentioned that formal sector financing is generally only 50 per cent or less of the total dwellings cost. India's financial sector is stated to provide only 2 per cent of the formal financing for housing. Also, the formal sector seems to be providing no more than 10 per cent to 15 per cent of the total housing investment.

Diagram 5 1 gives an idea about the major institutions involved in providing housing finance and the nature of institutional links. It also sets out the mechanism as to how the funds eventually reach the end users or beneficiaries.


SAVERS
FINANCIAL INTERMEDIARIES AND CAPITAL MARKETS
SPECIALISED MORTGAGE LENDERS
RETAIL
BORROWERS

Structure for Formal Sector
Intermediation for Housing Finance in India



We may also point out that so far as development of housing related infrastructure is concerned, the responsibility generally rests with local governments and State Housing Boards, although recently some agencies like HUDCO, HDFC Developers and Ansal's have entered the area of infrastructure, including land development. Apart from HUDCO, National Housing Bank is another agency which proposes to enter into the area of providing funds for infrastructure development. Water supply and electricity are generally looked after by autonomous boards.

We would like to make a mention of a recent development in the area of housing finance. This concerns the practice of providing bridge finance to developers and builders. HDFC and cooperative banks are some of the institutions providing such bridge loans[3].

5.4 Institutional Lenders

We now outline the contribution of some of the major financial institutions providing funds for housing.

5.4.1 Housing and Urban Development Corporation Limited (HUDCO): HUDCO is the only government sponsored housing finance institution which raises funds with government guarantees from the capital markets[4]. So far HUDCO has raised over Rs 530 crores through this method, which has been subscribed largely by nationalised banks and LIC. HUDCO, which came into existence in 1971, has so far committed loans upto Rs 3,869 crores for construction of 3.46 million dwelling units and 3.04 lakhs of plots. Of these 1.85 million units are in the rural areas. It is maintaining a ratio of 55:45 in overall fund allocation between EWS, LIG MIG and HIG.

HUDCO is a financially independent body which practices cross subsidisation of interest from within its own pool of funds. The net interest rate ranges from 5 per cent to 13.5 per cent. For rental staff housing, land acquisition and commercial schemes, the market rate is kept at 15 per cent.

Of late HUDCO is reported to have also entered real estate business including commercial construction as a part of its profit earning venture so that it is able to meet higher level of cross subsidy to the poor.

5.4.2 Housing Development Finance Corporation (HDFC): HDFC is a privately owned company for housing finance which has made remarkable progress since its inception in 1970. Its cumulative approvals as on 31.3.1989 stood at Rs 1,486 crores. So far HDFC has financed 0.30 million units in nearly 1,400 towns. HDFC does not get government guarantee for its debentures/bonds and has to raise its resources from the market. The HDFC has also introduced a Home Savings Plan, but this has had limited success so far. HDFC has however, been successful in raising 125 million dollars through USAID with back to back arrangements entered with different banks and a financial institution at a fixed interest rate of 12.5 per cent per annum on the counterpart rupee funds in India to absorb the exchange rate risk. It has also issued long term bonds (10 years). Its flexibility in transfers has made the series more marketable to investors. Although HDFC has not been given government guarantee for its bond issue, it has been given trustee status, which enables it to pick up money a little cheaper from trusts, etc. HDFC has mobilised funds mainly from the corporate sector, and only 15 per cent of its deposits are from the household sector. The recent government regulation prohibiting non-banking financial institutions of accepting deposits of less than 25 months may dampen mobilisation of household savings. A correct policy would have been to permit these institutions to raise short term deposits from the households on the ground that most household savings are purpose based savings - and the deposits of banking institutions would not be affected seriously. Perhaps restriction on corporate savings are reasonable as in many situations the facility of short term deposits may be misused. HDFC has also co-promoted four companies, namely:

i. Gujarat Rural Housing Finance Corporation Ltd. with IFC, Washington, Aga Khan Fund for Economic Development, Geneva and Government of Gujarat.

ii. Housing Promotion and Finance Corporation Ltd. (with SBI Capital Markets).

iii. Infrastructure Leasing & Financial Service Ltd. (with Central Bank of India and UTI).

iv. CANFIN Homes Ltd. (with Canara Bank and Unit Trust of India).

Besides these four companies HDFC has a wholly owned subsidiary called HDFC Developers Ltd. and is also involved in the Credit Rating Information Services of India Ltd.

Out of the total lending of HDFC, 77 per cent of the gross loans were given directly to individuals for home ownership while the balance 23 per cent of the loans were routed through corporate, institutional and other bodies, of which 45 per cent of the beneficiaries were households with family income below Rs 1,000 per month[5]. HDFC has been able to help the low income groups of the organised sector like employees of Electricity

Boards and Road Transport Corporations in various parts of the country, small cocoa and arecanut growers in Karnataka and Kerala, Plantation Labourers in North East India, Police Constables in Maharashtra and Andhra Pradesh, Teachers and Staff Members of several Universities and Education Institutions.

5.4.3 Commercial Banks: The commercial banks have of late opened their doors to housing finance both directly and through formation of subsidiary housing companies. They have also announced stepping up the annual disbursement for housing loans from Rs 150 crores in 1986-87 to Rs 385 crores in 1989-90. They have also offered a graduated interest rate structure going down to 4 per cent for Scheduled Castes and Scheduled Tribes. The General Insurance Corporation has announced launching of a subsidiary in collaboration with Indian Overseas Bank for providing housing finance with an initial outlay of Rs 20 crores and disbursement upto Rs 40 - Rs 50 crores per annum to start with. The commercial banks with their huge pool of deposits and extensive branch network of over 57,000 branches, offer a major potential source for housing finance.

5.4.4 Provident Funds: The other major source of finance for housing is the Provident Fund system - both Employees Provident Fund (EPF) and General Provident Funds (GPF) consisting of about 22 million subscribers. These are mandatory savings of the formal sector employees and are obligated to be invested in government securities for development programmes. Since the quantum of funds available from this source is immense, and housing loans to employees are without much risk, the issue regarding withdrawal of GPF for housing needs to be studied further. Similarly, Government Employees Group Insurance Scheme, as well as Defence Group Insurance offer a good potential for housing finance for the organised sector as these funds are outside the LIC and are also not a part of the government's own revenue. It may be mentioned that Provident Funds cannot strictly be considered as a formal source of housing finance.

5.4.5 Other Institutions: LIC, GIC and nationalised banks are the other sources of housing finance in India. LIC has also been funding the Cooperative Housing Sector through Apex Housing Finance Cooperatives to the tune of about Rs 150 crores per annum, apart from providing housing loan for the individuals under their 'Own Your Home' Scheme. In addition LIC has also been funding municipalities and other organisations which provide housing related infrastructure. UTI and GIC have a smaller role to play, but have shown increasing interest and their role is likely to expand further over the years. LIC, as mentioned earlier, has set up a Housing Finance Corporation as its subsidiary. While this company shall get its initial capital from LIC and other institutions, it will also raise its own resources by deposit mobilisation.

The existing flows of funds into the housing sector through formal sector agencies are given in Table 5.2.

Thus about Rs 650 crores are flowing directly to the individuals into housing from the formal sector institutions. In addition to these there would be a substantial flow from Provident Funds. Actual PF withdrawal disbursements are not easily available. However, as of now there would be about 14.3 million subscribers to EPF, 5.3 to Central Government Provident Fund and another 10 million of State governments to bring the total number of PF subscribers to 29.6 million or say 30 million. The likely PF withdrawal for housing is substantial. It may be pointed out that the Provident Fund Rules for permanent withdrawal of housing loans are quite strict. They require minimum period of service and thereafter, request furnishing of title of land as well as approved lay out. In fact, a large number of people are denied withdrawal and consequently resort to taking loans on some other pretext but using it for housing. Further, relaxation of PF rules in this respect should be considered.

5.5 Credit Institutions' Coverage

Commercial banks have an extensive coverage in India. From 8,321 branches in 1969, there were 55,198 branches in June, 1988 of which 30,7- were in rural areas, 11,204 in semi-urban areas and 13,105 in urban areas. Table 5.3 gives a break down of the current branch pattern of various types of banks.

In addition LIC has nearly 2,50,000 agents (of whom 1,00,000 are in rural areas) and 10,000 Development Officers who can also be mobilised for either credit delivery or resource mobilisation or both.

While 1.63 lakh branches of various banks appear an impressive number, not many of them are good enough to be used for purposes of base level housing finance institutions. In 1970 the government decided to link the cooperatives at the grass root level with the commercial banks mainly with the objective of supplementing the loanable resource of the former through additional channel of supply of funds[6]. The newly reorganised Primary Agriculture Credit Cooperatives (PACCs) have had a mixed record of success. The cooperatives have become strong in some of the States namely, Gujarat, Maharashtra, Punjab and Tamil Nadu. The same, however, cannot be said of other States. Further, it has been alleged that benefits from PACCs do not trickle down to the rural poor. The loans advanced to the landless persons in 1975-76 accounted for only 4 per cent of the total amount of loan advances. Further, 40 per cent of PACCs functioned in a loss, and overdues as a proportion of loans outstanding by end June, 1976 was as high as 43 per cent. By June, 1975 RBI declared nearly 70 per cent of PACs as 'weak' (Category C to E). Similarly, 45 per cent of non-agricultural credit societies were also considered weak. Farmer's Service Societies (FSS) have also not fared much better and suffer from structural weakness. By June, 1977 only 233 FSS were operating in a few States, out of which only 69 were financed by cooperative banks. The Commercial Banks have also their own weakness as they have not been able to penetrate deep into the interior of the districts, although they have been more successful in mopping up deposits from the rural areas instead. The commercial banks have also been accused of neglecting the small borrowers.

The banking and cooperative structure[7] in India needs to be studied in detail and thereafter fine tuned. In case we want to have a delivery system of loans, both housing as well as working credit loans, the delivery system has to be made more responsive so that it can meet the needs of the specific income groups. There is a general allegation against the commercial banks that their staff has an urban bias. Since recruitment of well educated young persons is done by the banks centrally, the urban bias can very well be expected. The Regional Rural Banks were expected to partially meet this problem through recruitment of personnel from local persons. However, even here, due to high level of literacy of the staff, the urban bias still remains. Although we have an elaborate delivery system of 1.63 lakhs outlets (we have about 5 lakh villages), we have to ensure as to how many are actually functioning efficiently and second, how many can serve the cause of the poor. In case we find that these institutions are unable to serve the low income groups we need to consider whether we should go in for another tier of delivery system at the field level and if so, what would be it its cost implications? While Bangladesh has experimented with nine forms of delivery systems, they have also found that the results were mixed. However, in the case of Grameen Bank of Bangladesh and SEWA Cooperative Bank of Ahmedabad there were hardly any defaults[8]. They tend to give credit for this to the special strategy and project management. One of the main features of the Grameen Bank was that loans were given to the landless poor by organising them into groups for certain income generation activities and greater emphasis was laid on loans to women.

5.6 Credit Instruments: Both government and market oriented agencies such as HUDCO, HDFC, Can Fin Homes, GRUH, Dewan Housing Development Finance Ltd. (DHDF), etc. provide housing loans with varying interest rates and maturity periods, etc., to persons falling within their respective eligibility criteria. Tables 5.4 and 5.5 give an idea of these terms in respect of HUDCO and select HFIs.

As already pointed out, HUDCO through its strategy of interest cross subsidy is able to reach almost all segments of the society, either directly or through cooperatives and State Housing Boards. Other financial institutions/agencies, however, serve households having relatively stable incomes around the median or above median income groups[9].

These institutions make loans to individuals for construction of houses or flats, extension or substantial restructuring of houses, and in some cases to finance the purchase of existing dwellings.

All these institutions recover majority of their loans in equated monthly instalments. GRUH, a rural based HFI however is an exception which permits annual payment mainly suiting the needs of cash flow of agriculturists. Some agencies like CAN FIN Homes and HDFC offer telescopic repayment facility to enable the young earners to take advantage of the facilities. The loan size also varies, ranging from Rs 7,500 to almost Rs 3 lakhs. For the median income households, affordable maximum loan is around Rs 50,000, although this may slightly vary depending upon interest rate and maturity period. For most companies the term is around 15-20 years. The application/processing fee is usually between 0.75 to 1.5 per cent, and the interest rate, except for HUDCO, varies between 12 per cent to 16.5 per cent depending upon the quantum of loan. For most companies, the cost of funds should not exceed 11.5 per cent for the viability of these companies. Maximum loan-to-value ratios are estimated to fall in the range of 70 per cent to 80 per cent. The data for down payment is however not available.

Many companies prefer lending to individuals sponsored by their respective employers. This is done to reduce risks. The obligation to repay the loan, however, rests with the individual. A general review of the practices and procedures followed by most HFI's would show their conservative and rational underwriting procedure, mainly with a view to minimising risks. Loans are released in instalments only after the equity money has been used in construction. Also, the underwriting policies of the companies give weight to the credit worthiness of the borrowers and guarantors.

So far as lending to low income group households is concerned, some HFIs have attempted to reach households below the median income by lending in small urban and rural areas where housing costs are low. However, due to their strict conditionalities they are unable to reach the low income and those working in the informal sector. Most HFIs offer loan for a period of minimum 10 years and sometimes even 20 years. They have also introduced low-start mortgages, as well as reduced monthly burden.

5.7 Enlarging Credit Supply

At present household sector is generating savings in excess of its own needs for investment in physical assets. Due to a variety of factors, the household savings have gone up substantially, and about 60 per cent of the total net financial savings of this sector are in the form of bank deposits, insurance and loans to Central and State Governments. These funds, instead of being used for households' needs are being used by the government to finance its Five Year Plans. However, recently it was realised that housing sector needs more funds and therefore the RBI has allowed Banks to spend 1.5 per cent of the incremental deposits for housing finance. It was also felt that housing sector has greater claim on insurance funds, and it has been suggested that role of housing should not be mixed up with socially oriented schemes, and the flows of controlled funds from LIC should increase from its present 14 per cent to 20 per cent. It is also argued that GIC should also step up its contribution to housing. It is also agreed that Provident Fund resources for housing need to be increased. Insurance funds, especially funds of the LIC are best suited for long term investment in housing as their main nature of activity is more conducive to long term lending.

Clearly, this proposed increase in flow of resources to the housing sector is likely to lead to constraints elsewhere. For augmenting the savings we need to devise suitable instruments so that additional savings accrue in the economy. Home Loan Account Scheme recently launched by NHB is one such step which will ensure `additionality' of savings. Mass mobilisation of funds from the public for housing loans as has been done by the Building Societies of U.K. has somehow been not attempted on any significant scale in India.

Recently a dialogue has also been initiated in regard to developing secondary market facilities in India. For this purpose foreclosure laws and other aspects relevant to the development of secondary mortgage market are being scrutinised. Indeed as a first step the General Insurance Corporation of India (GIC) has a pending proposal to set up mortgage insurance company as its subsidiary.

It would be worthwhile also to indicate the proposed institutional credit for 1990-1995, the period for the Eighth Five Year Plan. This is presented in Table 5.6.

5.8 Relevance of Financial Policies

The Housing Finance Institutions (HFIs) are currently regulated by the Department of Financial Companies (DFC) of the Reserve Bank of India (RBI). The Registrar of Companies notifies the DFC of the existence of a company engaged in housing finance with a view to determining whether it can be classified as a Housing Finance Company. At present in practice there is a free entry of housing finance companies into the system. The DFC has however control over the deposit activities of the HFIs for providing protection to depositors' funds. For this purpose DFC holds annual inspections of HFCs. With the setting up of the NHB these regulatory functions have been taken over by it. It is felt that the NHB should exercise tighter controls on HFIs mainly to enforce financial discipline and to ensure public confidence in the system. Such a step could eventually help in building a sound base for secondary market activity, as well as in increasing the flow of resources into the housing sector.

The policy of the Government of India of directing credit of nationalised financial institutions towards high priority sectors (like agriculture, small industry, etc.), and away from sectors like housing has had an adverse effect on the magnitude of investment in housing. The banks charge high interest on non-priority lending mainly to overcome their profitability problems. Housing finance also suffers vis-a-vis such intermediaries as commercial banks, Unit Trust of India (UTI) and corporate deposits either because the latter can offer larger tax concessions and/or offer wide range of financial services at implicitly subsidised costs. The financial policy of the Government of India has been to sub-serve a number of its own needs by giving preference in credit allocation to priority sectors, setting interest rates high, fulfilling its own borrowing requirements at subsidised rates through high statutory reserve requirements for captive investors, increasing depositor institutions throughout rural India, providing high rates of loan reprieval to certain sectors of India's economy and supporting sick industries to keep up employment levels. The Governments' financial policy to meet its expenditure through borrowings from the RBI has also perhaps contributed to an average inflation rate of just around 10 per cent during the last decade.

All these financial policies appear to have created profitability problems for the intermediaries. The banking system is therefore constrained to penalise depositors by giving them low or negative real returns on deposits and subsidising borrowers such as the government. Households' access to finance has therefore been impaired by direct rationing and high nominal interest rates. It is not at all surprising that housing credit has accounted for only 2 per cent of total credit issued by financial Intermediaries and about 1 per cent of the value of the housing stock.

It is felt that if the Government of India, over the longer term, "follows an interest rate strategy that moves away from a tightly controlled regulatory structure to one in which the financial efficiency of financial resource allocation would begin to play a greater role, inflation would be easier to control and ultimately private housing finance should expand". In short-term however changing rate structure may pose serious problems.

NOTES

1. LIC has established a housing finance institution as its subsidiary.

2. This has mainly confined its activities in the South, although they have a branch in Delhi.

3. Delhi Cooperative Housing Finance Society Limited, a Cooperative Housing Institution of Delhi has also raised small amounts as debentures under Government Guarantee.

4. HDFC has also provided bridge loans to individuals with a view to enabling them to buy new houses before they dispose off the old one. This encourages filtering up.

5. HDFC Limited ..th Annual Report, 1987-88.

6. Rural Banks for Rural Poor: Analysis of the working of Regional Rural Banks in India - Charan D. Wadhwa - The Macmillan Company of India Limited, 1980.

7. As we show later, cooperative sector can be effectively used to subserve the finance needs, of the poor.

8. Details of these experiments are outlined later in a section on case studies.

9. HDFC has, through local level networks, attempted to provide funds for housing for the low income/unorganised households. Very little is however known, as to their success in cost recovery.

TABLE 5.1

Various Existing and Proposed Housing Finance Institutions

Existing Housing Finance Institutions

	Institution	Head Office Location in India
1.	Housing Development Finance Corporation Ltd.	Bombay
2.	Gujarat Rural Housing Finance Corporation Ltd. (GRUH)	Ahmedabad
3.	Housing Promotion & Finance Corporation Ltd. (HPFC)	Calcutta
4.	Can Fin Homes Ltd.	Bangalore

Proposed Housing Finance Institutions

Promoted by:

1.	General Insurance Corporation of India (Subsidiary)	Bombay
2.	Life Insurance Corporation of India (Subsidiary)	Bombay
3.	Bank of India	Bombay
4.	Central Bank of India	Bhopal
5.	Punjab National Bank (PNB) Housing Finance Ltd.	New Delhi
6.	United Commercial Bank (for rural housing)	Orissa
7.	UP Rural Housing Finance Corporation Ltd. (for rural housing)	Uttar Pradesh

Note: There are about 40 other minor housing finance institutions spread throughout India.

TABLE 5.2

Inter-Institutional Flows : 1987-88

(Rs million)

		Total	To State agencies	To Institutions	To Individuals
1.	Government - Central and State	5,292.2			
	Provident Funds (PFO)	3,182.4			3,182.4
	TOTAL				3,182.4
2.	HUDCO	4,380.0	4,380.0		
3.	Financial Institutions				
	Scheduled Commercial Banks	2,372.1	1,510.2	661.1	200.8
	LIC	3,192.3	903.3	1,311.1	977.9
	GIC	550.0	550.0		
	Unit Trust of India	406.9	406.9		
	TOTAL	6521.3	3370.4	1972.2	1178.7
4.	Specialised Housing Finance Institutions				
	Cooperative Housing Societies	3,250.0			3,250.0
	Housing Finance Companies	2,543.1	483.6		2,059.5
	TOTAL	5,793.1	483.6		5,309.5
5.	TOTAL of 2, 3 & 4	16,694.4	8,234.0	1,972.2	6,488.2

Source: Report of the Sub-Group on Housing Finance Eighth Five Year Plan.

TABLE 5.3

Number of Branches of Various Banks

	Type of Banks	Number of Branches
1.	Commercial Banks	[illegible]
2.	Primary (Urban Cooperative Banks)	[illegible]
3.	Regional Rural Banks	13,[illegible]
4.	Revised PACs (including Lamps & FSS) (Primary Agriculture Credit Coops.)	91,927
5.	Primary Cooperative Banks	1,009
	TOTAL	1,63,942

TABLE 5.4

Revised Norms of HUDCO Financing for Various Housing Schemes

No.	Category	Ceiling cost (Rs)	Extent of financing (per cent)	Net interest rate (per cent) per annum	Repay perio (Year
1.	Economically Weaker Sections (EWS) with a household income up to Rs 700				
a.	EWS- (Sites and Services)				
i)	Sites and Services (excluding raw land)	6,000	[illegible]	5	22
ii)	Housing schemes in areas affected by natural calamities new scheme)	6,000	[illegible]	5	22
b.	EWS-II (Urban)				
	Built Housing unit	15,000	[illegible]	7	22
c.	Slum Upgradation				
	Environment Improvement	2,000	50	6	20
d.	Loans for upgradation of slums as well as housing in inner city areas	3,000	Full	6	20
2.	Low Income Groups (LIG) with a household income between Rs 701 to Rs 1,500 p.m.				
a.	LIG-I	20,000	85	8.5	15
b.	LIG-II	30,000	85	9.0	15
3.	Middle Income Group (MIG) with a household income between Rs 1,501 to Rs 2,500 p.m.				
a.	MIG-I	60,000	75	11	15
b.	MIG-II	1,00,000	75	12.5	15

TABLE 5.5

Summary of Loan Terms for Surveyed HFIs

	Private: Dewan	RHF	DHFD	Joint GRUH	CANFIN	HDFC
1. Interest Rates	<Rs 20,000 13.5% Rs 20,000-35,000 15% Rs 35,000-80,000 16% >Rs 80,000 16.5%	<Rs 20,000 12.5% Rs 20,000-50,000 13.5% Rs 50,000-1,00,000 14.5% Rs 1,00,000-1,50,000 15.5% >Rs 1,50,000 16.5%	Large shareholders 14% Large depositors 14.5% General public 15%	<Rs 25,000 12% >Rs 25,000 13%	<Rs 20,000 12.5% Rs 20,000-50,000 13.5% Rs 50,000 1,00,000 14% >Rs 1,00,000 14.5%	<Rs 20,000 12.5% Rs 20,000-50,000 13.5% Rs 50,000-1,00,000 14% Rs 1,00,000 14.5%
2. Maturities	7-12 years	7-15 years	5-15 years	5-20 years	15-20 years	5-15 years
3. Maximum Loan/Value Ratio	70 per cent	70 per cent	70 per cent	80 per cent	75 per cent 70 per cent for savers	70 per cent
4. Payment	30 per cent of net	30 per cent of net	40 per cent of gross	25 per cent of gross	30 per cent of gross or 50 per cent of net	30 per cent of net
5. Average Loan Size Sanctioned	Rs 44,000	Rs 1,00,000	Rs 97,000	Rs 37,000	Rs 55,000	Rs 52,000
6. "Normal" Loan Size	Rs 7,500-1,65,000	Rs 20,000-2,00,000	Rs 10,000-1,00,000	<Rs 75,000	Rs 10,000-1,00,000	Rs 7,000-1,00,000

TABLE 5.6

Proposed Institutional Flows Into the Housing Sector

(Rs crore)

		Existing pattern	Proposed pattern
1.	Scheduled Commercial Banks	[illegible]	3010
2.	LIC	[illegible]	4450
3.	GIC		500
4.	Housing Finance Institutions	3060	3730
5.	Provident Funds (Debt Instruments)	-	975
6.	Home Loan Account	-	1000
	Sub-Total	9505	13665
7.	Provident Fund to Individuals	2925	2925
8.	TOTAL	12430	16590
9.	Of which Private Sector (90 per cent)	87435	87435
10.	Share of Formal Sector including PF in Total Investment	13%	19%

APPENDIX I

MOBILISATION OF FUNDS

In the context of housing finance a critical issue is the question of mobilising additional resources specifically for the housing sector, as also to enhance the capability of the existing housing system to reach those households who are at present unable to gain access to it. In this appendix an effort is made to briefly discuss the problem of additional resource mobilisation. We have, it must be mentioned, not touched upon the issue of using `black money´ for housing the weaker sections of the society, recently raised in Union Finance Minister´s Budget speech (March, 1990). We have also not discussed the implications of the recent guidelines issued by the National Housing Bank, especially the restrictions placed on accepting deposits by the HFIs on the resource mobilisation strategies of the HFIs.

While efforts at mobilisation of small savings have borne fruit, potential for additional savings exists in the informal sector as per studies of the Society for Development Studies and the Report of "All India Savings and Deposits Trends and Patterns" by the National Institute of Bank Management. It is however yet to be seen as to which is the most efficient and cheaper way of resource mobilisation. Capital markets represent one end of the sophisticated monetary sector. Informal savings instruments like Chit Funds and petty loans from friends, relatives and money lender represent the other end. In an economy like India where capital markets are generally tight and regulated, funds mobilisation on any significant scale for low income housing may not as yet appear a very viable proposition.

However, the banking sector, which is regulated by Reserve Bank of India directives, ensures that about 38 per cent of the commercial bank deposits are kept by them under RBI directive of Statutory Liquidity Ratio (SLR). With bank deposits exceeding Rs 1.5 lakh crores, 38 per cent of this would compulsorily go in for low interest government bonds/debentures under RBI directives. The government and the public sector use this as a source of their own funding. HUDCO, which is the main arm of the government for low income housing finance and has committed to finance/construction of 3 million units so far, has raised Rs [illegible]0.89 crores through such government guaranteed debentures. H[illegible] and the cooperative sector have scarcely utilised this source. With the coming of NHB, it is felt that tapping this source would perhaps become easier.

Recently NHB has launched a new financing scheme called the Home Loan Account Scheme (HLAS) for mobilising savings and providing loans. Given its structure, it is hoped that the scheme will be able to integrate the poor and the informal sector with formal sector financing. The main features of the Home Loan Account Scheme are that it is a contractual savings scheme for a minimum period of 5 years (now 3 years) with no age bar, operable at any scheduled commercial bank in India with an interest rate of 10 per cent, payable quarterly, half-yearly or in annual instalments with Rs 90, Rs 180 or Rs 360 as minimum respectively. The investments made in scheme would qualify under Section 88 of the Income Tax Act and would therefore be tax deductible. Under Section 5 of the Wealth Tax, the accumulated savings with interest will be exempt, subject to the overall ceiling of Rs 5 lakhs. There are many finer details of the scheme which need not be elaborated. However, it may be stated that the scheme offers a differential interest rate policy for loans upto Rs 50,000, Rs 50,000 to Rs 1 lakh, Rs 1 lakh to Rs 2 lakhs and Rs 2 lakhs to Rs 3 lakhs (maximum) subject to the following:

a) For built up accommodation upto 40 sq. metres or 430 sq. feet - 4 times the accumulated savings;

b) For built up accommodation upto 80 sq. metres or 860 sq. feet - 3 times the accumulated savings; and

c) For built up accommodation above 80 sq. metres or 860 sq. feet - 2 times the accumulated savings.

The HLAS offers a contractual savings with income tax exemption. Table A.I.1 shows the monthly savings required to get a loan after 5 years and the total loan plus savings that would be available.

It would be seen from the table mentioned above that for the higher income group, where the size of land is in C category, the loan availability is low. This would either induce the higher income groups to look for loans elsewhere or go in for smaller housing. Since, they are unlikely to go in for smaller housing, they may not find this scheme all that attractive. This may be compared with the public sector banks scheme as in the Table A.I.2.

One major problem with NHB scheme is that there has been no attempt at simplifying procedures regarding grant of loans. The linkage with the informal sector at the time of loan disbursement remains a weak link. For the small man meeting all the formalities required of a large institution to obtain a housing loan may not be easy. To that extent this scheme has done little to make the loan easily accessible.

Resource Mobilisation

One of the important characteristics of the Indian economy since nationalisation of banks in 1969 has been the deepening of the economy. As the commercial nationalised banks were made to go into rural areas under governmental directives, one of the features which emerged was that there was an increasing acceptance of the banks as a solid, dependable instrument of savings. With 57,000 branches of public sector banks operating in the country and over 40,000 of these in the rural or semi-rural areas, the bank deposits have multiplied several times. In order to penetrate deeper and meet the requirements of lower income households an experiment in Regional Rural Banks with 13,350 branches has been experimented with in various parts of the country with mixed results. They have also mobilised Rs 2,307 crores with nearly 231 lakh accounts. However, the success of Regional Rural Banks has been limited as a large number of them have become uneconomic. Of late, there has been some decrease in the growth of the deposit mobilisation by the banking sector. This is partly due to the fact that the aggregate domestic savings have been steadily declining, despite a record increase in output in 1988-89. Also, this is partly the result of some kind of a tendency in disintermediation due to the increase in the size of capital markets and partly due to the availability of more attractive tax savings instruments like UTI, NSC, Jeevan Dhara, etc. However, there is a persistent effort by the government to keep up the momentum of the overall savings effort and has targeted a savings rate of 23.7 per cent for the current year. Since bulk of the savings are from household sector with emphasis on financial savings, more innovative measures need to be evolved to keep the interest of households [illegible] increased consumption, especially when consumerism is on the rise in India. The National Institute of Bank Management, in a recent all India survey, has revealed that there are still "untapped sectors" in the economy - especially the rural, uneducated households' sector where the banks have not been able to adequately penetrate. This study has also shown that banking habit and bank deposits are largely availed of by the literate population (94 per cent for urban and 86 per cent for rural). This leaves a very large segment of potential depositors outside the banking system. The extensive use of forms and documents, etc., has kept away a large population from formal sector financial institutions. This it is surprising that a vast majority of bank savers are either professionals or service workers (85 per cent in urban and 65 per cent in rural) whereas less than 10 per cent are production related workers. In rural areas only 21 per cent of bank savers are agriculturist and this figure is only 8 per cent in the North East Zone. Youth, which because of economic compulsion is engaged in some kind of work rather than attending school, is also a potential saver.

Based on the report of the IBA it appears that while the spread of commercial banks in rural areas has been commendable, their penetration into the rural society has been limited. Further, there is a clear line cutting across the line of literacy. It appears as if the illiterate have apprehensions about the banks perhaps due to their inability to read or write. Innovative methods to attract the uneducated need to be adopted.

Another important institution for mobilisation of savings is the Post Office. The growth of Post Offices in India has also been quite commendable. From 36,000 units in 1950-51, they stand in 1986-87 at 1,44,000 units in 1986-87 of which

1,28,000 units were in rural areas and 16,000 in urban areas. All the 1,44,000 Post Offices provide savings bank services in the form of small savings, Public Provident Fund and Postal Life Insurance. The deposit mobilisation schemes like CTD and others do attract a very large segment of society. The number of depositors has increased from 40,90,000 in 1950-51 to 4,21,96,000 and deposits have gone up from Rs 1,850 crores in 1950-51 to Rs 27,150 crores in 1986-87. While bank deposits stand at a much larger amount of Rs 1-5 crores, the postal savings at Rs 27,000 crores is also very impressive as this generally represents the savings of the poorer section of the population.

Two other savings institutions which have penetrated the rural sector and the poorer sections of the society are the LIC and UTI. The LIC has made efforts to extend its group insurance schemes to economically weaker and vulnerable sections like landless agricultural labourers, IRDP beneficiaries, handloom weavers, cooperative milk producers, masons, carpenters, artisans, etc. For the year 1987-88 LIC insured 34.23 lakhs individuals for the 1st time for Rs 8,555.65 crores as against 27.7 lakhs individuals for Rs 6,155 crores during the preceding year. New business in rural areas covered 18.28 lakhs policies amounting to Rs 3,996 crores as against 14.82 lakhs policies covering Rs 2,916.04 crores during the preceding year. However, even in so far as the rural population is concerned, it is not known as to what extent LIC has covered the low income groups in their individual policies. The LIC has however, made some break through under the Group Insurance Scheme. Group Insurance, which is largely popular in organised sector transacted business of Rs 13,821.50 crores during 1987-88 covering 1,16,91,918 lives as against Rs 10,850.50 crores in the preceding year covering 95,30,861 lives. Under this scheme a Group Insurance Scheme for

Landless Agricultural Labourers was introduced with effect from 15th August, 1987 for a uniform cover of Rs 1,000 per member covering an estimated number of 3 crores members. The premium under this scheme is paid for by the Government and hence their is no element of mobilisation of savings While LIC has yet to penetrate into rural and urban poor, it has made some progress through the Group Insurance Scheme. However, from the point of view of resource mobilisation, individual policies do have their place. In t'is connection it may be pointed out that LIC has a network of 2,57,959 agents as on 31st March, 1988 out of which 2,39,832 were active. Under Career Agents Scheme during the year 1987-88, 2,032 rural career trainees were oriented bringing their number to 4,394. Perhaps, LIC still required a great deal of effort to put amongst the rural and urban poor.

It is generally agreed that there is some savings capacity of the poor, both in rural and urban areas. However, due to lack of appropriate savings and collection instruments, this capacity generally goes waste or goes into informal channels. The existing savings instruments and collection methods are unable to tap this savings potential. While the quantum of this savings potential per individual household may not be much, collectively it could be fairly large. New savings instruments and collection mechanism need to be evolved which will not involve much formal form filling and could be collected on a daily or very frequent basis. For example, lottery tickets of the value of Re 1/- in India sell very well. The whole economics of lottery system has yet to be properly studied. However, this could also be tied up with the savings instrument and made into an instrument to mop up the savings potential of the poor.

COLLATERAL ISSUES

The myth of mortgage as a good and sufficient collateral in the Indian legal environment: The Indian financial framework considers mortgage financing for housing as one of the best collaterals. The use of Equitable or English Mortgage is considered a necessary condition for all housing finance agencies belonging to the formal sector. However, the legal system in India has developed a cumbersome and slow process besides being overloaded with cases. As a result, a civil suit for foreclosure can easily extend upto ten years or more. The convention or adjournments, due to a large number of reasons, which would normally be rejected in a western country court, are easily accepted in India. Besides this, due to overloading of cases, dates for hearings are kept at long intervals. Besides this, the existing Rent Control Acts also offer tenants protection, and foreclosure becomes a major hurdle which no financial institution can easily accept as a simple alternative to a bad debt. Generally speaking, legal proceedings are not considered a wise option and monitoring of long legal proceedings builds up many costs making these proceedings expensive. In fact mortgage and foreclosure proceedings are more in the nature of a deterrent and are usually initiated to avoid frequent defaults.

Besides mortgage, commercial banks in India also find use of other collaterals equally disappointing as the process of justice is far too slow and unremunerative for them to take recourse to. Apart from the fact that the process is slow, case law has made certain precedents which makes foreclosure even more difficult. Since all mortgages must necessarily be foreclosed through a judicial process, it can take anywhere between 8 years to 15 years in obtaining a foreclosure decree and getting it enforced. This long delay in itself makes a mockery of the mortgage issue to be considered as a collateral of any quality. A multitude of appeals, adjournments problems of enforcement and conducting the foreclosure sale are the some major causes for the delay.

There has been some talk on the issue of providing an alternative to the existing legal system of foreclosure. The existing Transfer of Property Act, 1882 (as amended upto 1929) follows an ancient English Mortgage Law which is no more relevant in the Indian conditions. It needs to be replaced by a modern law and a new system to bring about a fast and inexpensive procedure to implement a foreclosure decree. A mention at this stage may be made of the powers of District Collectors under various Land Revenue Acts of State governments to collect the "Arrears of Land Revenue". The District Collectors were traditionally invested with wide and sweeping powers to collect the land revenue which included imprisonment and foreclosure. The Banking Sector has, of late, got arrears of bank loans and under Financial Corporation Act (63 of 1951), the arrears of such financial corporations recoverable as arrears of land revenue'. This is done by requesting the official charged with collection of arrears of land revenues to also collect this debt.

Under the Arrears of Land Revenue' the Collector of a District has wide powers of recovery, arrest and foreclosure. In many States bank dues and cooperative dues are now treated as arrears of land revenue and therefore, it is presumed that the recovery has improved. It is, however, felt that in an atmosphere which is politically charged and against payment of loans, even this method suffers as it is subject to pulls and pressures of grass root politics. The Cooperative Acts of various States do provide their own system of arbitration, recovery and foreclosure which bypass the lower courts. However, appeals to High Court is possible and this can easily delay the process. It would, perhaps, be better if an appellate system replacing the High Court is also provided within the Cooperative Acts.

Some non-legal measures have been suggested to ensure better recoveries. First, to allow rebate on timely payment rather than penal interest on delayed payment. This psychological tool helps quicker recovery. Second, as is done in Tamil Nadu under the State Cooperative Act, is to publish the names of defaulters in the Newspapers. Third, is the issue of warrants against defaulters for recovery of dues as is done wide Punjab Cooperative Societies Act under Section 67A.

The National Housing Bank has proposed an amendment to their Act to incorporate the setting up of Tribunals for purposes of quick disposal of cases of default of housing loans given by it or one of its affiliated institutions. These Tribunals would bypass the Courts and appeal would lie only in the Supreme Court of India. The draft NHB Act would provide alternative enforcement mechanism for simple defaults based on failure to pay an instalment when due. Where there has been a default Section 36C would permit eligible HFIs to take possession and sell it free and clear of encumbrances to satisfy the debt. Section 36G permits HFIs to refer the matter to the District Collector to collect the amount as arrears of land revenue. The proposed amendments thus allow:

(i) Summary possession and sale;

(ii) Judicial procedure to enforce wide range of covenants in addition to simple monetary defaults; and

(iii) Recovery as arrears of land revenue.

There has also been a proposal by the General Insurance Corporation of India to introduce Mortgage Insurance. However, GIC purposes to introduce group mortgage insurance selectively after qualifying a Housing Finance Institution as acceptable. While the premium charged would be about 1.5 per cent, the foreclosure procedure appears to lean heavily on the HFI to initiate the proceedings. Further, the insurance would be only upto 80 per cent of the default with the approved housing finance institution bearing 20 per cent share of the risk. The foreclosure proceedings would be taken up jointly with the HFI. Such a proposal, though welcome, is unlikely to allow the low income groups as eligible as the GIC is going to be strict in approving HFIs.

Housing Development Finance Corporation Limited (HDFC) a proper western model based Housing Finance Institution, has on one hand, kept the provision for a proper mortgage in its loan terms, it has, except in exceptional cases never had the occasion to initiate foreclosure proceedings against any borrower so far. This is so because in its range of collaterals, it ensures a smooth recovery system. This is done by providing loans only to persons in formal sector employment with a fixed income. This method has obviated a lengthy foreclosure proceedings which it can ill afford both in terms of time and money. It would be worthwhile mentioning at this stage that HDFC and its affiliate Gujarat Rural Housing Corporation has made attempts to go down the income ladder and experiment with group loans to low paid formal sector workers like plantation workers. With formal sector comprising of nearly 30 million individuals representing a population of 165 million, this coverage constitutes about 20.6 per cent of the population. This population can be easily provided with housing loans without proper mortgage. The issue of an acceptable collateral to the balance, including land owners, then is the main issue within the Indian system.

The World Bank's Staff Appraisal Report - India for HDFC Project in February, 1988 has also pointed out "Current Mortgage Law makes foreclosure extremely difficult, time consuming and expensive. The potentially high cost of default forces lenders to exact high down payments, which is a major deterrent to housing finance for lower-income groups. Mortgage Insurance, if supported by changes in foreclosure laws, may be the best instrument to bear and spread the credit risk. However, it would be effective if it were market-priced according to the actual risk of defaults for each institution and not coercive at a uniform rate".

Issues Concerning Rates of Interest, Bad Debt Fund and Group Collaterals Other Than Mortgage

We have seen that foreclosure proceedings in India are cumbersome and time consuming. The National Housing Bank and the General Insurance Corporation have both proposed tribunal system to short circuit the lower courts. HDFC has also found that it is prudent to give loans only to persons whose income is secure and can be attached. The informal sector low income households automatically get left out of the existing housing finance system. Traditionally in the western country context housing finance systems have developed the concept of mortgage banking. However, with the developing economies a dichotomy of a modern organised sector and an informal sector has come up Further, in the rural areas, with intense pressures on hand, a large army of landless households have also come up. Although over 8 million small plots are reported to have been distributed so far all over the country to the rural landless, and a large number of slums upgraded no back-up mechanism to provide secured loan for purposes of upgradation has been made out. In this scenario, and as brought out earlier regarding the futility of foreclosure proceedings, new concept of acceptable mortgage appears an essential condition within the Indian socio-economic reality.

In the issue of collateral of new types for the low income groups, it may be pointed out that there are many success stories the World over especially with regard to micro producers of informal sector. The Grameen Bank of Bangladesh is perhaps the most successful story where over 4,00,000 low-income borrowers (of which 80 per cent are women) have successfully borrowed and repaid. The repayment record is about 98 per cent. However, there was no security, or collateral. The main reason for timely and full repayment, amongst other reasons, was the formation of groups of 5 or 6 who applied for a loan and were collectively responsible for its repayment. For housing loans the practice of depositing money for some months before the loan builds up the practice of thrift. According to Robert Mizrahi*, an economist at

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* The Urban Edge, Vol. 13 No. 1, January/February 1989

Inter-American Development Bank (IDB) the importance of groups formation of micro-producers cannot be undermined from his experience of South America. He adds that larger associations of 100 or morel, which are difficult to develop, could have clout, when dealing with government or other institutions. However, the importance of such groups is not the clout that it has, but its credit rating and loan recovery system which meets the requirement of formal sector. While the Grameen Bank of Bangladesh has small groups of about 5 persons, it has centres consisting of 5-10 groups. It is these groups which can become viable units for taking loans administering it, and collecting repayments from small low income households where formal sector institutions would neither find it economical to enter nor possible to recover in default. These groups are generally given "stepped up credit", which reduces the heavy expense of checking peoples credit records and how they intend to use the funds. Further, a micro producer is initially given a small loan, which if repaid on time, permits a larger loan and so forth. Such practice is going on a Bangladesh and Dominican Republic. Stepped up credit also reduces the risk and therefore, collateral is not insisted upon. In fact, the group pressure becomes the collateral because when the defaults are high the group suffers as loans dry up for them.

INTER-INSTITUTIONAL FLOW OF FUNDS INTO HOUSING SECTOR

An exercise for years 1980-81 to 1984-85 was carried out by the National Institute of Public Finance and Policy to study the net flows of funds into the housing from formal sector institutions. Some very revealing results emerged in regard to the relationship between gross institutional finance and the net funds going into housing. The following summary tabulations provide an idea of the gross and net flows.

Institutional Flows

(In crore of rupees)

Year	Total outstanding housing advances		Per Cent
	Gross	Net*	
1980-81	2998	1264	42
1981-82	3644	1689	46
1982-83	5474	2721	50
1983-84	6676	3331	52
1984-85	7180	3823	53

Note: * These figures have been obtained after netting out inter-institutional flows.

From the above table we find that the net funds eventually flowing into housing is about half of the gross institutional housing advances. Thus if we assume that at present the outstanding housing advances from formal sector is around Rs 12,000 crores, clearly, the net contribution of the formal sector is about Rs 6,000 crores. Thus in any exercise in regard to working out the funds flow from various financial institutions, this aspect must be kept in mind. To this extent, various estimates of institutional funds envisaged in the plan period need to be modified.

Another exercise related to working out the average cost of institutional funds. Our computation show this to be a little over 10 per cent per annum. If we assume the market rate of interest to be around 16 per cent per annum, an interest subsidy of 6 per cent per annum is indicated. If we take only the net outstanding advances for housing, which say at present is Rs 6,000 crores, then the interest subsidy works out to be close to Rs 360 crores per annum.

In the context of housing finance for the poor these calculations can be quite instructive, in the sense whether a policy of interest subsidy is desirable, and if yes the extent to which this can be practiced. Our own tentative views on the matter are that if housing funds are advanced at market or close - to market rates of interest, one can use the funds so saved for meeting the requirements of low income households - either through direct house construction, or through development of infrastructure, eventually leading to increase in the supply of developed land, or else building up a finance agency for the housing needs of the LIG/EWS housing.

TABLE A. I. 1

HLAS Savings Scheme Monthly Instalments

Savings per month (rupees)	Approximately savings after 5 years (including interest)		Loan available for a, b & c type of construction	Accumulated savings (with interest plus loan
30	2,300	4 a	9,200	11,[illegible]0
		3 b	6,900	9,[illegible]0
		2 c	4,600	6,[illegible]0
50	3,900	a	15,600	19,[illegible]0
		b	11,700	15,[illegible]0
		c	7,800	11,700
100	7,700	a	30,800	38,500
		b	23,100	30,800
		c	15,400	23,100
500	38,600	a	1,54,400	1,93,000
		b	1,15,800	1,54,400
		c	77,200	1,15,800
1000	77,200	a	3,08,800	3,86,000
		b	2,31,600	3,08,800
		c	1,54,400	2,31,600
2000	1,54,500	a	6,18,000	7,72,500
		b	4,63,500	6,18,000
		c	3,09,000	4,63,500

Note: (a), (b) & (c) refer to size of built up accommodation as given at page 120.

TABLE A. I. 2

Loan Terms of NHB, Banks and HUDCO

		Public Sector Banks		HLAS	HUDCO
		Percentage personal contribution	Interest rate	Loan interest	
1.	For SC/ST to Rs 5,000	20 per cent	4	10.5	5% to 14%
2.	SC/ST between Rs 5,000-20,000 and for all upto Rs 20,000	20 per cent	12.5	10.5	
3.	Between Rs 20,000-Rs 50,000	25 per cent	13.5	10.5	
4.	Between Rs 50,000-Rs 1 lakh	30 per cent	14.0	12.0	
5.	Between Rs 1 lakh-Rs 2 lakhs	35 per cent	15.0	13.5	
6.	Between Rs 2 lakhs-Rs 3 lakhs	35 per cent	16.0	14.5	

CHAPTER VI

CASE STUDIES

6.1 Introduction

Chapter III presented a broad profile of the urban poor in terms of their income, consumption, asset status, indebtedness and savings providing us with some basic idea about their savings potential and affordability levels. However, this description did not give us enough clues as to how these households met their shelter requirements. To fill this gap, this chapter is devoted to documenting some of the principal experiences of shelter programmes having bearing on issues in financing shelter needs of the poor. To begin with it may be pointed out that there is hardly any systematic study available on the working of informal housing in India. A number of studies relating to small pockets are however available, but no critical evaluation of these is available. Moreover, their focus has been mostly on costs of construction and upgradation. Besides such studies, when undertaken, would be beset with some difficult conceptual problems. One such difficulty is imputing the value of building materials which are not paid for. These building materials are either collected from sites where construction is under way or mud and stones lying around. Also a large part of labour input consists of own labour whose market price is difficult to impute. Further, even financial input is not always easy to estimate since own current earnings constitute an important component of housing finance - part of it is of course being used for repayment of short-term bridge loans taken from friends and relatives

Another problem is the difficult, in identifying programmes which are aimed at financing the housing for the poor through the formal financial system in the country. There are, however, schemes initiated by the government for providing housing loans to the poor and other economically and socially disadvantaged groups largely as constitutional obligation and to bring about some equity in the provision of housing. These schemes are operated either through the State Housing Boards or through commercial banks. Many of these schemes are of suspect success. Outside the government, there are certain voluntary agencies which have tried to cater on a limited to housing needs of low income households. It is difficult to say much about the replicability possibilities of these experiments partly because of the fact that these experiments have not grown. Some idea about the working of these programmes is however likely to provide us with insights into the problems which housing finance agencies would be confronted with in providing finances to the poor. Briefly, these concern not merely their low earnings people, but also the uncertain nature of earnings both in terms of its magnitude and time pattern. Providing collateral security is yet another major problem. Many a times, it is difficult to ascertain the correct addresses of the likely beneficiaries. Therefore to overcome these problems ways have been devised to deal with these problems. One solution has been to deal with these through the cooperatives. SEWA experiment in this context needs a mention. This has been discussed in detail. Also where the NGOs have already been working in slums/squatter settlements, it has been possible to sort out these problems to an extent, although no financial institution is willing to advance loans without financial guarantees to the poor, individually. The NGOs are clearly not in a position to furnish such financial guarantees. It would be interesting to cite the experience of the Delhi Catholic Archdiocese (DCA) in financing the housing of the low income groups. Chit Funds, Nidhis and Vishis are the other institutions through which housing operations are financed, but these are generally confined to persons who have regular incomes, and who would deposit or participate regularly in deposit mobilisation operations. For example, a mere 10 per cent to 12 per cent of the funds of the Nidhis were used for housing loans.

We first describe in detail how a large housing development agency like the HUDCO is financing the housing of the economically weaker sections of the society through the Apex Housing Finance Cooperatives/State Housing Boards and the primary cooperatives. Then we describe the work of the SEWA, DCA and Nidhis. This is followed by a brief description of some non-formal financing institutions. An outline of the strategy being adopted by a newly launched programme called Punervaas is provided to demonstrate the likely strength of a multi-purpose cooperative in contributing to shelter finance for the low and middle income groups. A number of interesting experiments at innovative housing finance are being carried out in a number of developing countries. Because of their relevance to India, we provide the findings of such experiments for two countries. Indonesia and Bangladesh

6.2 Case Study of Financial System Linking Apex Cooperative with Primary Cooperatives and with Financing Institutions like, LIC, HUDCO and HDFC

As has been mentioned earlier, the existing formal housing finance system in India provides barely 15 per cent of the finances required for housing. While the State Housing Authorities have made some effort at providing housing to LIHs, specially with the help of HUDCO loans, the resulting outcome of these efforts have had limited success from the view point of consumer satisfaction. The capacity of organised private sector builders for mass housing for middle and low income groups has not been tested[1]. This perhaps arises out of a conviction that the main motive of private sector builders is profit alone.

The only mass scale innovative credit system identified in India which not only provides credit but also encourages collective/self-help construction activities, with peoples participation is the cooperative movement. At present it has 0.7 million houses to its credit and another 0.7 million units under construction.

The cooperative housing credit movement is a three tier structure with Financing Agencies at the top and primary societies at the bottom (See Diagram 1). The State level Apex Housing Finance Cooperatives are not only full fledged financial institutions but are also cooperatives owned by their primary housing cooperatives. While they seek funds from National Level Financial Institutions some of them are also raising funds directly from the market through debentures and deposit mobilisation from its members

CASE A

FINANCIAL STRUCTURE FOR HOUSING COOPERATIV

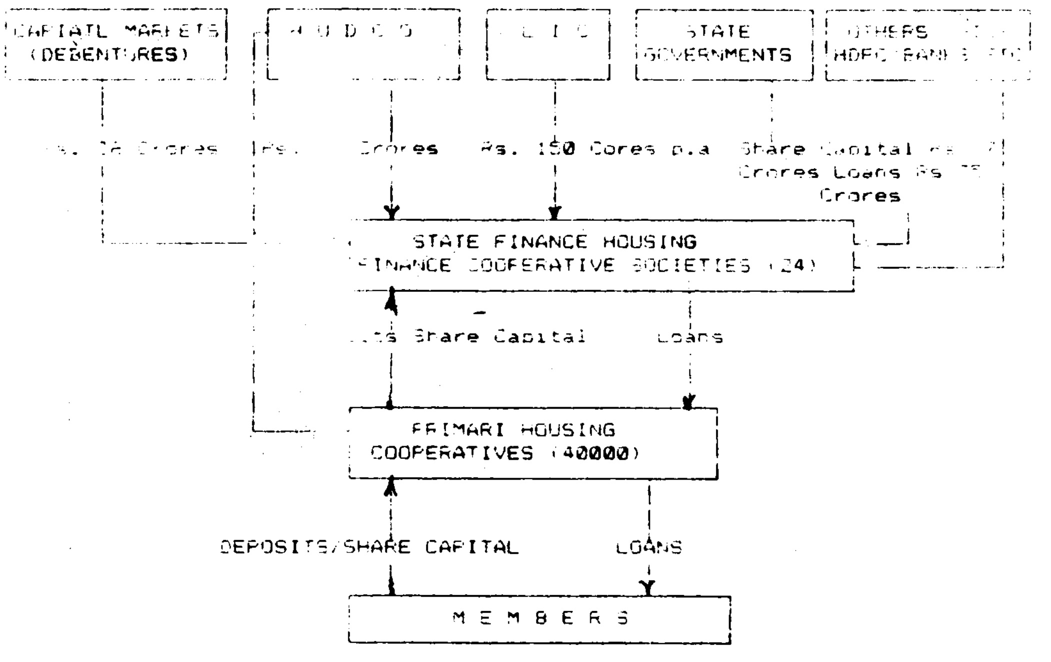


Diagram 6.1

The National Cooperative Housing Federation is a federation of the State Level Apex Societies and functions as a watch dog. It does not participate in the actual funding process. All States of India have their respective Cooperative Societies Acts. Most of the Acts except with minor variations are identical in nature. The main features of the Acts are that about 10 persons can together form a housing cooperative which then becomes a legal entity and can purchase and mortgage assets, and take loans. The Registrar Cooperative Societies is all powerful regulatory person and he is considered to be friend, philosopher and guide of the cooperative movement. The Registrar registers the society, issues directives, supersedes the management and is empowered to liquidate the society in case the situation demands. Significant aspect of the cooperative structure concerns recovery and foreclosure procedures. The Cooperative Act provides its own legal process of arbitration, recovery and foreclosure. The powers of arrest are also provided for with the recovery officers. Therefore, the cooperative structure can bypass the tardy legal process being followed in India at the lower Courts.

This three tier structure has many advantages over any other housing finance system. At the top level the financing agencies deal only with the State level institutions and are therefore, not dealing directly at retail level. Insofar as their funds are concerned, the problem of recovery is only with the State level institution. The financial institutions which finance the cooperative housing sector only as a marginal activity, do not usually finance the primaries directly since this entails recovery liability from them. (In many cases, however, the financial institutions have in the past financed directly the primary cooperatives and continue to do so even at present). It is, therefore, generally felt, especially by the LIC, that direct lending to primaries would not be in the best interest of the financial institutions. Lending directly to Apex Societies is preferred by financial institutions as Apex can invoke cooperative Act for expeditions recovery in case of defaults by the primaries. Clearly, the financial institutions are at a disadvantage since they have to take recourse to Courts which entails long delays. Indeed HUDCO initially funded the primary cooperatives directly but soon realised the likely legal problems in dealing directly with primaries. As a result it started financing through the Apex. As on 30th June, 1988 out of nearly 200 cooperatives which HUDCO financed (including some in rural areas), nearly Rs 62 crores out of Rs 120 crores were disbursed through the State Level Housing Finance Apex Cooperatives.

Commercial and Cooperative Banks have also been financing cooperatives. Insofar as cooperative banks are concerned, it is possible for them to finance directly the primaries as they can take recourse to the Cooperative Act structure for recovery. However, Commercial Banks face the same dilemma as HUDCO. In Maharashtra, Gujarat, Goa, Orissa and Tamil Nadu, Banks have provided Rs 86.55 crores upto 30.6.1988.

Realising the growing shortage of housing in rural areas, the cooperative housing structure has decided to enter the rural areas also. Already about 1000 Primary Cooperatives are working in the rural areas. The State of Tamil Nadu is leading in this respect with a standard house of 200 sq. feet at a ceiling cost of Rs 8,000. 50 per cent of this comes as a loan and Rs 2,000 as a grant from the State governments and the balance Rs 2,000 is beneficiaries' contribution. So far 2,48,950 houses have been constructed under Tamil Nadu Rural Housing Scheme.

In the overall context the cooperatives, HUDCO & HDFC have the following composition of housing based on income criteria:

	Cooperative	H U D C O	H D F C
LIG & EWS	59 per cent	89 per cent	45 per cent of dwelling units financed for people having per month household income below Rs 200
MIG	38 per cent)	11 per cent	
HIG	3 per cent)		
Total dwelling units constructed	0.7 million	3 04 million	0.25 million

One of the important features of the cooperative structure is its ability to reach lower income groups and to recover loans more efficiently through group effort. While HDFC finances lower income group households (mostly around the level of median income) having established regular flow of income (generally through their employer), HUDCO finances all but only under a Government or Bank Guarantee which it frequently enforces. The cooperative structure in contrast provides finances without the above two conditions and consequently able to reach the informal sector better. The group responsibility which it can build up to recover loans has important implication in the Indian context.

The cooperative structure also offers certain facilities like Group Insurance which covers repayment of the balance in case of premature death, and a general insurance cover to provide risk against fire, flood, and other natural calamities. The cooperative structure also offers development of peripheral/allied activities including loans to members for small businesses and setting up of cooperative consumer shops etc. Further, there is a mandatory audit of accounts to be carried out by the Registrar of Cooperative Societies to ensure that their accounts are in order.

6.3 Case Studies: Community-Based Housing Finance Systems : Role of NGO

We now present two case studies relating to financing of shelter of low income households, one of SEWA in which self-employed women have been organised into a cooperative, and the other of DCA, operating in a low income settlement. A common feature in the two studies is the part played by the NGOs in successfully implementing shelter finance schemes.

6.3.1 SEWA Bank: Under the guidance of Ms. Ela Bhat, a women's trade union called Self-Employed Women's Association (SEWA) was registered at Ahmedabad in 1972 with the purpose of improving the living conditions of poor women workers in the unorganised sector. By May, 1974 a separate cooperative bank was registered in Ahmedabad called Shri Mahila Sewa Sahkari Bank with initial membership of 4,000 women and present membership of about 11,000 (1987-88). The main features of SEWA Bank are as follows:

1. The membership of the bank is open only to poor women on payment of Rs 10 as share capital;

2. The purpose was to help women become financially independent and start their own economic activity; and

3. The Bank proposed to cut out a lot of red-tape and procedures to help illiterate women get small loans without difficulty. In view of the fact that many women could not even sign their names, their photographs are used for identification.

6.3.1.1 The Objectives of SEWA Bank are:

i) Providing facilities for savings and fixed deposits accounts, thus inculcating thrift in women, managing their savings and ensuring safe custody of cash the women receive as loans;

ii) Providing credit to further the productive, economic and income generating activities of the poor and self-employed;

iii) Extending technical and management assistance in production, storage, processing, designing and sale of goods and services;

iv) Providing facilities to rescue their jewellery from pawn brokers and the money lenders; and

v) Adopting procedures and designing schemes suitable to self-employed women like collecting daily savings from their place of business or home or providing savings boxes and giving training in banking procedures.

SEWA also provides legal and productivity training, education, maternity, protection, social security and creche facilities.

From 1974-75 to 1987-88 the number of shareholders went up from 6,000 to 11,000, and depositors from 6,000 to 23,000. The deposits rose from Rs 2.43 lakhs to Rs 112.33 lakhs and profits from Rs 30,000 to Rs 3.7 lakhs. SEWA Bank has an office staff of

22 besides field staff which helps mobilising savings and open new accounts. It started a unique system of identification card with a photograph of the member and account number written and not the signature as is usual in the banking system. Initially loans were made by SEWA after taking money from nationalised banks. However, since 1976 SEWA has been able to build up its own corpus of deposits and is now able to meet the loan obligations out of its deposits. Loans are generally advanced at 12 per cent to 16.5 per cent per annum with repayment in 36 monthly instalments. There is close supervision with field staff visiting borrowers regularly to remind them of their repayment obligations.

The result of SEWA lending policies has been that it has broken the vicious circle of indebtedness and dependence on middlemen and traders. It has also provided the much needed infrastructure to serve the poor women.

6.3.1.2 Housing: Upto 1987-88 SEWA Bank had lent about Rs 75 lakhs for housing related purpose to about 1,085 beneficiaries. This was almost 41 per cent of the total loan disbursements by the bank. Of the loans for housing about 50 per cent were for upgradation (Tables 6.1 and 6.2). The upgradation relates to changes in the structure, addition of rooms, addition of services and rooms for house based production. House purchase loans are given for both outright purchase as well as bridge capital. An interesting feature worth mentioning is that the loans are also given to pay back private debts on housing.

6.3.1.3 Mortgage: Unlike other housing related loans, SEWA loans are generally not based on property mortgage. It is also important to emphasise that the bank does not worry about property details in terms of its legality as long as there is a house. This suggests channelising financial assistance without legal ownership or lease for the concerned property as foreclosure proceedings, especially in case of poor would be extremely difficult in Indian situation. Housing loans are given on guarantees by at least 2 persons (having regular and secured jobs) and jewellery is also accepted as a collateral. The jewellery is kept with the bank. The bank officials feel that it is not very difficult for the applicants to find collateral or guarantors. The emphasis is, however on the potential repayment capacity of the borrower.

One of the features of housing loans by SEWA Bank is that since it is already in the normal banking business of the same group of people, it is somewhat easier to assess the background of the applicant. This is also reflected in the relatively good record of loan recovery which is around 90 per cent for housing. In fact of the total overdues, only 20 per cent is for housing loans.

The major differences from conventional finance, especially housing finance, institutions relate to the rapport that the staff has with the low income groups. The bank also provides additional support services to make the credit viable. This includes assistance in filling the forms, obtaining the required documents, support in hiring professional services when necessary as well as help to assess the right amount. Importantly, the costs of these services are covered in the interest charges and are not subsidized at all which keeps the entire operation economically viable and profitable. Table 6.3 brings out an interesting comparison of the public sector banks with SEWA Bank. This clearly demonstrates the superior performance of SEWA Bank not only at user level but also in terms of various ratios like profit to deposit, profit to loan, etc. It also shows how a cooperative bank for the poor only can also run even more efficiently than a normal schedule bank with all its infrastructure and institutional support.

It is interesting to note that SEWA was set up initially as a lending institution for small works and not for housing loans. It had thus tested the credit-worthiness of its members. This however raises the question whether we should go in for direct housing loans or in the first instance go in for loans for economic activity as the latter creates the capacity for repayment. SEWA Bank has done away with red-tape and cumbersome paper work. The procedural simplification has made the scheme more accessible to the illiterate, poorer sections of the society.

SEWA experiment brings out clearly the advantages of a thrift and credit movement as an important input into the housing movement for the poor. It underlines the need for inculcating the habit of regular savings on a daily/weekly basis keeping in mind the low magnitude and irregular nature of earnings. Such a step will also help in building up a story collection system. Another useful lesson for emulation is the use of photographs of the beneficiaries.

6.3.2 Delhi Catholic Archidiocesce (DCA): The efforts made by public finance agencies to generate resources (financial human and technical) to provide enough shelter to low income people, have more often than not resulted in either affordability or insufficient units syndrome. It's role in the proliferation of informal housing options, viz., slums and squatter settlements, is yet to penetrate and make an impact. In such a scenario, the personalised presence and dynamic approach of NGOs is like a breath of fresh air.

Delhi Catholic Archidiocesce (DCA), a registered body under Societies Registration Act was established in 1959. Its area of work comprises the Union Territory of Delhi and the districts of Gurgaon, Faridabad, Mahendragarh, Rohtak and Sonepat of Haryana State. The Memorandum of Association of DCA covers a gamut of spiritual, religious, moral, social, cultural, educational and developmental objectives. It's organ for social service is now known as `DJP' (Development, Justice and Peace).

Initially DJP built 72 tenements for destitute families and leprosy patients in Dakshinpuri, Madangir and New Seemapuri in Delhi. It also built 98 houses for those who could repay the interest-free loan in the above-mentioned first two colonies and Khanda Village in Sonepat which was hit by a flood. It was however after 1978 floods that DJP entered the field of housing finance and constructed 529 houses with two thirds of the cost as interest free loan and the rest as grant upto a maximum of Rs 1,000 in Jahangirpuri, totalling Rs 3,000. So far DJP has achieved 67 per cent recovery and the same is ploughed back into other housing schemes. It is with this latter scheme, the present case study is concerned with.

Funding for the second phase of housing, which includes both Jahangirpuri and Nandnagri is mostly through the repayment of loans taken earlier. In 1986, foreign contribution to the extent of Rs 1,84,000 was received. As on 31.7.1989 under the second phase 126 applicants were provided with loans with the total investment amounting to Rs 11.28 lakhs. Table 6.4 gives the necessary details about the number of loans and the amount disbursed.

The applicants before getting the loan must satisfy the eligibility conditions. An applicant is eligible only if his/her (a) Per capita income is less than Rs 350 (earlier it was Rs 200 but revised the figure in 1987-88). Table 6.5 gives a clear picture of the applicants per capita income range; (b) He or she does not own any house anywhere (excluding a Jhuggi/Jhopadi); and (c) He/she owns legally (plot papers necessary) a plot of land. Condition (c) is not necessary if the applicant wants to purchase a house and not construct it. If the applicant has migrated from other parts of India (especially from home towns) where he is a part owner in an ancestral house, he is eligible for loan. In other words, Table 6.5 shows that more than 85 per cent of the applicants have a monthly per capita income of Rs 125 or more (less than Rs 350, being the upper limit of eligibility).

Once an applicant satisfies the eligibility criteria, he/she is given an application form to be completed and submitted to the DJP office. The details of the form are verbally verified with the applicant and if satisfied, a Field Officer is deputed to carry out physical verification. This includes verifying the number of family members, meeting the neighbours and generally enquiring about the applicant's status, income, reliability, papers (in case of construction loan) and getting a general understanding of the applicant's background. After the verifications are over, loans are given upto a maximum of Rs 12,000 (revised in 1983 from Rs 5,000 in 1982, and to Rs 10,000 and again in 1989 to Rs 12,000) though the actual loan amount differs in each case and depends on repaying capacity, past savings and building materials on hand (in case of construction of the house). A necessary qualification is that neither the construction nor the house purchase loan should exceed Rs 35,000 (initially

stipulated at Rs 25,000). The remaining amount of money, i.e., when cost is more than the DJP loan, then the rest is to be met from other sources.

To avail the DJP loan, two guarantors are required to guarantee the amount in case of default. A word about the guarantors. The guarantors are usually from among the DJP beneficiaries and hence no different from the applicants either income-wise or status-wise. This is imperative since it is difficult to get people of same financial and social standing to act as guarantors to persons in the lower income group. In case of permanent workers, identification cards and also ration cards are checked. However, these fail to be foolproof methods.

Initially the loans were made in one bulk instalment of either Rs 5,000, Rs 7,500 or Rs 10,000 as the case may be. But this proved to be a wrong policy since some loan amount was either utilised partly or spent away on other uses. Thus from 1984 the loans are given in two equal instalments for house construction, and in one lump sum for the purchase of house. Before releasing the loan, the loanee is required to open a Bank Account (if he does not already have one) and the amount of instalment is paid into the account. In some extreme cases, however, when a loanee cannot open an account, the loan amount is paid through a bearer cheque. However, before giving the loan, the plot papers of the loanee are kept in the custody of DJP until loan amount is repaid. In case of house purchase, it is the ownership documents which are kept in custody.

The loan is given at 4 per cent rate of interest which may be increased to 12 per cent in case of persistent defaults in repayment. An agreement containing terms and conditions of loan, its repayment procedure and the action prescribed in case of default are signed by both loaner and loanee Necessary affidavits are also furnished. The loans are released in two equal instalments and the field officers make personal visits after the release of each instalment to ensure that the construction has actually been carried out The repayment of loan in instalments of Rs 125 per month, starts after the house has been built. Going by the norms, a loanee is supposed to return the amount in 100 instalments, including the 4 per cent interest rate. But this is not a stringent rule, and it depends on the loanee's physical and financial condition as also on the amount of loan taken. For instance the loans taken in 1982 (Rs 5,000) are yet to be repaid. The loanee is supposed to deposit loan instalment in DJP office, but for the convenience of loanees the DJP field staff goes from door to door to collect the instalments once every week or month. We found that because of frequent defaults, the field visits by the staff become an expensive proposition. Consequently, it has now been made obligatory on the part of loanee to deposit loan instalment in the DJP office itself. We also found that many loanees accumulate instalments and repay the amount in bulk (perhaps because of erratic earnings). Repayment pattern, however, shows no particular trend. Only in the case of loanees whose repayment instalments are deducted from their salaries, is the instalment regular and of the right amount.

Defaulters in housing scheme are not primarily repayment defaulters. In actual practice the stage is set much earlier, commencing with the allotment of loan. In the initial stages i.e., in 1982, when the project had just started and DJP was still in teething stage loans were given for housing but some of the loanees did not construct any house, and instead utilised the loan for other purposes. The loanees continued to live in rented houses. Interestingly, they are repaying the loans. Two such cases were recorded by the field worker For example a person took a loan of Rs [illegible],000 in October, 1983 for construction purposes but still lives in a rented house. He still owns Rs 7,064 + interest, defaulted from May to October, 1986, and repayment is irregular. There are other similar cases. Further some of the loanees have constructed the house, but have sold it to other persons, despite the fact that documents of ownership (original) are still with the DJP. Four such cases have been recorded. The most interesting is of a person who took a loan of Rs 10,000 in August, 1985, made no repayment (not even a single instalment) and owes DJP Rs 12,326.45 + interest as on 1.1.1988. This persons is alleged to have sold the house five times. The final act was that the person disappeared.

There are many other interesting instances of default in repayment of loans. Indeed all the 126 loanees have defaulted at some stage or the other, whether the default is one month or one year.

Except in a few cases where a lenient view is taken, defaults in repayment are taken seriously. If a loanee does not pay consecutively for 2 to 3 months, a reminder is sent. In case of non-compliance for another 2 to 3 months, another reminder with stern language is sent. Before sending a legal notice, a final letter of warning is sent. Table 6.6 gives an indication of the number of loanees who were sent such reminders. This table is, however, misleading in the sense that it does not give a true picture of the defaulters. There are cases where no reminders have been sent because the DJP officials felt that either the physical or the financial condition of the loanees was such that no useful purpose would be served. We may cite the instance of a defaulter loanee who contracted tuberculosis against whom no legal action was taken. Similarly, there are instances where DJP was convinced of the weak financial position of the loanees and despite continued defaults, no legal was taken against them. Interestingly, there are cases where defaulter loanees were taken to Court, and despite the verdict in favour of DJP, no action was taken against them, mainly because the DJP later got convinced of the financial trouble that these loanees were in. Of the 126 loanees, only 12 loanees have so far repaid the loan, closed the accounts and taken back their ownership documents (See Table 6.7).

To understand the housing scheme of DJP it is essential to have some knowledge and background of the kind of people to whom these loans are given. Coming from lower income group with per capita income of less than Rs 200 per month, these loanees are mainly rickshaw pullers, peons, maid servants, tea shop owners, factory workers, casual labourers, drivers, cooks, gardeners, carpenters, sweepers, mechanics and the like with only a few having permanent jobs. These are either typists, junior clerks, fitters, electricians and other skilled workers. Similarly only a handful have a permanent source of income. To make things worse, most loanees have more than 2 children. Besides they loanees have either parents or brothers and sisters staying with them. With large families to maintain and no source of regular income, it is difficult for them to save every month and repay with unfailing regularity. Moreover, majority of them are migrants from other States and the places of their origin reads like a national integration chart! Of the 126 loanees, 31 hail from Delhi itself while the rest 91 are migrants hailing from different States like Bihar, Karnataka, Andhra Pradesh, West Bengal, Uttar Pradesh, Haryana, Punjab, Kerala, Himachal Pradesh, Madhya Pradesh, Tamil Nadu and Maharashtra. Having come to Delhi in search of a job, they are more like nomads shifting from one place to another in search of livelihood. With no proper base or assets to speak of and living in Jhuggis/Jhopadis, giving loans and expecting a regular repayment pattern would have been disastrous without proper understanding of their system and needs.

DJP which has taken up this liability of giving loans is however enthusiastic about its efforts. They do not expect a hundred per cent return, nor do they expect the loan to be repaid in regular instalments for the savings pattern of these loanees is familiar to DJP officials. As long as the loanees are serious about repayment of loan amount DJP officials seem to be content. As we point out earlier no unpleasant action is taken against those who are physically and financially unable to repay the loans in stipulated pattern. DJP official's work of housing scheme is coordinated with other schemes like Balwadi centres, adult education, sanitary and health centres and spread of morals through street plays and songs. Since it is an integrated approach, the scheme has achieved success, which perhaps would have been otherwise not possible. Moreover, DJP has learnt its lessons. Initially the loans were given without any insistence on photographs and without a thorough scrutiny of the applicant. Now however, DJP insists on the applicants photographs and has become stringent in giving loans. DJP officials agree that they have now become more careful about checking the details before disbursing the loans.

The scheme which has achieved success and which is growing steadily, is however more religion based. A delicate issue, which the DJP officials deny, is the fact that it is partial to the catholic christians than to other religious sects. Of the 126 applicants, i.e., 98 are Christians, 26 Hindus and two Muslims. Since the scheme is not widely public used only people who go to Church come to know about it, since announcements of the scheme and its eligibility conditions are made in various churches. Moreover, a Parish Priest has to certify loanee's character, before the loan is disbursed. A heartening thing is however, the fact that the loans made to Hindus and Muslims were mostly made in the later period, by which time news had reached these people through the word of mouth Perhaps the segregation is not intentional or deliberate but as the choice of venue of announcements is decisive the scheme has not yet had a very far reaching impact.

6.3.3 Other Cases of Non-Formal Housing Finance Institutions: In this concluding section we cite some interesting experiences of non-formal housing finance institutions. These examples are taken from unpublished studies by Dr.(Mrs.) Meera Mehta and Professor Dinesh Mehta.

6.3.3.1 "VISHIS" of Ahmedabad: The term "Vishi" in local language, refers to an eating place frequently used by single males. It is surmised that the financial operations evolved historically to cater to the demand for finances from such client group. Today, the traditional 'Vishis' are probably non-existent, but the financial arrangements are wide spread in the city. The Vishis are organised on the basis of geographic locations, community or ethnic background or at the place of work. The Vishis have a membership of 10 to 300 members (30-50 is quite common). The instalments, i.e., contribution of members vary from Rs 25 to Rs [illegible] a month.

The Vishis' prime function is to provide "loans" to its members. So each month's total contributions plus interest payments on past loans is available as a loan to the members.

There are two prevalent mode of granting loans to members. The more common mode in Ahmedabad is of "auctioning" of loan (akin to the chit funds in Southern India). The "reserve" bid is 12 per cent per annum interest and repayment period is 6 months to 18 months (depending upon the number of members). The auctioning usually marks up the interests to about 24 per cent per annum.

The second mode relates to a fixed interest payment of 12 per cent per annum and the loan is granted through lottery or on first-come first served basis. Such a mode is prevalent only amongst the vishis formed at places of work, where the members have known each other for a long time.

The vishis are managed by a person, who has had some experience in dealing with money. In the second mode of vishi, the manager has the first option at the loan without payment of interest. In the first mode, the vishi operations' Managers have been known to take "remuneration" to ensure that all the loans are repaid in time.

Loans for Housing: It is extremely difficult to obtain information on housing loans as the vishis do not compile information on the purpose of loans. Informal discussions suggest that about one-fourth of the loans are probably used for housing. As the amounts are small, these loans supplement other finances that may have been raised by the member for housing[2].

6.3.3.2 Registered Credit Societies: In most large organisations, employing 500 or more workers, a credit society is run by the employees. Any worker employed by the organisation is eligible to become a member of the credit society (or credit union) on a monthly payment.

The organisation enables operations of the credit society through deductions of monthly contributions and loan amounts from the salary bills of the employer for the credit society. The credit societies are managed by elected representatives of the members.

6.3.3.3 A Credit Society in a Textile Mill: The credit society has about 1,000 members, all of whom are employed by the textile mill. Each member pays Rs 40 per month towards membership of the credit society. Once a member accumulates Rs 1,500 in deposit he is entitled to draw upon a maximum loan of Rs 4 500 A loan applicant needs two guarantors who must also be members of the same society. The loan has be repaid in 18 instalments along with an interest of 12 per cent per annum on outstanding loans. The member must continue to pay the monthly subscription of Rs 40 during the loan period. The interests on deposits, (about 6 per cent per annum) and the income from interest on loans is shared amongst the member each year. This is in proportion of the next deposits with the credit society.

While a majority of loans were primarily for consumption expenses (purchase of a TV, Vehicle, etc.) or marriages in the family, at least one-fifth of the loans were believed to have been taken for housing related purposes. This was either for making down payments for new housing projects, or for repairs/extension of existing housing stock.

6.3.3.4 A Cooperative Housing Society Involved in Housing Finance: In Ahmedabad, a housing society of lower middle income group households was organised through genuine efforts of a few individuals. It was not promoted by any builder/developer.

This society has 42 members. Most of the members are textile mill workers. The initial house type was a single storey structure of about 60 sq. metre tenement. The housing cooperative society had mobilised resources through (a) rentals from 6 shops along the main road (b) one-half per cent rebate given by the Apex Body GCHFS for prompt repayment of loan instalments and (c) fine collected from members who make late payments of instalments.

This housing society had nearly Rs 1,00,000 with it in the late seventies. A collective decision was taken to provide upgradation loan to the members which would enable them to build one/two rooms on the second storey. A maximum loan of Rs 15,000 was made available at 9 per cent rate of interest The loan had to be repaid in 48 equal monthly instalments. A member, who was not in arrears of his regular housing loan repayment to the GCHFS, and who had not built the upper floor, was eligible for the loan.

Out of total 42 members 30 members have been provided loans in the past decade. The average loan amount is about Rs 12,000.

Post Script: Such housing finance assistance is generally not provided by other housing cooperative societies in Ahmedabad. This society was also warned by the Registrar of Cooperative Societies, stating that provision of housing finance was not within the purview of the Cooperative Housing Society. The housing finance by this Cooperative Society has been discontinued at present. The remaining members, who require finances, are hopeful that the GCHFS officials will intervene and that the original arrangements will continue.

6.3.4 Summing Up: A careful perusal of results of some of various case studies described above clearly brings out some of the problems which are likely to be encountered in providing housing finance for the low and middle income households especially the ones which do not have stable income flows. Before enumerating these problems, it may be mentioned that it is not merely the financial institutions which encounter difficulties in providing housing loans to the poorer sections of the society, but these sections themselves have major problems in dealing with the housing finance institutions in negotiating loans and in their repayment.

From the view point of target end-users there are problems connected with various formalities involved in obtaining housing loan. These relate to providing guarantees usually in the form of collaterals. Clearly given their low incomes and the nature of their occupations it is difficult for them even to find guarantors who would agree to stand as personal sureties. Further given the uncertain and irregular nature of income flows, it is difficult for most households to repay the loan instalments as per the terms of the lending institutions, unless these repayment terms are made flexible enough. Indeed one or two episodes in the family such as disease or marriage or long periods of unemployment are sufficient reasons to cripple the family both physically and financially. This underlines the need for devising more flexible repayment terms. Also, occupations like agriculture where incomes are of a seasonal nature, bulk repayment schedule to match with the income stream is to be devised[3]. Also since these households seldom have bank accounts, the repayment of loan amount at remote places in cash sometimes becomes difficult, and hence door to door collection at regular intervals coinciding with their income flows would immensely help these households to repay their loans in time. There is yet another problem which is related to tenure. Most financial institutions insist upon providing housing loans only when the households are able to give proof of legal ownership of land on which construction is proposed. Therefore some innovative approaches in providing loans against low quality tenure such as occupancy rights, etc., should be adopted.

From the view point of financial institutions, there are some inherent problems which they have to overcome before they can effectively participate in financing shelter for the poor. Most financiers are conservative in providing loans and would therefore first like to ensure that the loans would be fully recovered. The first requirement is the credit worthiness of the borrowers. In this case, most target households lack credit worthiness. Also insistence upon providing collateral would keep most poor households out of the formal financial system. These institutions also need to ensure the repayment capacity of borrowers. This, as we saw, is not always an easy task, and as mentioned earlier any major episode in the family can adversely affect the repayment capacity. In case financial institutions are serious in helping the poor with housing loans, they may have to accept movable property like jewellery, or occupancy rights as collateral instead of the conventional mortgage based loans. They will also have to devise a more flexible schedule for repayment. Further they should attempt a sensitive matching of repayment capacity with the nature and costs of upgradation needed. Finally, since most loans are of small magnitude, the costs of recollecting the loan instalments works out to be substantial, and hence ways should be devised so that the burden of loan recovery is not with the individual but with the community so that individual loan defaults are cushioned. Also when the financial institution deals with the community representative, it is easy to put pressure on the defaulting households.

6.3.5 Punervaas: In order to overcome some of these limitations connected with housing funds for the poor, an experiment is being tried out in Delhi by an informal group of officials, academics and NGOs so that a model can be provided for upgradation of slums and other low quality settlements. This group called Punervaas' has kept the objective of promoting small community based financial institutions to supplement incomes and improve the habitat. The modus operandi is to locate a slum cluster, find a good and willing NGO who may have worked in the same area, and then get the Slum Department of the Delhi Development Authority to make a list of the permanent residents of the slum with the help of NGO after deleting the names of absentee owners. Once the list of residents is finalised by the NGO and the Slum Department the residents, the households of the cluster are organised by the NGO with assistance from the Registrar of Cooperative Societies into a multi-purpose cooperative society. This gives the cluster a legal status to take up issues with government and other bodies as well as procure loans. In the formation of the cooperative two special features are kept in view. First, is to make a woman of the household as member of the cooperative followed by her husband as a joint member. This is so because it is felt that women are better at repayment of loans and retention of property (in many earlier cases men have sold off their property). Second, the model byelaws framed by Punervaas provide for nomination of members by the Registrar including the President. It is proposed that the President would be nominated by the Registrar along with a representative each of the Slum Wing and Registrar Cooperatives. One more person could be nominated by the Registrar.

The Punervaas group would, in this manner, involve more and more NGOs for organising slum clusters in the city. Normally, one NGO need not work in more than one or two clusters. It is further proposed to keep the size of the cooperative to about 300 members. Once the cooperatives are formed, it would be their endeavour to achieve slum improvement/upgradation through the slum department under various schemes like Environment Improvement Scheme or Urban Basic Service Scheme. This would involve slight dislocation as a fresh lay out will be necessary with proper streets and lanes. The slum department will provide them with pucca paths, drainage, street lights, low cost toilets and baths with individual plots of about 12 sq. metres. The cooperative so formed would simultaneously seek, besides financing, tenurial rights as and when possible from the government or at least seek occupation right till alternative land is provided in the periphery of the town when the whole society would shift enmass. The cooperative would also seek loan from financing institutions based on mortgage of their tenancy/ occupation and will also seek small business loans. Since land allotment either in the form of tenure or occupancy right will be given to the cooperative, the individual will necessarily seek loans though the cooperative. The cooperative will have to gear itself up on issues of recovery by evolving an efficient recovery system. Further, the role of NGO in recovery and book keeping will be crucial for the success of the society. NGOs participation in the cooperative becomes vital, especially in the first few years.

It is also proposed that each cooperative so formed will go in for encouraging entrepreneurship by arranging small business loans, and could also go in for certain group activities like a Group Insurance against repayment of loan on premature death, fire and accident policy, arrange pay phone in the cooperative office or run consumer store, dispensary or a technical training course. Issues like adult education, family planning and hygiene, etc., could also be taken up through such cooperatives.

Punervaas as a concept brings together the relevant government departments, academics and NGOs on a continuing basis. As more and more NGOs join, there will be an increase in the field activity. The Punervaas Committee would meet frequently to sort out all issues so that each cooperative so formed, could continue in its task of not only building its habitat, but also helping its individual member family improve upon its income.

Punervaas movement in Delhi has already started working at six slum sites and the process of registration of cooperatives is well under way. As of now nearly 4,000 households are involved and expectations are high. At one site the existing slum has been demolished and new construction as per a proper layout has been finalised and plots allotted to individual members. They are constructing their own housing without any loan so far. It has also been revealed that when a proper layout is made, it not only improves the drainage, street lighting etc., but with 12 sq. metre of plot per household, it actually saves land for the owner from the existing haphazard spread.

Punervaas also proposes to initiate measures for promoting the habit of thrift through these cooperatives. In order to achieve this a strong collection/recovery system internal to the cooperative shall be developed which will be tailored to the capacity/needs of the member households.

6.3.6 Other Country Experiences

We now provide two major experiences in innovative housing finance schemes being experimented in Indonesia and Bangladesh.

6.3.6.1 Indonesia: Indonesia has experimented with various forms of delivery systems for housing finance for the poor. However, the informal sector in Indonesia is also a growing sector which is unable to use the funds from the formal sector due to the formal sector's rigid requirements of mortgage and other documentation. The available housing finance is therefore restricted to middle-income and high income households. These sectors of the economy are able to avail from Bank Tabungan Nagara (BTN) a 20 years subsidised home mortgage loan. The low income households, however, do not require large loans with long repayment schedules. According to a study by Dunham, Marbun and Kang[4] of the Urban Institute, Washington a typical household is willing to devote 20 per cent of income to loan repayment and this would enable many households to convert a small semi-permanent house to permanent status with more privacy and security. However, the low-income households are unable to provide the type of documentation which the formal sector institutions require. It has been noticed in Indonesia that while formal collateral is the best form of security, as in other countries, in the case of real estate it is very difficult and costly to foreclose on property, so that even the formal collateral at best remains more for legal satisfaction of the bankers than an actual cushion against default. Formal collaterals therefore need not necessarily be the only form of security for low income groups. Non-real estate collateral like peer pressure from known associates or guarantors, borrowing groups or circles or graduated loan systems, interest additions can be good alternatives to a formal collateral. Indonesia has four types of existing institutions:

(i) BRI Unit Kotas - 2652 units supplemented by 1100 village ports exist. They raise deposits and have standardised savings accounts provided through a number of State owned banking institutions and service low income individuals through its unit desa system;

Urban Bank Pasars: These banks tend to specialise on short term loans to petty traders and charge about 42 per cent interest per annum;

(i. Urban Credit Badams like BKKs (originally Jara): BKKs are owned by provincial or village governments and service low income individuals in rural and urban areas. Each branch has many sub-branches in remote villages. These institutions give small loans without any collateral and a maturity period upto a year. The rate of interest charged by them ranges between 30-130 per cent per annum and for sub-branches it goes up further to 192 per cent per annum. These institutions have very successfully employed graduated loan repayment system where borrowers with good repayment record are successively allowed to borrow largest loan assets. These institutions have managed to keep the loan arrears rate low to about 5 per cent of the outstanding loans; and

(i The cooperatives provide an alternative to retail level institution. Multi purpose cooperatives are organised around common occupational or residential theme that links its membership. The cooperatives keep their interest rates low, chiefly through compulsory savings but then often find themselves short of funds.

Credit Unions tend to link employees of a single firm although community credit unions do exist. Most employee credit unions deduct loan repayment instalment from member's pay checks. Cooperatives are located in both urban and rural areas and most appear to service members of our target group.

The Indonesian system therefore provides us with four alternative institutions for delivery of credit and housing loans to low income group.

The Indonesian experiments in linking their formal and informal financial institutions are still in a nascent stage. However, they have considered the issue in depth and have taken some concrete steps like amendments in their legal system to promote private voluntary organisations and self-help group at the base level form their own community level financial institutions. The PATKO Act of October 27, 198 followed by a further amendment with a package of reforms towards liberalisation for the financial and banking sectors to advance the development of banking system, to stimulate the mobilisation of savings and to ensure an efficient allocation of these funds[5]. This legislation has been the outcome of a concerted thinking not only in Indonesia, but in the Asian Region by Asian and Pacific Regional Credit Association (APRACA), an association of Central Banks, Rural Development Banks and Rural Commercial Banks promoted by FAO. It is one of the four Regional Agricultural Credit Associations (RACA) in 1977 with emphasis on agricultural credit and subsequently broadened its scope to rural finance. The innovative focus of this programme is to create a financial intermediation system built around self-help groups as grass roots intermediaries between banks and rural micro-entrepreneurs.

Based on a survey carried out by APRACA members in their respective countries, they find that they have many organisational and institutional resources with a great potential for micro-enterprise finance and rural development. What however, stands in their way is market segmentation as the formal financial markets reach only the upper 5 to 20 per cent of the population. In addition, there is a growing small semi-formal market which comprises of private voluntary organisations (NGOs) with their own organisation, savings and credit programmes. Although these form a part of the informal financial sector and lack legal status, they possess the organisational strength and are therefore, suitable for being given some quasi-legal or semi-formal status. APRACA has, therefore, taken up the cases of such organisation with three different approaches - upgradation of such institutions, linking them with banks and adaption of banks to their environment. In Indonesia, this process of linking of banks and self-help group has led to the formation of a legislation which has been described earlier as PATKO-27.

The Model: With the new policy environment which encouraged banks to embark on vigorous campaigns of savings mobilisation, to expand credit delivery at market rates and to experiment with innovative approaches to rural and urban finance a model was built up in Indonesia on the form of a Pilot project for the link' purposes for testing, specially in view of the fact that PATKO-27 provided the appropriate legal atmosphere for it.

Besides the formal sector institutions with banks as their main arm and informal institutions working without legal status like money lenders, financial self-help groups (rotating and non-rotating savings and credit associations, unregistered credit Unions) there exists a large number of semi-formal institutions such as BKK in Central Jara, LPD in Bah, LPN in West Sumatra and others which are supervised by primary banks, as well as registered cooperatives (KUD and others) which fall under the cooperative Act. These semi-formal institutions like NGOs act as intermediaries, between donors, government and self-help groups. While they may be extra legal in their financial activities they enjoy a tacit approval of the government. A number of them also generate their owns funds but generally have no link or tie up with banking institutions. The formal sector, on the other hand has not been able to finance the growing needs of small enterprises and farmers particularly amongst the poorer sections - especially because of the high transaction cost for both banks and their charts.

The project therefore envisages linking the self-help groups and grass root intermediaries to banks both for savings mobilisation and credit delivery thus minimising the transaction costs for banks and formal borrowers. The output, therefore, that are required of this project is to set up a project organisation which works effectively.

6.3.6.3 Bangladesh: Bangladesh is one of the poorest countries of the world with a population of over 106 million (mid-1987) and GNP per capita of $160 (1987) compared to India's nearly 800 million population and GNP per capita of $300. The situation regarding agriculture land distribution in Bangladesh is comparable to India with 54 per cent of people holding less than 1 hectare and another 46 per cent between 1 hectare to 10 hectare compared to 50.6 per cent people holding under 1 hectare[6] while 45.5 per cent between 1 hectare to 10 hectares in India. However, half the population is lendless and a holding of 1 hectare occupies a pretty respectable position. Of the landless population 80 per cent of their labour time is used in non-farming activities plus idleness[7]. The basic reason for their poverty is the slim economic base and the non-availability of credit except from money lenders. In Bangladesh it was realised that while credit to the poor is essential, the existing formal sector institutions are unable to reach them. It was also felt that credit is useless unless it is parted with training, marketing, transportation, technology and education. Credit to the poor otherwise invariably gets diverted to immediate consumption.

Why Grameen Bank: Consequent to Bangladesh becoming an independent country in 1971, it was realised that the Banking structure needed much more extensive branch network. The Commercial Banks were therefore nationalised and the branch network was extended into rural areas. However, it was felt that the nationalised commercial banks while extending themselves in a big way into rural areas, should be stopped from meeting the financial needs of the poor as they were considered unreliable and risky and had generally no collateral to offer. Secondly, in short numbers the rural poor were unmanageable and their loan demands were for consumption expenditure needs which is beyond banking ethics and principles of their time. Further, the banks found that they were unable to implement government schemes or schemes of the Bangladesh Bank (backed by reference facility/guarantee facility) because of their total inability to reach the target group of the rural poor and cover the large numbers. Studies based on statistics supplied by BKB showed that 70 per cent of the credit earmarked for rural poor has gone into the hands of farmers holding more than 3 acres of land.

Consequently, as a result of deliberate thinking in December, 1967 a Grameen Bank Project (GBP) was launched in a village called Jorba adjacant to Chittagong University campus under the operational responsibility of Rural Economics Programme (REP) of the Department of Economics Chittagong University (By 1983 GBP was converted into a full scale bank with 60 per cent equity capital coming from government sources and the remaining 40 per cent from landless borrowers themselves in the ratio of 50:50 between female and male borrowers). The project aimed at (i) designing an organisational framework providing a reasonable forum through which the banking system can extend credit without collateral to the landless people, so that they can be protected from the trap of money lenders and (ii) helping the unemployed and underemployed rural people to find gainful employment for themselves by undertaking income generating activities that they are familiar with.

The Grameen Bank has been a success, story. It not only reached in supply of credit the target group of landless poor quite successfully, but also achieved nearly 100 per cent recovery. Further, the utilisation of the loan for the purpose it was given has been excellent, and so has been the role of women. The main reason for the success of the bank is in its structure, its organisation, management and monitoring. Some of these features are described below:

i. Capital base: In October 1983 when Grameen Bank Project was converted into a full scale bank, 40 per cent equity capital was put in by government and 40 per cent from landless borrowers and 10 per cent each by BKB and Sonali Bank. The capital based (authorised capital) was fixed at Taka 80 million (US $2.9 million) with paid up capital of Taka 30 million (US $1.09 million). The proportion of equity between male and female borrower was 50:50.

ii. Staff organisation: Each Grameen Bank (GB) branch is headed by a manager who has a field staff of 3 male and 3 female bank workers under him/her. All GB staff are required to live in the village assigned to them. They are responsible for finding their own accommodation. By September 1984 (within 1 year of operation) it had more than 100 branches serving 2000 villages, i.e., 20 villages per branch.

iii. Extension and bank work: GB ensures that 'people do not come to the bank; it goes to the people instead'[8]. This is one of the most important aspects which has led to the success of this bank. Some of the reasons for GB to attain remarkable success in reaching the target group, in having 100 per cent recovery is due to its effective mechanism in identifying gainful activity, in targeting the rural poor into necessary skills and interest for new trades and especially in sanctioning and disbursing loans in shortest possible time with least amount of pain on both sides. Further, supervision and collection of loans due for borrowers has also been excellent.

iv. Eligibility criteria: Any landless poor, both man and woman, whose family owned less than 50 deciman of cultivable land or who or whose family owns property, both movable or immovable, the value of which does not exceed the value of one acre of cultivable land according to prevailing market price in the union on which the peasant normally resides is eligible to take a loan from GB. Visiting GB staff publicly discusses all loan proposals in the villages to minimise exaggerations, misinformation and suppression of facts regarding the need for and utilisation of loan.

v. Collateral: GB gives loan collateral to landless people. However, in order to ensure the repayments it follows a system of Group Responsibility.

vi. Group responsibility: GB gives loans through its 2-tier system of `Group' and `Centre' coming between the branch and the individual loanees. For an individual to get a loan he/she must form a group of five who are like-minded and have similar economic and social status. Each group selects its own chairman and secretary and holds a weekly meeting. Several `Groups' in the same village hold a meeting jointly and are called at `Centre'. All group chairmen in a centre elect a Centre-Chief and a Deputy Centre Chief. The Centre Chief conducts the weekly meetings and is responsible for observance of all rules prescribed by the bank. Loans are given to individuals or even groups and formally the individual is responsible for its repayment. However, the group remains responsible for its repayment. Members of the group in their own interest keep track of the loanee to ensure proper utilisation and repayment of the loan.

vii. Terms of loans: All loans are extended for one year to be repaid in 50 weekly instalments, each instalment being 2 per cent of the principal amount after 2 weeks of grace from the date of issue. The interest rates charged by Banks in Bangladesh for rural poor vary from 15 per cent to 19 per cent including service charges. However, bribes and incidental expenses make this much more. The interest rates changed by GB are also in the same range, but do not appear to be burdensome to the rural poor because of their close association with the `group' and the weekly meeting of the Groups and Centre. It may be pointed out that in GB there is no involvement local level elected officials or government functionaries either disbursement or recovery process.

viii. Group fund and group tax: Every group member makes a deposit every week as personal savings. This is accumulated in an account called Group Fund Account and is operated by the Group. On receipt of a loan an obligatory deduction of 5 per cent of the loan amount is made to the group for financial services offered. This group tax is also deposited in the Group Fund Account.

ix. Emergency fund: Each borrower pays to the group 25 per cent of the amount charged by the GB as interest on loan into an Emergency Fund which in effect becomes a forced insurance premium to cover life, accident, and undertaking activities to improve health, skills, education, investment opportunities.

x. Importance of group to GB success: Formation of groups and centres are crucial to the success of GB as membership of a group gives the poor a feeling of protection and control behaviour pattern especially on repayments. Many GB groups and centres collectively buy items such as shallow/deep tubewells, or rice mills which are beyond the imagination of an individual. Group behaviour imposes self discipline, enhances self confidence and finally encourages group savings. Small but steady savings by the groups have helped build up a thrift culture.

xi. Role of women in GB: GB has assigned a special role to women - this has been achieved by motivation and talks by the GB officials. As part of their non-credit programme, they have taken a decision to build up human resources of women, who have a very low literacy level and muslim women are even more handicapped due to tradition. However, as a result of their effort as on March 1989 there were 4,64,954 female members (86 per cent) as against 5,35,170 total membership. Over years more loans have been given to women than men and repayment record of women is excellent; better than men. Further, per cent of women who had taken a loan had done it for the first time and they were able to establish some income earning scheme with the loan either individually or jointly. Further, their dependency on males is getting reduced. They are also emerging as a social force to fight forces of obscurantism.

xii. Housing and other loans: GB started its operation by giving small loans (more than 400 identified) to be recovered in 50 weekly instalments of 2 per cent of the amount after giving 2 weeks grace. GB has also started a House Building Loan for the neediest of the poor. Any member who is at least a second time loanee, who has no land except homestend land and who has made each repayment in weekly instalments as per GB requirements is eligible and qualified to get a housing loan to construct a new house or repair an old one, provided his/her centre is at least 2 years old, has its own house, has joint activities, is dowry free and all its previous loans have been repaid. The repayment is again on a weekly basis of "one thousand taka to be repaid in one year basis" initially a loan of taka 15,000 was introduced as 'Moderate Housing'. However, after a devastating floods, a new type of housing loan was introduced in 1989 called "Basic Housing" amounting to taka 7,000 which became very popular. The amount of basic housing loan has been revised to taka 10,000 to keep up with inflation. These loans have become very popular[9]. In addition, GB provides loans to purchase homestend land.

xv. Grameen Housing Technology: GB has introduced a housing technology of a rudimentary kind with 4 cement pillars, G.I. sheet roofing on a wooden frame and a sanitary latrine. These have proved to be very popular.

The experience of Indonesia and Bangladesh clearly points towards the manifold problems in providing loans to the poor. What has emerged is the key role which women and NGOs can play in the successful implementation of projects relating to meeting the financial needs of the poor. Also the problem of collateral is not insurmountable. For instance group pressures can ensure high recovery rates. A final word about shelter for the poor. Indian case studies as well as House of Indonesia and Bangladesh emphasise the importance of a comprehensive approach to shelter financing. Unless shelter programmes are linked to schemes aimed at improving the economic and financial status of the poor, very little is likely to be achieved. Subsidies are important but not crucial. What is needed is a flexible approach to shelter finance which will take into account. The socio-economic circumstances of the poor.

NOTES

1. Recently some builders like Parshwamth Housing Finance Company in Ahmedabad, Ansal's in Lucknow and DLF in Gurgaon have for instance provided a certain fraction of housing for low income households.

2. In a case study of home upgradation, a textile worker took advance on Provident Fund amount for constructing additional rooms. When the actual construction began, he found that he needed additional funds. He borrowed Rs 5,000 from the vishi to complete the construction.

3. Gujarat Rural Housing Finance Corporation (GRUH) has indeed tried out this with some success.

4. Expanding the supply of Hong Loans to Low Income Urban Households in Indonesia, The Urban Institute, Washington, August, 1989.

5. Upgrading Informal Financial Institutions - Private Voluntary Organisation and Self-Help Groups establish their own Banks in Indonesia - by Professor Hans Dieter Seibel, GTL.

6. World Development Report, 1989 - Basic Indication, Table 1.

7. Bank Credit for Rural Women, UNESCAP, 1985, pp. 4 and 5.

8. Bank Creditor for Rural Women - UNESCAP.

9. Housing for Rural Poor - The Grameen Bank Experience Dipal Chandan Barua, Deputy General Manager, Grameen Bank, unpublished.

TABLE 6.1

Housing Assistance by SEWA

Year	Benefi-ciaries	Total amount disbursed (Rs million)	Average amount per beneficiary (Rupees)	Loans for housing to total disbur-sements
1984-85	181	1.142	6309	N.A.
1985-86	189	1.392	7365	N.A.
1986-87	328	025	6174	N.A.
1987-88	387	966	7664	N.A.
TOTAL	1085	525	6935	N.A.

Source: SEWA Cooperative Bank.

TABLE 6.2

Loan Disbursements by Values - 1984-85 to 1987-88 (Estimates)

Amount Disbursed (Rupees)	Percentage to Total Loans Disbursed
Less than 3000	25.0
3001 to 5000	30.0
5001 to 10000	12.0
10001 to 15000	25.0
15001 to 20000	8.0
TOTAL	100.0

Source: SEWA Cooperative Bank.

TABLE 6.3

Comparative Ratio of 28 Public Sector Banks Vis-A-Vis SEWA Bank

No.	Particulars	Public Sector Banks December 1986 Crores Rs	Public Sector Banks December 1987 Crores Rs	SEWA Bank June 1986-87 Lakhs Rs	SEWA Bank June 1987-88 Lakhs Rs
1.	Deposits	1,11,581	1,16,389	108	112
2.	Loans	64 321	[illegible]6,114	62	72
3.	Profit	192	261	3	4
4.	Reserves and Reserve Fund	1,095	1,503	8	11
Ratio					
1.	Profit/Deposits	0.17	0.20	2.77	3.57
2.	Profit/Loans	0.29	0.35	4.83	5.55
3.	Reserves/Deposits	0.98	1.17	7.40	9.82
4.	Reserves/Loans	1.70	2.05	12.90	15.27

Note: Figures of 28 public sector banks are taken from Indian Express dated 20.7.1988.

TABLE 6.4

Number and Amounts of Loans Disbursed

Year	Number of applicants loans disbursed	Per cent of the	Amount disbursed	Per cent of the total
[illegible]	2	1.59	10,000	0.89
[illegible]	36	28.57	2,93,000	25.97
1984	25	19.84	2,27,000	20.12
1985	16	12.70	1,60,000	14.18
1986	22	17.46	1,95,000	17.29
1987	11	8.73	1,10,000	9.76
1988	6	4.76	55,000	4.87
1989	8	6.35	78,000	6.92
TOTAL	126	100.00	11,28,000	100.00

TABLE 6.5

Per Capita Income Range of the Applicants

Per Capita Income Monthly (In Rs)	Number of Applicants
25 - 50	2
50 - 100	2
100 - 125	12
125 - 150	24
150 - 175	21
175 - 200	25
200 - 225	19
225 - 250	8
250 - 275	2
275 - 300	4
300 - 325	2
325 - 350	5
TOTAL	126

TABLE 6.6

Loanees Against Whom Action was Taken

Year	No notice	First reminder	Second reminder	Third reminder	Legal action
1982	1			1	
1983	28	8			
1984	12	5	5	1	2
1985	6	2	2	4	1
1986	17	-	3	1	1
1987	4	3	4	-	-
1988	4	1	1	-	-
1989	6	-	-	-	-

TABLE 6.7

Account Completed and Ownership Documents Taken Back

Year	Name	Amount of loan taken (Rs)	Date of year of of taking loan	Closing of account
1983	David John	6 000	28 February 1983	05.07.1989
1983	Peter Joseph	6 000	6 April, 1983	31.10.1986
1983	S. A. Singh	2 000	15 April, 1983	28.11.1983
1983	Alfred Ambrose	10,000	20 May, 1983	23.05.1984
1983	James Sahai	6,000	15 October, 1983	17.01.1989
1983	Balbir	5,000	12 December, 1983	23.04.1987
1984	Asha Rani	5,000	10 April, 1984	09.06.1988
1984	Asthur John	10,000	13 April, 1984	29.03.1988
1984	Ram Dayal	10,000	25 June, 1984	18.02.1988
1985	Upil George	10,000	8 July, 1985	07.07.1989
1986	Suresh Hinz	5,000	1 October, 1986	08.11.1988
1987	Alex Sevurea	10,000	27 May, 1987	11.01.1989

CHAPTER VII

CONCLUSIONS AND IMPLICATIONS

A Framework of Housing Finance System For Low Income Households

7 Conclusions and Implications

This chapter is broadly divided into two parts. First part deals with the major implications of the study, and sets a background for a broad framework for housing finance system for the urban poor. The suggested model emphasises the need for community-based initiatives to tackle the problem of housing finance for the poor. In this context, cooperatives' role is highlighted. Further, a key element in the model is the crucial role of non-governmental organisations, especially in the context of organising the poor into groups or cooperatives. Needless, which NGO (or NGOs) to involve in the task is something which would clearly vary from one situation to another and should be decided on merit. Also in India, there is a large University and College population enrolled as National Service Scheme members, and they can be motivated to participate in the task of organising the poor into groups or cooperatives. For this purpose they would of course need some orientation and training. Another major fall out of organising the poor into groups or cooperatives is the possibility of local leadership to emerge from within the community itself

7.1 Prospects of Institutions

The importance of housing finance as an important component of housing delivery system was recognised in the 1970's with the setting up of HUDCO and HDFC. It was, however, only around the launching of the Seventh Five Year Plan (1985-1990) that the need for developing a responsive housing finance system was felt. The Plan document also emphasised tapping of household savings rather than relying on budget allocations for supply of housing funds. It was felt that for the development of a housing finance system, a national level apex housing finance institution, having functions of coordination and regulation of the sector, would be an essential pre-requisite. The RBI indeed appointed a Committee under the Chairmanship of Dr. C. Rangarajan, Deputy Governor, which examined the institutional framework for housing finance and supported the idea of an apex housing bank and and recommended the setting up of HDFC type new institutions to mobilise household savings and provide house loans. In July, 1988 a national level institution called the National Housing Bank (NHB) was created as a subsidiary of the RBI and has been authorised to make or guarantee loans, to undertake research and training and to provide guidelines and technical assistance to housing finance companies. Over the last five years or so, a number of market- oriented housing finance companies have also been set up, some with the support of HDFC and some with the support of commercial banks and other formal sector financial institutions.

A major constraint faced by HFIs in extending their operations has been the shortage of loanable funds. The situation has worsened by a new government directive which prohibits housing finance Institutions from accepting deposits for a period of not less than 24 months and not exceeding 84 months from categories like individuals, charitable trusts, etc. Earlier, HFIs could accept deposits for 6 months and beyond and upto 60 months from these categories of depositors. The rationale for this decision is that since housing loans are relatively for long periods, it is necessary that there is no undue mismatch between the duration of deposits and lending portfolio. This is curious since NHB has observed that HFIs should mobilise resources mainly by way of deposits from households with minimum reliance on borrowings from institutions. Moreover, since the lending rates are regulated by NHB and RBI, HFIs have to operate at very thin margins. Clearly, unlike the corporate sector which offers 13 per cent to 14 per cent interest on deposits/debentures, the HFIs cannot offer the same interest rates. This is bound to adversely affect the mobilisation of savings from the household sector. In case the HFIs are to mobilise additional household savings, they will have to be permitted to raise short term deposits say for 6 months from individuals in order to compete with instruments which have higher interest rates on medium and long duration loans. This indeed is a retrograde step. NHB's offer of limited refinancing facilities to HFIs may however offset to some extent the problem of funds.

A dialogue has also been initiated in regard to the need, desirability and the pros and cons of developing a secondary mortgage market with a view to increase the flow of funds into the housing sector. However even if we are able to establish a well-developed housing finance system in India, it is doubtful

<u>that the needs of all households especially those of the low income households will be adequately met.</u> Indeed, as the past experience of the working of several HFIs shows, a large part of housing funds are given to households which are above or at best close to the median incomes. The exception being the HUDCO which has made substantial contribution to the housing of the EWS and low income households[1].

As we saw a major constraint of conventional housing finance system in the context of low income households is the restrictive nature of the prescribed criteria and terms for the grant of housing loans. Moreover, since the HFIs would like to safeguard the interests of the depositors as well as their own interests, and justifiably so these institutions, given the existing environment, would be somewhat inhibited to modify terms to suit the paying capacity of low income households.

As is well known, a basic principle of housing finance policy is the method employed to determine the eligibility of loan applicants. These generally consist of a minimum level of income, an assured flow of income (and hence stable, dependable employment and regular savings) and provision of acceptable collateral. Given India's highly skewed income distribution in favour of the poor and the dominance of self-employed in tiny trades and businesses, a large majority of the households is clearly barred from access to housing finance at the start. Also, since most HFIs insist upon satisfactory collateral for the loans such as ownership of property and easily marketable assets including securities most low income households are unable to meet this criterion. What these households have are assets in other forms such as store inventory, basic tools of their respective crafts and trades, and sometimes even jewellery, etc. These items which are [illegible] and valuable are usually easily marketable, and indeed acceptable as pledges for loans from private money lenders. These items are however not acceptable as collateral to housing finance institutions. Sometimes even when HFIs agree to provide loans against personal guarantees, it is not easy for the low income households to locate persons with regular and stable incomes who would be willing to act as guarantors and at the same time acceptable to HFIs, except in very rare cases. For instance, in the case of small and marginal farmers in rural areas, it is possible to link recovery with harvest-earnings. For self- employed in small trades/businesses, the repayment schedule is to be monitored almost on a weekly (if not daily) basis.

Another major gap in most existing credit instruments is the inbuilt rigidities in repayment schedule. Clearly any credit instrument addressed to the lower income households ought to take into account the irregular and uncertain income flows, and of necessity must the specific requirements of various earning groups. Therefore to extend the access of low income groups to housing credit, appropriate measures need to be taken to hedge the risks faced by HFIs. The other possibility lays in creating new financing institutions with different mandates and priorities.

So far as the conventional housing financing institutions are concerned they are bound to be conservative in their lending operations with emphasis on commercial viability. Therefore one alternative is to create new institutions which would overcome some of the limitations inherent in conventional financing mechanisms. Sometimes, in this context the role of cooperatives has been emphasised, especially for lower income households. Indeed, SEWA experiment of Ahmedabad is one example

of having achieved good results. It is, however, difficult to assert whether their experiment can be successfully replicated in other parts of the country.

7.2 Current Debates and Assessment of Existing Recommendations to Government

In the last couple of years there has been a major change in the attitude of the government towards the problem of housing and housing finance. Three major initiatives are worth mentioning. Setting up of a National Commission on Urbanisation (NCU), announcement of National Housing Policy (NHP), and establishment of National Housing Bank (NHB). The NCU has submitted a detailed, all embracing report on all aspects of urbanisation including issues of poverty, shelter and slum development. One of the major proposals concerning the urban poor is the 'New Deal for Poor'.

The second major development is the announcement of a National Housing Policy in the Parliament in May, 1988. This policy has quantified the housing shortage, proposed minimum norms and fixed a target date for liquidating housing shortage by 2001. The policy has also elaborated on issues relating to informal sector housing and slums. Further, the Policy had proposed setting up of a National Housing Bank. The policy has, however, not adequately touched upon the special needs of the poor, their inability to provide mortgage or collateral required by formal sector financial institutions nor has it touched upon the issues of affordability or recovery mechanism[3]. It may be in order to point out that this policy is being reviewed by the New Union Government, and a new housing policy document prepared by the Ministry of Urban Development is being debated.

The third major development is the setting up of the NHB. The NHB has already announced a scheme for contractual savings for 5 years for being eligible for a housing loan as well as a Refinance scheme. The NHB has adopted "Poor Man First" as its slogan. However, NHB has not announced any programme for the people living in informal sector/slums and has confined itself to the formal sector[4].

One of the critical areas of the housing problem in urban India is the growth of slums and squatters. Both NHP and the NHB have very little to offer in this respect. No innovative scheme has been drawn up to bring about an interface between the informal sector housing and formal financial institutions. Also no solution has been offered to deal with the problem of growing slums. In fact looking into the structural changes in the economy since the First Five Year Plan, there has been a steep reduction in the contribution of agriculture sector to GDP from 65 per cent to 35 per cent, while the rural population has declined only by a little over 5 per cent. In view of the drastic sectoral change in GDP, drift to urban areas of the growing population of landless poor in search of jobs is likely to increase sharply. To deal with this problem the government has however made no serious attempt for settling the migrant poor in the cities. This can result in a rapid growth of slums in future unless urgent attention is paid to employment and spatial planning. The Seventh Five Year Plan has for the first time made a conscious attempt to address urban poverty issue directly. The Plan has taken note of the growing incidence of poverty in urban areas, and that persistent migration from rural and semi-urban areas has led to rapid growth of slums in many cities. Accordingly, it has laid emphasis on improving the living conditions of slum dwellers and has given a thrust towards employment generation and creation of productive jobs. The Ninth Finance Commission (1989-90) in the first report has also made a special mention of the growing decay of the National cities of Bombay and Calcutta and has recommended a grant of Rs 50 crores for each city for slum clearance and environmental improvement of slums and provision of basic amenities. They have recommended the release of the grant subject to a matching grant by the State governments concerned.

The financial structure in the country has to an extent responded to the growing awareness of the housing problem. The NHB has announced a savings scheme, a refinance scheme and a land development scheme. The other financial institutions like LIC, GIC, Commercial Banks and, UTI have already floated or are in the process of floating subsidiary housing finance companies. Except HUDCO none of these however seem to have plans to offer any innovative financing package to meet the housing requirements of the low income households. An exception is the HDFC floated company called Gujarat Rural Housing Corporation (GRUH) which is providing housing finance for low income groups in small towns and rural areas of Gujarat. This is the first conscious attempt of the private sector to move towards low income financing. An innovative measure adopted by GRUH is, for instance, the linking of loan repayment schedule to agricultural seasons.

The prospects for the housing finance institutions to meet the demand for housing finance are certainly brighter with the coming in of new institutions most of which are backed by major financial institutions. However, as already mentioned, it seems unlikely for the formal sector Institutions to undertake on any large scale the financing of informal sector housing. The National Commission on Urbanisation has mentioned, very aptly, that `down-stream' financial institutions need to be set up but without elaborating on the same. It is these nascent `down-stream institutions' which could provide the `missing link' in our housing finance system suiting the requirements of low income households.

The link or downstream institutions, in order to provide a proper interface with the financial institutions of the formal sector at one end and the low income households at the other, would in general have to be community based financial institutions. This is so because such an institution to be viable has to have very low overheads, close supervision of loans, a collection system which is sensitive to the earnings-pattern and an environment which is congenial and not intimidating to the poor, usually illiterate or semi-literate members of the society. Such a link institution, also needs technical expertise and guidance. This would therefore necessitate the setting up of a large number of such community based cooperative institutions with such functions as mobilising savings, implementing urban basic services programmes, providing home improvement loans, and servicing them properly.

Apart from various government initiatives as outlined above, there is a popular movement which is also gathering some momentum. This is the National Campaign for Housing Rights. This campaign has produced a draft `Bill of Rights' for Housing and has started a campaign for Housing Struggle in India. This organisation is a quasi-political organisation which is taking up the issue of housing as a legislative and a legal issue. It considers the Directive Principles and Fundamental Rights provided in the

Indian Constitution as the starting point. Its ultimate goal is to ensure that Housing is declared as Fundamental Right under the Indian Constitution.

From the foregoing, it is clear that the existing financial system is unlikely to adequately serve the needs of low income households. Also it is doubtful whether various government initiatives would contribute substantially to create an environment which would be conducive enough to generate a viable housing finance system appropriate to the needs and circumstances of the lower income households. Further, the experience so far does not offer any definite clues towards evolving a viable replicable housing finance system for these households. The debates and solutions suggested have so far been at best tentative and of ad-hoc nature. The data base is also grossly inadequate for the purpose.

If we are serious in addressing ourselves to the problems connected with providing housing finance to low income households, the solution does not lie with the HFIs at least in their present set up as they, of necessity, will continue to follow `conservative' lending policies keeping the low income households beyond their reach. Indeed if we examine the history of building societies in U.K., we find that housing finance for `low income groups' at best went as far as the upper end of working class and the lower end of the middle class. We will also have to change our perceptions about the consumption and savings behaviour of low income households, as the results of various surveys cited in this study as well as other recent studies indicate that it is possible to restructure the expenditure of these households with a view to stepping up their savings provided, they are convinced that such a restructuring would serve their long-term interest. In fact these households are even prepared to liquidate some of their assets if this can lead to home ownership.

7.3 Role of Community-Based Institutions

Despite what has been said above, it is our considered judgement that HFIs may still participate in some manner in advancing housing loans to low income households provided the risks are hedged or at least reduced. The 'link institution' in our scheme of thinking through its close relationship with each member of the community would be able to correctly assess affordability and repaying capacity of these households and feed the required information to the HFIs willing to operate with such communities. Also, as already indicated, in the context of recovery of loans, provision of group loans besides being convenient may also reduce default risks through group pressures. This underlines the importance of organising housing finance through the community or the cooperatives with the NGOs providing the necessary link and support.

As already mentioned earlier an action research being currently experimented in Delhi is Punervaas to evaluate the effectiveness of community-based initiatives, especially with the help of NGOs. Punervaas acts as a catalyst in promoting community-based effort in slum/squatter clusters through the institution of multi-purpose cooperative society. Promotional and extension work including its operations in the initial period is being carried out by carefully identified NGOs of proven track record. A set of Model Bye Laws prepared by the Punervaas for the formation of multi-purpose cooperative societies is provided to the NGOs. These Bye Laws have three distinctive features. First, they assign a pivotal role to women as primary members followed by their husbands (or other male members) as joint members. This is done to ensure repayment of loans as well as to reduce the risks of property changing hands. The second feature concerns the active involvement of NGOs in day to day functioning of the cooperatives by nominating its representatives on the Managing Committees. The third feature is the multi-purpose nature of these cooperatives so that they are not merely concerned with housing-related issues but would also undertake such other functions/activities as would enhance their incomes, look after personal health and promote social hygiene. As we would see later these cooperatives have also the aim of inculcating the habit of thrift among its members through a compulsory deposit scheme. The cooperatives will also be encouraging the setting up of consumer stores which would not only serve the needs of the members but would also provide financial stability to the cooperatives.

7.4 Political Philosophy

In discussing issues relating to housing for the poor, it is difficult to ignore altogether the aspirations of the poor and consequent political compulsions - where inevitability of some concessions cannot be ruled out. An important instance is the local pressure to get the deferment (and sometimes even waiving) of recovery of loans. This can adversely affect not only the circulation of housing funds according to a specified schedule of advances/recovery, but more importantly cuts into the very roots of financial discipline which is so essential for the success of the system.

The Bangladesh Grameen Bank experiment as developed by the Chittagong University has indeed ensured that there is no involvement of locally elected officials or government functionaries either in the disbursement or in the recovery of funds. While admittedly this is most crucial to the model that we are suggesting - but it would be useful to take note of the political reality - in our context.

One way to overcome this problem of political interference at one end and general bureaucratic indifference to the issues of the poor on the other is to consider the possibility of an 'outside' catalyst which would (or would be willing to) mediate between the political reality and the unorganised poor. What we are suggesting is the new, growing role, nationally and internationally, of the voluntary sector popularly known as NGOs. We have through a number of illustrative case studies outlined the significant role being played by the NGOs in India and elsewhere. What is left to be demonstrated is however the question of replicability - as hitherto these experiments have been tried on limited scale and in very specific situations.

In proposing a model for housing finance system for the poor, we take note of this, and attempt a more versatile model which, with suitable modifications to take into account the local conditions and circumstances of the households, may find wider applicability. Before we formally give an exposition of the model, we discuss the constructive role which NGOs would be required to play in the successful implementation of the model.

7.5 Housing Finance for the Poor and the Role of NGOs

The interface between a formal level financial institution and the poor household requires, what has been described earlier, a `Link Institution'. The building up of link institutions on a macro-scale covering urban and rural areas is a mammoth task requiring deep commitment and adequate funds. While the Grameen Bank approach, which started as an NGO, was adopted by the Government of Bangladesh after taking into consideration all factors and a special institution set up for the poor at the national level, it appears that a cheaper and better alternative could be to utilise the services of fast increasing voluntary agencies or Non-Government Organisations (NGOs). An NGO can be a good catalyst in mobilising the poor in an area, especially if they have already been engaged in carrying out some kind of activity in the area. If the purpose is to form community based financial institutions, like the cooperative structure, it would be advantageous to utilise the special qualities of NGOs. The main role that an NGO can play is to get itself identified with the community and gain the confidence of the people in the area with a view to propagate amongst them the merits of organising themselves into a group not only for facilitating loan procurement, but also to help them to effect improvements in all other aspects of their living. It has been felt that NGOs can also help in convincing the poor of the advantages of "enabling policies" - policies that can guide, stimulate and create an environment in which resources can be fully exploited for providing shelter to the poor.

NGOs are seen as crucial input in the development of such "enabling" policies and NGOs with proven track record can be entrusted with the task of operating as effective intermediaries between government and popular organisations comprising of low income households.

7.5.1 What All Can NGOs Do in the Sphere of Shelter: Experience has shown that NGOs can look after all aspects of shelter from land management and acquisition to infrastructural services, to innovative construction and research, to employment, to finance and legislation, etc. There exists already a vast number of NGOs all over the world including India who have already proved their worth in this field.

It has been noticed that while attempts by the Governments and International Agencies like the World Bank to upgrade slums or provide site and services have had good results, some of the intended beneficiaries of these programmes have moved away to new sites either because of the lack of adequate intrastructure or transport linkage. Further, the cohesion and group spirit which needs to be aroused was missing. The NGOs, on the other hand, generally have an impressive track record in mobilising people into cohesive communities.

On the issue of shelter, the NGOs have many notable success stories like the "Building Together" project in Thailand where with the help of NGO the community constructed their houses on the basis of an area plan that had met with their approval. Building houses together requires time, money and organisation. The role of NGO in coordinating these three aspects in Thailand has by now been well recognised. The promoters of "Building

Together" project were members of academic institutions, government agencies and voluntary organisations. They were united in their effort to explore ways and means of assisting low income people in gaining access to decent housing through their own efforts and therefore, they formed themselves into Building Together Association - a non-profit body. Similarly, in Sri Lanka the Social and Economic Development Centre (SEDC) went in for community development which included sinking of community wells, repair works on water reservoirs and housing. A local development society was formed and the villagers were asked to contribute labour. The NGOs always use the participatory approach as an essential input to their work in contrast to a government or other officially sponsored project where this parameter is often conspicuous by its absence.

7.5.2 **The Interface:** One of the more important aspects of NGO sponsored/supported project is that NGO is usually fully autonomous with little or no government support and therefore flexible in its approach unlike the government supported projects where this is hardly possible. In fact, in many cases the government gives the "blindeye" approval to an NGO. The NGO often takes up projects in a small and isolated area with a specific approach which is commendable but may fail to meet the strict technical standards of government departments. This is particularly true in the urban context where municipal norms are so high that the squatters and slum dwellers are in no position to carve a place for themselves which would be considered fully legal and acceptable. Even on very minor issues the NGO's approach has its merits. For example, in Delhi in a slum cluster, the water supply point was not providing sufficient water for the entire community. Further, the erratic hours were making the waiting unduly long. An NGO which was working in the area proposed to the

Municipality to fix a large storage tank with the water tap so that the tank can fill up as and when the water supply came and the beneficiaries could take the water at their convenience. The NGO was, however, told informally that while they might not be able to give the permission formally, the NGO could on its own put up the tank, and the authorities would turn a "blindeye" to it.

7.5.3 NGO and Acquisition of Land: Many NGOs all over the world have helped in acquiring land for the poor. This has been done in many ways. For instance an innovative approach has been adopted by NGOs in Bangkok called "Land Sharing". When squatters were faced with eviction the NGOs intervened and negotiated with the owners of land and allowed the squatters to retain a portion, vacating the remaining. Such negotiations can generally be carried out successfully with the help of NGOs. Such a policy avoids the hardship of eviction for the poor as also a long legal struggle for the owner. NGO communities around the World have also pooled in their resources to purchase land for the poor.

7.5.4 NGO Pressure Group: In India the NGOs have also been doing some commendable work in creating a pressure group to provide access to land to the poor. The National Campaign for Housing Rights (NCHR) as mentioned earlier is providing a forum for creating consciousness for housing struggle, and has also proposed a bill for Housing Rights. Another NGO in Bombay moved High Court and Supreme Court to fight for the rights of the pavement dwellers. While the Supreme Court in their judgement of July 11, 1985 proclaimed that "eviction of pavement dweller as legal and permissible as long as prior notice is given and the demolition carried out in as humane a manner as possible", and also did not provide for alternative site, it did create national awareness on the plight of the pavement dwellers.

NGO's role in creating a focal point and a pressure group for authorities to act has indeed been well accepted. In India itself Peoples Organisation for a United Dharavi (POUD), a community-based organisation with NGO support has successfully lobbied for better water supply, sanitation and garbage disposal. POUD also pressurised the State government in giving a semblance of legality to the squatters by issue of photopass to all squatters settled before 1976. This was subsequently extended to 1980 on a successful campaign. Similarly mainly through the efforts of an NGO 1500 latrines have come up at Baldia Settlement in Pakistan. Another NGO which has shot into fame is the Sulabh International, an Indian Voluntary Agency which has attempted to make sanitation into a paying proposition.

7.5.5 NGOs and Research and Extension: NGOs are also known to have played a leading role in the low cost construction sector all over the world. While the Government departments are admittedly aware of the progress made in the sphere of low cost construction, they have generally avoided implementing these new innovations in low cost construction technology because of the fear of violating the existing building codes and regulations. The private sector contractors also do not find worth their while to undertake such construction. The NGOs have however been extremely successful in this sphere and have actually brought down the cost of construction through experimenting with new and local indigenous building materials. The International Technology Workshop has done commendable work in developing substitute building materials especially roofing sheets. This has found extensive application around the world. In Mali, the French Voluntary Association (FVA) is using stabilised earth construction techniques to construct community buildings. In Pune, the Centre for Development Studies (CDS) is implementing a community participation project with a view to produce appropriate training material for slum households as also for the community as a whole. Development Alternatives in Delhi is making innovations in mud architecture in order to cut down the costs on building materials.

In short, the above description clearly demonstrates the effective role which NGOs can play as motivators and communicators particularly amongst those communities where it is difficult for official agencies to operate and implement certain innovative schemes and programmes. In the context of innovative housing finance for the low income households, the NGOs have indeed a significant role to play.

7.6 Basic Approach to the Model and Some Suggestions

While there are several alternative approaches to tackle the problem of housing finance for the low income households, it would be in order to first state some of the underlying assumptions within which various suggestions are proposed to be made.

To begin we assume that the formal financial sector has not made any significant contribution to providing housing finance to the low income households except perhaps where this was obligatory. The second assumption is that the low income households on their own are not able to access loans from the formal financial sector in the normal course either because of cumbersome procedures and documentation needed to obtain loans from formal sector or because of their inability to satisfy eligibility conditions which they consider as self-defeating in as much as the chances of obtaining funds are, if anything, low and remote. The third assumption relates to bypassing existing local building byelaws/zoning requirements which are difficult to comply with in the case of housing for the low income households. Further it is assumed the low income households mostly have merely occupancy rights without a proper allotment of land.

However, in suggesting a system of housing finance for LIG housing, we allow for reasonable stability of physical structure of construction (especially for putting one more floor over the ground) and fire safety considerations. The households in our model while with low, uncertain and fluctuating incomes have at least some saving potential specifically for home ownership/ home upgradation. Further, in case this saving potential is absent, we assume the same can be achieved through providing gainful employment and skill upgradation. The financial institutions in our model would insist upon high recovery even though the collection costs may eventually turn out to be a significant part of total advances.

The main thrust of our suggestion is a two tier approach wherein in one scenario - which is high technology/high cost - we envisage the setting up of a specialised banking institution on the model of Grameen Bank/NABARD with features appropriate to local conditions/institutions. The other will be more in the nature of providing an interface with large number of existing institutions, e.g., commercial banks and HFIs on one hand and the informal sector/poor on the other. The structure of the proposed model is described in detail later in this chapter.

7.7 Issues and Problems in Wholesaling and Retailing of Small Housing Loans

Our investigations show that the low income households are generally not availing of loan facilities extended by the formal financial system. As already indicated there are several reasons for this situation. First, and perhaps foremost is the question of providing acceptable mortgage/collateral. We found that most low income households do not own land or have a clear title to it. As is well known the formal HFIs, including the banks, insist upon formal documentation in regard to land and municipal certification. Clearly unless a satisfactory solution to this problem is found, there is little possibility of the low income households getting directly integrated with formal financial system[5]. In our description of various case studies we pointed out several ways in which the issue of collateral/mortgage has been tackled. For instance, DKK/Coops in Indonesia and Grameen Bank) in Bangladesh have done away with need for collateral. As already explained, the group pressure forms the basis of ensuring the recovery of loans. This is done essentially through borrowing circles (comprising of a minimum of five heads of potential borrower households). This system seems to have worked well both in Indonesia and Bangladesh. Indeed a study of Grameen Bank (Bangladesh) has claimed loan recovery to be almost 98 per cent. It is worth pointing out that there are very high costs associated with high recovery rates. In fact, Razia (1988), while pointing out this fact, has indicated the high grant component and professionally operated bank branch networking. Also she points out much of the window dressing done to show good working of Granmeen Bank. These conclusions of Razia have however been disputed by Professor Mohd. Yunus, the Chairman of Grameen Bank.

In India, we cited the experience of SEWA and DCA where personal knowledge of the prospective borrowers and their subsequent track record of repayment formed the basis for providing loans. It is our considered judgement that as a first step to providing loans to low income households on any significant scale it is essential that insistence on following traditional western model of security is dispensed with. It may be pointed out that the western model of collateral/mortgage envisages an effective operation of legal system. Our dialogues with builders, developers, financiers and legal experts have convinced us that even formal mortgage is not always effective in the recovery of loans made because of the known complexities in effective servicing of foreclosure laws. A possible viable alternative is when the Transfer of Property Act permits the sale of mortgage under dispute to a lawyer for enforcement through the formal legal process on a suitable consideration of the sale proceeds in lieu of the HFI fighting the case. It may also be in order to point out at this stage a distinct merit of the cooperatives in that this system provides an internalised legal process for recovery of defaulted amount dispensing with much of the time taken in the Lower Courts in India. Some of the Cooperative Acts in India even permit delegation of actual recovery through bailiffs to the employees of the cooperative finance societies (e.g. Delhi State Cooperative Bank has been delegated with the power to effect recovery after the award of a Cooperative Tribunal through its own staff with powers as enjoyed by bailiffs). Another major requirement of the HFIs and Banks is their insistence on construction of house on own land with proper municipal certification in regard to building plans. Most housing of low income households do not conform to the existing building byelaws or zoning requirements. Also in many cases the land may not be owned by these households. Our surveys of Delhi's slum/squatter settlements and other informal housing on legally owned land usually termed as unauthorised Informal/ construction show that a large proportion of construction does not meet the municipal requirements. This construction is not only not eligible for finance from formal financial sector but it is constantly haunted by the fear of demolition. In this context it would be in order to mention the kind of conflicts that seemed to exist between national goals and policies on the one hand and policies of local bodies on the other.

We also saw the existence of situations where even for construction on legally allotted land by competent authorities (as in the case of 120 sq.ft. plots of DDA, Delhi), the insistence of the formal sector banks to produce mortgage permission from concerned authorities has been responsible for holding back the loan. Obtaining such permission was reported to be both cumbersome and time consuming, and hence kept out almost every potential borrower from seeking loan from the banks. Our talks with NGOs operating in respective areas also convinced us that the banks are hardly keen to deal with such petty loans especially considering the risks and costs involved in loan recovery. Besides the problem of collection, advancing loans entail lengthy paper work and documentation and permission similar to those applicable to very large loans. Another important aspect in this context relates to reconstruction in slums/squatters settlements where no one takes formal municipal sanctions for construction - irrespective of the fact whether the construction is through self-effort or through official agencies entrusted with such tasks. Clearly in these situations where no municipal sanctions are taken the question is whether the formal institution will provide the funds. The existing experience is that wherever such housing advances have been provided by formal sector financial institutions (especially the banks), it has been mainly because of the significant role played either by an established NGO or concerned local authorities or local level network.

The reluctance of the banks in providing small loans to LIHs with uncertain incomes and risks in loan recovery is understandable, and one can therefore appreciate the bank manager's dilemma in providing such petty loans as he himself is accountable for recovery, as well as the good record of the bank. The costs and time involved for the Banks operating on high cost technology are clearly of low priority. However, there are known situations where, in order to meet the targets, the bank manager may be persuaded to operate such schemes[6].

Retailing of small housing loans, when properly conceived and tailored possibly has the chances of high recovery as indeed has been the experience of Grameen Bank in Bangladesh and HDFC in India (although the latter has essentially confined itself to formal sector). The cost of recovery can be brought down substantially if wholesaling is done by the formal sector institutions and retailing is done through community/group based institutions where we saw that group/community responsibility able to bring pressure on potential defaulters - reducing the chances of losses on account of defaults or non-payment. The recovery mechanism of a formal sector bank is a high cost one as it has high overheads. Second, banks do not generally go door to door to collect loan instalments. In case this is required, it adds to their costs. Third, banks prefer recovery on at least a monthly basis if not quarterly. With Low Income Households, frequency of collection has to be weekly, if not daily, and door to door. In view of what has been said, it is reasonable to infer that retailing of loans and its recovery by formal sector institutions may not be viable, and consequently innovative methods will need to be evolved for the purpose. In this context we showed the superiority of a community-based institution.

In conclusion, it is worth mentioning that Grameen Bank is a high cost option. In India, at the national level we have to follow the low cost option because resources may be a major constraint. Also as has been demonstrated cooperatives with as large a membership as 200-300 persons are viable and are a low cost alternative.

8. A Framework for Housing Finance System for Low Income Households : G. K. Link Model

In this section, we now propose a model of housing finance for the low income households. The model is an outcome of the action programme currently carried out in Delhi by the Punervaas. To begin with the thought process leading to the eventual development of the model, henceforth called G. K. Link Model due to Devendra Gupta and Sanat Kaul who introduced the crucial concept of a link institution in the model, is outlined. This is followed by presenting the main structure of the model and its underlying assumptions. In the light of the experience of Punervaas action research, we indicate some of the limitations of the model. The proposed model while incorporating a number of innovations, considers the specific needs and circumstances of the target group as well as essential requirements of the formal sector institutions. The housing finance system proposed has all the characteristics of a semi-formal housing finance system (SFHFS) since a number of requirements associated with conventional financial mechanism and procedures have been either dispensed with or modified to suit the housing market under consideration.

8.1 The Background

We have seen that the formal financial sector because of its conservative policies has not been forthcoming to provide housing loans to low income households[7]. Also the LIHs, even if they are aware about the availability of lendable funds from financial institutions, are generally inhibited from seeking housing loans from them largely due to rather restrictive loan terms, especially those relating to collateral and downpayment requirements, and rigid repayment schedule. Besides, cumbersome procedures and lengthy paper work required of them usually act as deterrent to seeking loans.

It must however not be construed to imply that the formal financial institutions are not keen on providing housing loans on liberalised terms with the possibility of relaxing downpayment and collateral requirements. Lack of knwoledge about the precise economic and financial circumstances of the LIHs however acts as a barrier to providing loans. The HDFC is perhaps the only formal sector institution which has at least made a serious attempt to reach the LIHs through the use of local level network. For i tance, in one case they have used the cooperative of small traders and in the other the services of an NGO to obtain first hand knowledge of the potential borrower households belonging to low income groups and unorganised sector. Clearly, these are isolated experiments and their viability and replicability are yet to be established. These attempts however underline the need for some kind of an interface between the formal financial sector and low income/unorganised sector households with a view to making an impact on the process of integrating LIHs with formal financial sector. This model has certain limitations. They relate to identifying local level networks by formal financial institutions, implicitly imlying knowledge about the existence of a local level network, and that these networks have effective rapport with potential borrowers. Here we also assume the initiative to come directly from the financial institution. Clearly if the LIHs are themselves keen to reach the formal sector, the question arises as to whether they need to go through a local level network whose effectiveness vis-a-vis the formal sector institution is generally not known. Another possible gap in this model concerns the respective roles which may be assigned to financial institutions and local level networks in dealing with various formal sector non-financial institutions involved at various stages of shelter provision.

In order to overcome some of the above mentioned problems which formal sector institutions encounter in identifying local level networks with established credibility amongst potential LIH borrowers it is essential to seek an alternative model capable of providing an interface on a continuing basis beetwen the formal sector financial institutions and the unorganised low income households. It is in this context that we propose a model wherein we introduce the concept of a link institution which, on one hand, is familiar with the functioning of formal sector institutions, both financial amd non-financial, and on the other hand has close association with local level networks working (or willing to work) with cluster of low income/unorganised sector households. The link institution has, among other things, the objective of identifying the potential beneficiaries and organising them into groups and sub-groups preferably into multipurpose cooperative societies through the institution of local level networks. The Link Institution will, if considered necessary, also promote and develop viable economic activities in the community through training and skill upgradation programmes for raising the earning levels (and hencce saving capacity) of these low income households. The Link Institution is assumed to have the necessary access and clout to deal with various official and non-official agencies to assist in the process of formation of cooperatives and to render such assistance, including land tenure/occupancy rights as would facilitate effective interface. The Link Institution in our model is also assumed to have a long term interest in the community. One way to achieve this is by encouraging these groups/cooperatives to become its members. An important function to be performed by the Link Institution relates to its acting as a conduit for providing information to the formal sector institutions, especially the HFIs, about the socio-economic characterists of the prospective borrowers including their earnings, savings potential and repaying capacity. It may also negotiate in securing at reasonable premium rates life and general insurance cover for the households under group insurance/master policies. An important task envisaged for the Link Institution is to foster amongst the LIHs the habit of thrift through regular collection at intervals convenient to savers for eventually building up a corpus of funds for providing temporary advances for various purposes including for starting new economic enterprises, and other short term needs. In the latter category, mention may be made of advances to households who finance part of their home construction or upgradation usually through distress sale of assets at a price less than the fair market price. In order to prevent this to happen these funds may be utilised to provide bridge loans or short-term advances after pawning these assets. Similarly during prolonged illness or such other episode in the family when it is wrecked financially and incurs heavy debts, these funds can be readily made available to save them from sinking into a zone of permanent poverty. The principal role proposed for the Link Institution is essentially that of a facilitator, mainly in fostering links between the formal sector institutions and the low income households through the use of local level networks. It has the added task of the continuously monitoring the progress of various activities related to the welfare including shelter provision of LIHs.

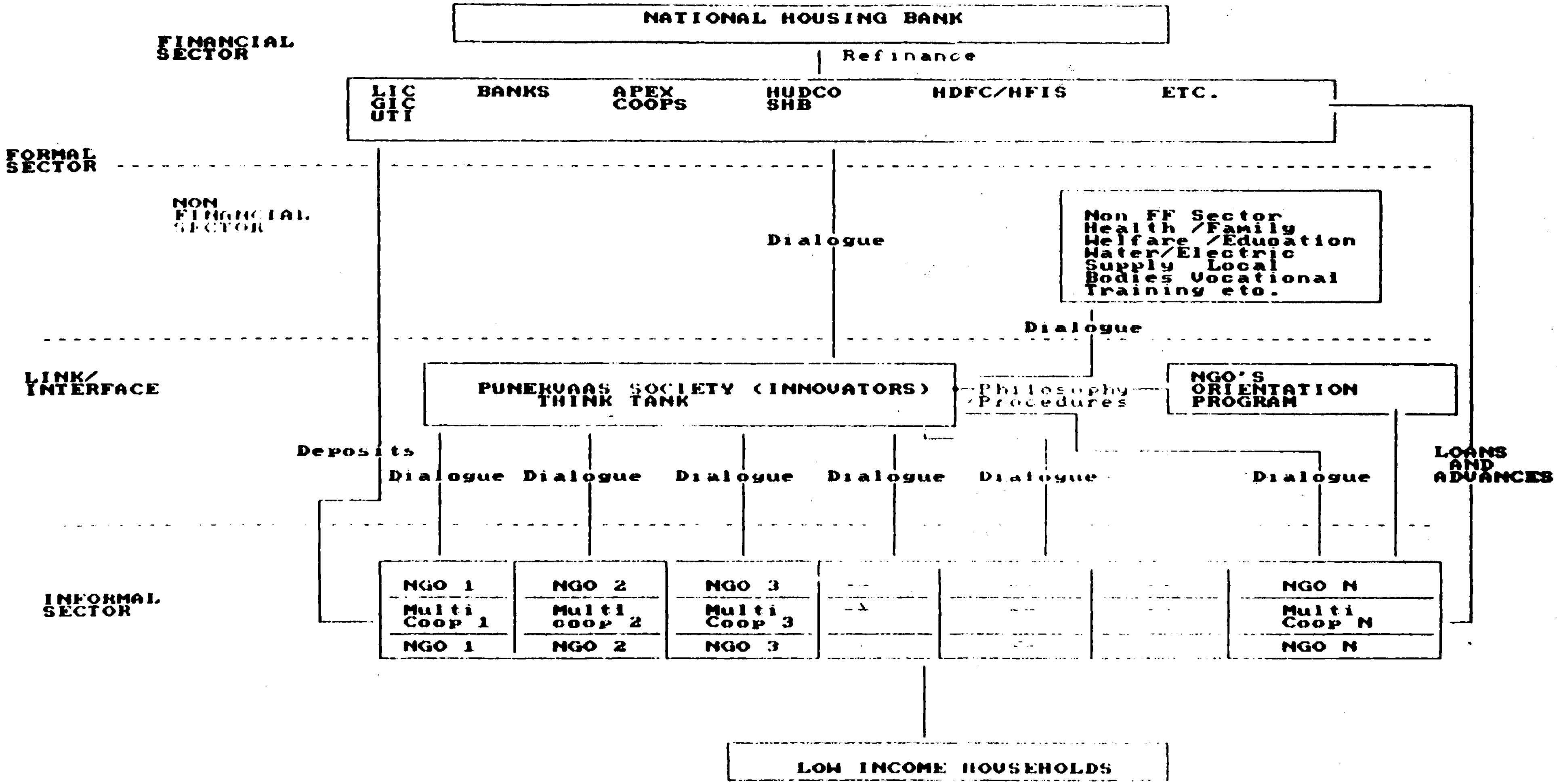
For ensuring cohesiveness of the cooperative/group it is essential that the local level network/institution integrates members by bonds which would deter them from leaving or deserting the community. This can be done by (i) assigning all/any occupancy right/renewal right for housing in favour of the Link Institution or the local level network; (ii) evolving saving schemes and build up a corpus of funds for the institution; and (iii) by providing a social security cover like fire, theft and personal accident insurance and perhaps also group life insurance, on lines similar to landless agricultural labour or IRDP beneficiaries as is being done presently by the LIC.

8.2 The G. K. Link Model

8.2.1 Structure of the Model: In the proposed model depicted in figure, the interface between the formal sector institutions, financial and non-financial, and the low income households is effected through a link institution called Punervaas. This interface is achieved in two stages, both operating simultaneously. In the first stage of interface, an NGO carefully chosen, works with the target community of low income households[8]. The underlying objective is to motivate these households about the significance of quality of life. For this purpose specific programmes, such as training programmes for skills upgradation, promotion and development of micro-enterprises, conducting health, social and personal hygiene and literacy programmes, propagation of cooperative ideals and formation of cooperatives, etc., are planned to be initiated with the help of NGOs and other appropriate agencies. Before the NGO begins working with the community, the Punervaas through appropriate workshops and orientation programmes familiarises the NGOs with the philosophy and ideals of the movement, as well as with the procedural requirements essential in the smooth implementation of the programme. In these programmes various functionaries of formal sector institutions, NGOs and representatives of target group communities participate; the aim being to provide a forum for greater appreciation of the problems and constraints of principal actors or participants in the system, and to evolve mutually acceptable procedures, norms and strategies for improving access to housing funds from formal sector. The Punervaas in the proposed model has the responsibility of apprising various formal sector agencies of the problems of the low income households in accessing housing funds and may seek the intervention of various official and non-official agencies to find ways of overcoming these problems within the overall framework of existing laws of the land.

A key element of the model consists in mobilising the target groups into multi-purpose cooperatives with women as first signatories with male members as joint owners[9]. This is done on the assumption that women are generally superior at repayment of loans and are not easily tempted to sell off their dwellings. To expedite the process of cooperativisation, the Link Institution may also consider it prudent to prepare model byelaws acceptable to Registrars of Cooperative Societies. The task of educating and mobilising the community into a cooperative and its subsequent registration will in general be assigned to the selected NGOs. The key role assigned to cooperatives in this model arises (apart from performing such functions as bringing group pressures on its members to comply with various requirements), from the fact that the members do not have tenurial or occupancy rights on the land they are currently residing/ occupying, the formation of cooperatives may help in temporary occupancy rights from the concerned agencies on the explicit understanding that the land would be vacated when alternative satisfactory site has been provided

8 2.2 **Modus Operandi**: As would be clear from Figure 7.1 Punervaas or the Link Institution is the centrepiece of the model. Starting from bottom the low income households mostly belonging to the informal sector, are first exposed to NGO's who are selected with great care and caution. The NGO's, with necessary orientation about the philosophy of the Punervaas movement, are assigned the task of mobilising the LIG households into multi-purpose cooperatives. For this, the NGO's would carry out the necessary extension work of educating the LIG households of the advantages of working through groups and cooperatives. This function is clearly in addition to other normal tasks like health, education and hygiene which NGOs perform. The specific responsibilities to be assigned to NGOs in this model would however depend on a number of factors and may vary from one community to another depending upon local conditions and socio-economic characteristics of these households.



G K LINK MODEL
LIG HOUSING FINANCE

Figure 7.1

For efficient functioning of cooperatives and avoiding (or at least reducing) the possibility of intra-group rivalries within the communities, the model seeks to provide adequate representation to the NGOs on the management of the cooperatives. It would be seen from the figure, the chosen NGOs are simultaneously inter-acting with the target group and with Punervaas, the Link Institution. A major purpose of providing interface between the NGOs and the Link Institution is to use the NGOs for apprising the Link Institution about various problems experienced by the LIG households in obtaining loans from formal sector institutions. In turn the Link Institution is to use its network/good offices (as indicated in the Figure, with both formal sector financial and non-financial agencies to find mutually satisfactory and acceptable solution to various problems to facilitate to the formal sector financial sector to advance loans to the LIHs.

It may be reemphasised that in this model, the role of the Link Institution is essentially that of a facilitator, and provides such intellectual inputs as would bridge the information gap that may exist in bringing about an effective interface between the formal sector institutions and the low income households. So far as deposit mobilisation and advancing housing loans, etc. are concerned, the role of NGOs and the Link Institution consists in laying down broad strategies and norms to deal effectively with problems concerned with say collaterals, downpayment, repayment schedule, municipal certification of building plans, title on land, etc. which usually act as deterrents to providing formal loans to the low income households.

8.2.3 Assumptions of the Model.

As would be clear from the foregoing description, the G.K. Link Model is based on a number of assumptions, and violation of any of these would possibly restrict its applicability. Some of the underlying assumptions may be restated as:

1. The target group has the saving potential for home ownership /upgradation. In situations where this potential is not existing currently, the model envisages raising saving potential through skill upgradation and other economic programmes for gainful employment.

2. Funds availability is not a major constraint.

3. While neither the poor are able to access these funds nor the formal sector institutions are able to reach the target group for various procedural and institutional reasons, there is willingness on the part of the formal sector institutions to advance housing funds to the target groups, as well as of the target groups to derive benefits from funds availability for shelter in a mutually acceptable financial environment.

4. The voluntary agencies or the NGOs have the necessary commitment, motivation and infrastructure to work actively in various tasks assigned to it towards the cause of shelter provision to LIHs.

5. The 'Link Institution' providing an interface between the formal sector agencies (financial and non-financial) and the target groups via the NGOs has the necessary personnel, credibility and status to play an effective role expected of it.

6. The target group comprises of persons who do not have (i) acceptable shelter with or without legal rights on the land, and (ii) access to housing finance. The low income households or the target group in our scheme need not necessarily have to be strictly covered by the official definition of EWS/LIG households, as indeed some of the slum dwellers who are above these official

income limits, need assistance for home ownership/ upgradation. However, only modest shelter assistance is envisaged in the model.

7. The model is essentially a low cost option model in the context of meeting credit needs of low income households by the HFIs.

8. The last but not the least, the government and its various agencies have the necessary commitment and concern for the welfare of the poor, and willing to initiate such policy changes/modifications as may be required to implement the programme without undue delays, etc.

8.2.4. Features of the Model

For convenience and to provide focus we now summarise some of the salient features of the model. These are:

1. Given India's resource constraints, the G.K. Model unlike the Grameen Bank model Bangladesh which operates on high administrative subsidy through grants, is envisaged as a low cost option with least subsidy (and if possible no subsidy) not only on account of interest charges but administrative expenses as well.

2. In the proposed model recovery of dues are designed to suit the economic circumstances of low income households. For example, the practice of door to door collection of small amounts on a daily/weekly basis, if necessary, is adopted. Similarly the proposed model has the inbuilt capability of adopting flexible terms and conditions connected with loan recovery.

3. Use of group pressures and coercion by invoking powers conferred under the appropriate acts of cooperative societies.

4. The inbuilt flexibility of the model to mop up additional savings from low income households through innovative non-conventional saving instruments, including the practice of undertaking door to door collection of savings even in very small amounts on a daily/weekly basis.

5. The insistence on collateral to be replaced by group pressure and group guarantees through the instrument of cooperativisation, and women, to the extent possible, as members of cooperative with the male members as second signatories.

6. The model shall have certain non-financial features as family planning, health care, education, etc.

8.2.5 **Summarising and Experience**[10]: Our experience with Punervaas action research has opened up the possibilities of its success on a country wide scale, but with suitable modifications. There are, however, certain lessons which are worth sharing. First, the success of the model is largely dependent on the commitment, experience and capability of NGOs. Without their firm commitment and sustained interest in the community, the model is not likely to achieve the desired success. Thus the selection of the NGOs should be done with utmost care. To the extent possible, NGOs with proven track record should be involved. Secondly, the Link Institution should have as its members persons with necessary expertise, vision, and leadership qualities to inspire confidence not merely amongst the target groups and NGOs but also amongst various formal sector institutions, financial and non-financial. Further both financial institutions and official agencies concerned directly or indirectly with housing programmes should have a positive attitude to effecting such changes and modifications as would facilitate the HFI´s to provide housing funds to low Income households. It may be worth emphasising the fact that the proposed model provides only a broad framework and would need modifications and continuous updating in the light of the experience gained over the period to suit the specific target communities.

The contribution of this model basically lies in assigning a key role to the Link Institution which, being close to both formal and informal sectors, helps HFIs to devise saving and lending instruments appropriate to the specific economic and financial circumstances of the low income households. It also plays a major role in helping remove many of the obstacles and disabilities preventing provision of funds by the HFIs.

Given the scope of the present study there are some important issues which have not been adequately dealt with. They mainly relate to interest rate policies especially in the context of cross-subsidisation, and the criteria in choosing target groups. While NHB has implicitly done away with the income criterion, HUDCO norms of assistance take into account not merely income but also the size of the plot.

It would not be unfair to conclude that the proposed model will remain a piece of document unless both political and bureautic machinery lend their active cooperation at all stages of the implementation of the project.

A word of caution. The poor are likely to be disillusioned by any undue delays in project implementation once it is taken up - and hence much advance preparation is necessary before the project is actually taken up for implementation in the field. Also success in one or two pockets may raise unduly high expectations amongst similarly placed communities and hence continuous dialogue with various official and non-official agencies at all stages is necessary.

9. Concluding Remarks

In conclusion it would be in order to mention that we have not touched upon the fiscal incentives mainly because the low income households are outside the tax net. Also our attention has been confined mainly to slum dwellers and squatters, usually having irregular and unstable incomes of low magnitude. We have also on purpose avoided any discussion of those low income households whose earnings are generally regular and stable, and therefore outside the risk zone so far as housing finance institutions are concerned. Indeed HDFC is financing such low income households as primary school teachers in regular employment with the government and army jawans. Further, housing funds are being advanced by HDFC to corporate sector for their employees' housing.

In these concluding remarks we would in the context of the poor also like to underline the need for an integrated approach to housing. Merely providing shelter serves little purpose unless supplemented by efforts to correspondingly increase the affordability of the poor by raising their earning levels through creating job opportunities. Also given the smallness of loans, community-based housing finance system has a clear edge over other systems especially in the context of loan recovery. The need for devising flexible lending instruments to suit the specific circumstances and nature of earnings of most low income households should be kept high on the list of priorities. In regard to raising resources through household savings, we belie that to link it with the quantum of lending is neither necessary nor desirable, first, despite all what we have said earlier in the main body of the text it is an expensive proposition and may unduly raise the costs of funds, and secondly the household savings may indeed be not adequate to meet the housing finance needs of the poor. Therefore, it may be desirable to give due emphasis at raising resources from capital markets or else rely on government funds. We are not suggesting that saving habit need not be inculcated amongst the poor - indeed all through our text we have emphasised this aspect. Our emphasis should be more on ensuring fullest recovery even if this implies high collection costs as the writing off loans or amnesties of any sort will clearly have demoralising influence on the more honest loanees. In this context, mention of Bangladesh experience of Grameen Banks where the role of women and integrating shelter strategy with measures to improve economic conditions of the poor may be made where generally loan recovery rates are reported to be almost close to 98 per cent.

Finally, in the context of the poor, loans for upgradation of housing are important, and any system of housing finance should encourage such loans. Bridge loans should also be provided to the poor to save them from liquidating their assets movable/immovable at a price less than fair market value. This is particularly crucial in the case of migrants who, in order to own a house, would not hesitate to liquidate their assets back at home in rural areas at a price lower than what they can fetch in a normal situation. In this context it would be in order to mention that a large part of the savings of the poor is not in cash but in assets such as jewellery, etc., and hence the need to ensure a fair price of assets.

We may add that we are not in favour of setting up a new Housing Finance agency for the low income households as has been suggested sometimes since the existing HFIs will in due course build up expertise to undertake this task. Instent we suggest a consortium approach wherein the various HFIs and other financial institutions interested in LIH housing would pool their resources, financial and physical, and evolve a common strategy. In this pool, contributions in the form of levies on housing loans from the affluent should also form an important integral part. This can partly provide cushion or guarantees against defaults. `This is particularly crucial´ from the viewpoint of viability since they have the capacity to internalise any subsidies that may be needed for the purpose.

Another option is the use of local level networks. The HDFC promoted GRUH reaches out to local level networks including the NGOs to administer and disseminate housing finance, and these networks in turn are reported to have "positive incentives to utilise GRUH´s financial services". The Punervaas acting as a link institution to provide dual interface between NGOs and low income households and between NGOs and formal sector institutions, financial and non- financial - in our judgement is an option worth experimenting with on a large scale to contribute to housing and housing finance needs of the low income households.

The proposed G. K. Model is clearly a tentative one, and would require thorough scrutiny and debate before it is adopted on a wider scale.

Notes

1. It is worth pointing out that HUDCO cannot be classified as a conventional HFI. Its entire lending operations are based on guarantees from State governments and banks, and as such without risks unlike the conventional HFIs.

2. Discussing the Housing for the Poor, the NCU mentions the need for the establishment of a specific institutional mechanism for providing poor households with greater access to affordable loans and establishing, with the help of voluntary organisations, linkages between the formal and informal sector. It goes on to recognise the need for devising lending mechanisms for the poor suiting their irregular income and incremental building methods.

3. Dealing with housing finance, the NHP has on the following to say about housing for the LIG. "The role of HUDCO will be strengthened for dealing comprehensively with Weaker Section and low income groups in both rural and urban areas". The NHP further states "Housing Programmes based on subsidy imply an uneconomic use of scarce resources. They also lead to inequities among the poor, and have an adverse effect on loaning programmes. These programmes will therefore be progressively substituted by suitable loan-cum-subsidy programmes devised to optimise the use of scarce resources on an equitable basis".

4. One of the businesses permitted by the National Housing Bank Act to the NHB is `formulating one or more schemes for the economically weaker sections of the society which may be subsidised by the Central Government or any State or any other source´.

5. In some cases where land is owned, residential construction upon it may not be permissible under the zoning laws.

6. In some cases of housing loans for SC/ST the Government guarantees 75 per cent of the loan. This is a disincentive to the bankers to recover loans as the effort involved in their recovery would be disproportionately high.

7. It may be interesting to point out that the commercial banks which have substantial funds for housing of scheduled castes/scheduled tribes (under Rs 5,000) do not make any serious effort to recover these loans as a large percentage of defaults (almost 75 per cent of the principal amount) carry government guarantees.

8. An NGO may already be operating with a particular community adopted by Punervaas for shelter upgradation, etc. NGOs usually work with such communities in the areas of health, hygiene and literacy.

9. This is not always possible. The endeavour is however to have as many women members as possible. One way of enforcing this is to give priority to LIH communities agreeing to accepting the principle of women as first signatories.

10. For a flavour of Punervaas modus operandi, see Appendices I and II to this chapter.

SLUM WING
DELHI DEVELOPMENT
AUTHORITY

PUNERVAAS

A HABITAT MOVEMENT

DELHI CO-OP
HOUSING FI
SOCIETY L

Slum Wing DDA / DCHFS endeavour to promote community based innovative finance through NGOs self-help and multipurpose cooperatives for upgradation & home improvement

Innovators
Sanat Kaul
Fellow, Vinod Dixit Foundation
Manjit Singh
Commissioner (Slum & J.J.R.) D.D.A.
K.S. Mehra
Registrar, Cooperative Societies, Delhi
Devendra B. Gupta
H U D C Professor, National Institute of Public Finance & Policy New Delhi
H.C Joshi
General Manager, DCHFS

THROUGH SETTING UP COMMUNITY BASED FINANCIAL INSTITUTIONS

"The most demanding of the urban challenges, unquestionably, is the challenge posed by poverty : the challenge of reducing exploitation, relieving misery and creating more human conditions for working living and growth for those disadvantaged people who have already made the city their home or are in the process of doing so. The task of adequately feeding, educating, housing and employing a large and rapidly growing number of under-nourished semi-literate, semi-skilled, under-employed and impoverished city dwellers living on pavements, in poorly serviced chawls, in unhygienic slums, in illegal and squatters' colonies and in other forms of degraded and inadequate settlements and struggling to make a living from low paying and unstable occupations, is the challenge facing Indian planners.

2. If the present trends persist in the coming decades, the urban landscape will continue to mirror even more galringly, the ills and contradictions of Indian society today : economic disparties, social inequalities, cultural alienation and increasing deprivation for a large number of its people. In the cities, there will be more skyscrappers and in them more spacious and luxurious apartments for a privileged few ; at the same time the number of those who squat in squalor and drink from the drains will also increase. The poor and the unskilled from the rural areas will continue to flock to big cities in the the hope of employment and a better life, only to add to the growing number of unemployed and cause futher deterioration in the quality of city life.

3. There is a considerable body of evidence to show that the growth path selected by India has not led the poorest sections of population to better living standards nor has it led to a reduction of inequalities in any visible manner. The share of the poorest 30 per cent in the consumer expenditure has remained nearly stagnant during the period 1958-78. It is paradoxical that this should have happended despite the annual average rise of income by 3.5 per cent."

- Report of the National Commission on Urbanisation.

THE OBJECTIVE

4. Punervaas is a habitat movement which endeavours to bring together Slum Authorities, Co-operatives, N.G.Os and Financial institutions with the basic objective that the poorest of the poor in our cities would help themselves in improving their living conditions. It is proposed that Punervaas would act as catalyst in the process of formation of multi-purpose cooperatives of small

clusters of Slum Dwellers with the help of N.G.Os. It would help improve upon their economic condition and habitat collectively through environmental imrpovement and individually by facilitating obtaining loans through the cooperatives from concerned agencies. Further, it proposes to help the cooperative to draw up its plans for its habitation and income imrpovement activities so that the members are able to build their own habitat on the basis of self-help and collective efforts and improve upon their incomes. With this they would also improve their repayment capacities. Attempts will also be made to ensure that the maintenance of the so formed cooperative habitat is carried out by the cooperatives themselves. Education in terms of knowledge of cooperatives, social hygiene and health, etc. will also be provided with the help of N.G.Os, Cooperative Training Institutes and concerned developmental agencies of the Government. Technical education for developing certain skills could also be imparted through the cooperatives.

5. At the National Policy level, from Slum eradication and removal, the policy has now shifted to slum improvement as and when possible. Otherwise shifting to an alternative site into plot size of at least 30 sq.mtr. is required (with built-up accommodation on not less than 10 sq.[illegible]). The Urban Basic Service (UBS) programme, which has a Central budget allotment of Rs.2[illegible] crores covering 200 towns includes Environmental Improvement of Slums (EIS). The UBS involves participative role and as pointed out by the Report of the Urban Commission a National Programme can not be mounted unless "an institutional frame-work, broad and strong enough to bring citizens and serving agencies together to pool their resources and work in cooperation is created for achievement of what are essentially common goods." Punervaas is one such attempt. In addition, "the New Deal for the Poor" as recommended by NCH provides for a thirteen points package for implementation in the 8th and 9th Plan period for intervention in (i) income and employment, (ii) basic services (iii) shelter (iv) public distribution, (v) social security and (vi) NGO Sector. It envisages an investment of Rs.10,750/- crores over 5 years and includes a sum of Rs.6,000/- crores to be advanced through re-lending priorities of the Financial Institutions.

FINANCING LOW INCOME HOUSING THROUGH COMMUNITY BASED FINANCIAL INSTITUTIONS.

6. "Reconciling the requirements of housing finance institution with the requirement of low income groups for access to affordable loans raises the question of how financial services can be adopted to requirements of the incremental construction process through which the majority of low income households build their houses. Community Based Finance Institutions (CBFI) are another approach to the introduction of formal loan arrangements in the informal housing sector." - Global Report on Human Settlement 1986 (HABITAT). The Report of the High Level Group of RBI on the proposal to set up a National Housing Bank submitted in February 1987 stated that "Absence of decentralised housing finance and delivery points is the biggest weakness of the existing housing finance system. The only local level institutions at present operating are primary housing cooperative societies." Punervaas institutional model can provide such a community level financial system which can help the financial institutions locate an intermediary link institution and also reach the poorest of the poor. However, it would be the endeavour of Punervaas to stress upon the cooperatives so formed to use their judgement in fixing affordability criteria in giving loans.

SEMI FORMAL FINANCE: THRIFT AND CREDIT

7. "Several approaches have been tried to overcome the limitations of informal finance for the

non-cooperate sector - many government programmes of direct, low cost lending have experienced serious difficulties. Two types of lending arrangements, which fall in the grey area between informal and formal finance, offer some promise. These are groups lending scheme and cooperative financial institutions, which can be found the world over" World Development Report 1989 - It is generally believed that people in the informal sector live hand to mouth and have very low affordability limits for loans. However, some new research into these pockets have shown that slums need not be 'Slums of Despair' but could be 'Slum of Hope' and savings potential does exist in these pockets provided community based financial institutions are properly organised. There are many case studies available from various parts of the third world where such institutions have been organised with success. This is, of course, not to say that there is no debt problem in these areas, which is also generally quite high. Punervaas also aims to build up a financial structure of thrift and credit so that small savings are mobilised and small business loans for self-employed are given. It is proposed that all members of the co-operative will contribute a compulsory 'Deposit' of Rs.15/ per month which could be withdrawn under Special Circumstances as prescribed in the bye-laws and will need the approval of the managing committee. This is to imbibe the habit of thrift.

OTHER SCHEMES

8. There are a number of technical education, skill promotors schemes of the Govt. which are providing free or subsidized services like the Environmental Improvement Scheme, Urban Basic Services Schemes, Family Welfare Scheme, Small Loan Programmes, Self Employment Porgramme for Urban Poor (SEPUP). It would be unfair to expect the lowest strata of the society to meet all the cost of its habitat improvement when government provides free of cost or at subsidized rates to others. It is, therefore, proposed that Punervaas would take advantage of all such programmes for the habitat/livelihood improvment, arrange soft loans, as far as possible and thereafter only go in for market oriented loans, if considered necessary.

COLLECTION MECHANISM.

9. Affordability criteria has to be evolved with due care as it is crucial to a good recovery system. However, in a situation of informal sector occupations, it is necessry that cost recovery systems are made flexible to suit the requirements of the members. Firstly, frequency of recovery becomes an important item. Frequent collection perhaps even on a daily basis will be required so that people who earn on a daily basis do not fritter away their earnings. Secondly, the people have to be made aware of their loan obligations and penalities. While penal interest can be charged in default, powers to remit should rest in the co-operative Managing Committee for those who have had a tragedy like death. These could be specified in the bye-laws. It has also been felt that incentives to pay on time, like discount provided on electricity bill, could play a more positive role rather than penal interest. Further, additional loans could be considered for those with proven previous track record of repayment as is being done in the Grameen Bank of Bangladesh. Cost of recovery is an improtant aspect of any financial institution. While close monitoring of recovery becomes important, the costs involved will have to be kept to barest minimum.

OTHER ACTIVITIES

10. It would be the endeavour of Punervaas to also help each co-operative organise its collective business activity which will help all its members. For example each co-operative could

run its own consumer store alongwith a Fair Price Shop. Further, maintenance would be an important aspect of the cooperative activity. It is proposed that an amount of Rs.25 per month would be levied on each households by the cooperative to provide street lights, water, drainage and some social security.

SPECIAL ROLE FOR WOMEN

11. One of the features of the Punervaas movement is the pivotal role being assigned to women in the schemes. In view of this the endeavour will be to enrol women as primary members of the cooperative followed by their husbands as joint member. This will, it is hoped, ensure better repayment of loan as well as reduce the risk of change of hand of the property mainly because women are found to be much better at both repayment of loans and retention of property. In this connection, we have the example of SEWA Co-operative Bank of Ahmedabad where only women are made members and they have achieved a high degree of recoveries.

PUNERVAAS AND NATIONAL POLICIES

12. Punervaas movement is in total consonance with the underlying objectives and priorities as laid down in the National Housing Policy and in conformity with the New Deal for the Poor as envisaged in the report of the National Commission on Urbanisation-Punervaas has also drafted model bye-laws to facilitate the formation of multi-purpose cooperatives.

PUNERVAAS AND N.G.Os

13. A salient feature of these bye-laws is the role assigned to the N.G.Os in not only helping motivate the slum cluster to form cooperatives, but also in its management. This will be effected by a provision that will enable the Registrar, Co-operative Societies to nominate four members in consultation with Commissioner (Slums) to the managing committee. This will enable the N.G.O's continuity in helping a particular cluster and also give them a formal role in the management. Disputes, if any, between members of the cooperative will be settled by the Registrar, Cooperative Societies as per the State Co-operative Act. It is hoped that each N.G.O. will continue its association with a Slum cluster for at least about 5 years.

MORTGAGE AND SECURITY AND COLLECTION

14. Since financing the poor for shelter or for economic activities has severe limitations, as the existing financing institutions are unable to release funds without proper mortgage and security, it is the endeavour of Punervaas, to draw upon its goodwill and strength to provide the appropriate atmosphere to enable the formal institution to lend its funds to the lowest strata of the society. Financial intermediation in terms of a community based institution becomes necessary to interface with the existing organised financial sector and Punervaas hopes to help provide such a link by arranging cover security mortgage/surety of an acceptable kind. Attempts would be made to arrange tenurial right over to land under occupation in favour of the cooperative after a new layout has been drawn up which generally reduces to area of occupation. In case this is not possible, attempts to arrange [illegible] rights for the cooperative till alternative site allotted. This could be used as collateral mortgage. Recovery of loans is also a issue which requires special handling and recovery methods mechanisms need to be modified from those of the existing formal financial

institution to suit the requirements of people working in informal sector. Frequent recovery by the Slum Co-operatives will be encouraged in this connection each cooperative will have to have in house collection system which is both effective and accessible. However, taking into account the erratic nature of informal sector occupations, some innovation in the system of recovery will have to be brought in at the level of the co-operatives. Experiences of similar attempts at collection by the Grameen Bank in Bangladesh and SEWA Cooperative Bank in Ahmedabad will be kept in mind.

RECOVERY & FORECLOSURE

15. The model bye-laws provide for effective recovery, group pressure and foreclosure. One of the innovations which needs to be emphasised is the group pressure which will operate on delayed repayment. Delayed payment could disqualify the member from voting right as well as will automatically suspend him/her from the executive commitee in case he/she happens to be a member. Individual electric connection could also be linked up with proper payment and it would be mandatory for the cooperative to deny electricity to a defaulter. Foreclosure procedure, as provided in the Cooperative Act, would be strictly followed in case of default beyond 6 months. As the Cooperative Act provides for its own arbitration and recovery mechanism, it is likely to be more efficient than the Court.

SOCIAL SECURITY & INSURANCE

16. One of the aims of Punervaas is to provide social security for members of each cooperative. Attempts would be made to provide Group Insurance for life, fire, theft, etc. Punervaas will take up this issue with L.I.C/G.I.C. Each cooperative could also have its own funds like education and medical fund out of the profits of its economic activity.

DISSEMINATION OF INFORMATION

17. Lack of information is one of the major issues concerning poor. In almost every study there is evidence that lack of awareness and information by the poor is most regressive aspect of a programme. The National Institute of Urban Affairs, in their study of 'Urban Poverty' - Study of Perception' has stated.

"The result of this Study ...... has confirmed for instance, the nagging fears that perception of different population groups are different on several critical aspect of poverty. The study has uncovered a high level of ignorance about various poverty alleviation programme, with level of ignorance higher particularly among those who are expected to benefit from them. It speaks of the failure of the implementing agencies to adequately publicise the programme in the right manner. There is a consensus amongst different categories of respondents with regard to the problems of the poor. Almost two-third of the respondents have confirmed the widely held view that the main problems of the poor are related to incomes, employment, shelter and basic services: with income and employment being listed at the top of the problem". Punervaas intends to keep its members fully informed through dissemination of information through the cooperative network.

THE MONITORING COMMITTEE

18. The activities of the Punervaas and its affiliates are monitored by a Committee consisting

of the innovators and the NGOs besides speical invitees, if any, which meets at frequent intervals and sorts out issues with the NGOs. Punervaas has already taken up the following slum areas of Delhi where it is planned to help the slum dwellers to help themselves into multi-purpose cooperative societies (absentee occupants will be excluded) and help them in obtaining necessary assistance in persuance of the basic objectives of Punervaas movement.

19. Punervaas will continue to add new slums clusters to its list of activities. Punervaas also proposes to extend its activities to other towns and cities and is in the process of locating suitable local persons/points for the purpose.

Sr. No.	Name of NGO and Address	Location of Slum Cluster	Name of Organiser	No. of households
1.	ASHA B6/94 (FF) Safdarjung Enclave, New Delhi.	Ekta Vihar Sector-6 R.K.Puram New Delhi.	Dr. (Mrs.) Kiran Martin	418
2.	TACET 40, Tuglakabad, TACET Academy, Instl. Area, New Delhi.	Raghubeer Nagar, New Delhi	Dr. Pearl Drego	1120 (Appx.)
3.	JAGRAN E-7/10-B Vasant Vihar New Delhi	Alakhnanda Kalkaji New Delhi	Mrs. Aunojona Roy	1200 (Appx.)
4.	All India Centre for Urban & Rural Dev. 5, Bhai Veer Singh Marg, New Delhi.	R.K. Puram New Delhi	Mrs. Pritam Arora	1100 (Appx.)

PUNERVAAS

A HABITAT MOVEMENT

SLUM WING
DELHI DEVELOPMENT
AUTHORITY

DELHI CO-
HOUSING
SOCIET

Slum Wing DDA / DCHFS endeavour to promote community based innovative finance through NGOs self-help and multipurpose cooperatives for upgradation & home improvement

Innovators
Sanat Kaul
Fellow, Vinod Dixit Foundation
Manjit Singh
Commissioner (Slum & J J R) D D A.
K S. Mehra
Registrar, Cooperative Societies, Delhi
Devendra B. Gupta
D F C Professor, National Institute of Public Finance & Policy New Delhi
H C. Joshi
General Manager DCHFS

REVISED SCHEME OF PUNERVAAS FOR ALL ROUND DEVELO MENT OF SLUM DEWELLERS THROUGH THE INSTITUTION O MULTI PURPOSE COOPERATIVES

C.S. may kindly recall discussions held with him on 18th August 1989, regardi organisation of slum clusters in Delhi through PUNERVAAS. Based on the discussic ,we have revised our approach and philosophy and have prepared a brief note on it copy of which is placed below. We have now proposed to convert each jhuggi clus into a Multi-purpose Cooperative which will lay stress on all round integrated devek ment including U.B.S. scheme rather than only shelter needs. The emphasis has n shifted to building up a sound thrift and credit base for overall socio-economic devek ment. The objective would be to set up a community based local financial institutio which will cater to the financial needs in all respects including small business loans well as supplimentary shelter upgradation loan. This approach is now based on detailed interaction with Chief Secretary, Delhi Administration, Vice Chairman, D.D. and the Chairman, HUDCO.

It is also proposed to provide a social security cover through master policies with L.I.C G.I.C. Discussions with these two institutions are already at an advanced stage, a we are in the process of negotiating an acceptable premium. Preliminary results appe to be encouraging.

The role of women is being emphasised and it is proposed to make each married woma the primary member of the Slum Dwellers Cooperative Multi-purpose Society.

We have proposed that each household will contribute about Rs.50/- per month to th cooperative for the following purposes-

1.	Maintenance Fund, which will include water, electricity, sanitation etc.	Rs. 25.00
2.	Licence fee and insurance premium (General and Group)	Rs. 10.00
3.	Compulsory Deposit*	Rs. 15.00
	Total	Rs. 50.00

*With a view to forming the corpus of each society a Compulsory Deposit scheme of Rs 15/- per month for each member has also been proposed.

Over and above this Punervaas / Slum Wing will arrange with Banks/HUDCO and othe financial agencies for low interest loans (currently Rs.5000/- at 4%). The collection o these loans will be the responsibility of each cooperative and will be closely monitore by Punervaas/Slum Wing.

Now, on the objective would be to coordinate various resources available unde different sectors to offer them timely and efficiently and also integrate them for optimum utilization for weaker section communities integrated development.

Punervaas needs your personal intimate involvement in this THRUST.

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Source Notes and Limitations

In the preparation of this report, we have mainly relied on the annual reports of various government and non-government agencies (cited in the bibliography). The other major documents used in the study are: Report of the National Commission on Urbanisation, National Housing Policy (May, 1958), and circulars of National Housing Bank.

The survey reports of National Sample Survey Organisation (NSSO) especially various issues of Sarvekshana, and the while papers on National Accounts issued by the Central Statistical Organisation (CSO), the Reports of AIDIS, "Reports´ on Currency and Finance" an annual publication of the Reserve Bank of India, \`Economic Survey´ published annually by the Department of Economic Affairs (Vol. I) issued by the Centre for Monitoring Indian Economy constitute the basic sources of information of culling out data on Indian economy.

So far as case studies are concerned, we have relied on information already available with the concerned field agencies. They have in some cases been supplemented by personal visits to the projects.

Most informations used in the country study have official acceptability, except where specifically mentioned. One major gap is that data on various items do not always relate to same time period, and hence viteating comparability. But this in our judgement would not alter or modify the analysis.

Finally, very little information is available on savings behaviour of informal sector households as well as on informal housing finance, and whatever is available, it relates to small groups, consequently generalisations become difficult.

Names of Persons with Whom Authors Interacted

1. Shri S. K. Arora
   Registrar
   Cooperative Societies
   Government of Andhra Pradesh
   HYDERABAD

2. Shri Ram Babu
   Managing Director
   State Housing Board
   Government of Andhra Pradesh
   HYDERABAD

3. Shri H. U. Bijlani
   Former Chairman
   Housing & Urban Development Corporation
   NEW DELHI

4. Father Vincent Concessao
   Delhi Catholic Archdiocese
   NEW DELHI

5. Dr. Vinay D. Lall
   Director
   Society for Development Studies
   NEW DELHI

6. Shri Gautam Chatterjee
   Director
   Prime Minister's Grant Project
   Government of Maharashtra
   BOMBAY

7. Shri [illegible] C. Joshi
   General Manager
   Delhi Cooperative Housing Finance Society
   NEW DELHI

8. Shri M. L. Khurana
   Managing Director
   National Cooperative Housing Federation of India
   NEW DELHI

9. **Shri Michael Lee**
Adviser (Urban Affairs)
USAID
NEW DELHI

10. Dr. Dinesh Mehta
Director
Centre for Environmental Planning
School of Planning
AHMEDABAD

11. Dr. Rakesh Mohan
Economic Adviser to Government of India
Ministry of Industrial Development
NEW DELHI

12. Dr. Nasser Munjee
General Manager
Housing Development Finance Corporation
BOMBAY

13. Shri Mulkh Raj
Director (Finance)
Housing & Urban Development Corporation
HUDCO
NEW DELHI

14. Shri A. K Samantray
Director
Ministry of Urban Development
Government of India
NEW DELHI

15. Shri K. S. Sastry
Chairman
National Housing Bank
NEW DELHI

16. Shri S. K. Sharma
Chairman
Housing & Urban Development Corporation
NEW DELHI

17. Shri Brijjit Singh
Chief (Legal & HPF)
Life Insurance Corporation of India
NEW DELHI

18. Shri Manjit Singh
Commissioner
Slums Wing
Delhi Development Authority
NEW DELHI

19. Dr. Raymond Struyk
The Urban Institute
Washington, D.C.
U.S.A.

20. Shri P. S. A. Sundaram
Joint Secretary (Housing)
Ministry of Urban Development
Government of India
NEW DELHI

21. Shri L. . Tripathi
Secreta
Madras Metropolitan Development Authority
Madras
TAMIL NADU

22. Shri M. . Venkatachalam
Financial Adviser
Housing Development Finance Corporation
NEW DELHI

23. Dr.(Mrs.) Kiran Wadhava
Senior Fellow
Human Settlement Management Institute
NEW DELHI