HOUSING SUBSIDIES IN INDIA
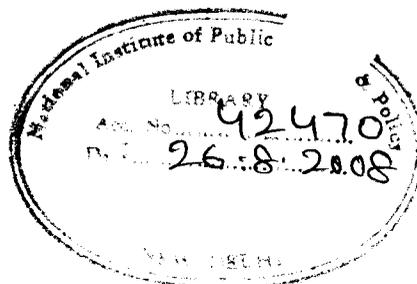
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PREFACE

In July 1994, the Planning Commission entrusted the study on Housing Subsidies in India to the National Institute of Public Finance and Policy.

The terms of reference required the NIPFP to undertake, (i) the estimation of volume and composition of housing subsidy flowing from the Central government, identify weaknesses, and suggest changes to make the subsidy system more transparent and equitable, and (ii) an in-depth study of housing subsidies in the two States, Andhra Pradesh and Tamil Nadu.

This report contains a set of suggestions on the changes that should be effected to make the subsidy system less distortive, more egalitarian and transparent.

Dr. P.S.A. Sundaram who co-ordinated the study initially, prepared the first draft of the chapters 1, 2, 5 and 6. Dr. Rita Pandey wrote chapters 3, 4 and 7 and also led the entire report to its completion. Dr. S. Gopalakrishnan helped Dr. P.S.A. Sundaram in carrying out the first draft of his chapters. Dr. S. Gopalakrishnan and Dr. C. Bhujanga Rao provided support to Dr. Rita Pandey in the final stages of the report. Dr. Govinda Rao provided extensive comments prior to finalisation.

The Governing Body of the Institute does not bear any responsibility for the contents or views expressed in the report. That responsibility of remaining errors lies mainly with the authors.

New Delhi
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Parthasarathi Shome
Director

Table of Contents

List of Tables

Chapter 1

INTRODUCTION: ISSUES AND OBJECTIVES

India today has starkly visible housing problems ranging from people sleeping on pavements, over-crowded and unsafe houses to rising house prices and mortgage costs. The dimension of the problem is very alarming and requires a well planned strategy to meet the aspiration of the people especially the disadvantaged groups.

At the outset, it may seem obvious that public intervention in the housing market is desirable to contain the costs of housing. But, some economists such as Stafford (1978) and Coleman (1989) question any interface with the prices that would prevail in a free market. According to them, the 'very' process of subsidy, public provision, regulation etc., has prevented the market from performing freely. This, in turn, has exacerbated the problems of access to housing.

In contrast to the above ideology, some have argued the need to establish housing as a social service (see Kelly 1986). The main argument is that the quantity and quality of housing consumption has a distinct effect on human welfare and productivity. However, between the polar positions mentioned above there is a wide range of opinion. For instance, Hills (1991) argues that while market can be used to allocate much of the housing stock, there are considerations such as redistribution and equity, which justify public intervention in one way or another. This study does not address the question of desirability or otherwise of subsidy in the housing market. Instead, it attempts to measure the volume and composition of subsidy flowing to the housing sector which is a necessary first step to examine questions relating to

arguments put forth both in favour of and against subsidy for housing.

In India, provision of housing for masses is the responsibility of State governments. In view of the need to give a boost to the housing and other infrastructural development activities of the State and city level agencies and other organisations, the Government of India established the Housing and Urban Development Corporation (HUDCO) as fully owned government company in 1970. The primary thrust of HUDCO, however, is towards housing for the economically weaker sections (EWS) and Low Income Groups (LIG) of population. Further, in recognition of the need for developing a network of specialised housing finance institutions in the country, the National Housing Bank (NHB) was established in 1988 as an Apex Bank, on the lines of the Industrial Development Bank of India (IDBI). NHB is the principal agency to promote housing finance institutions, at the regional and local levels, and to provide refinance and other support to such institutions engaged in the provision of housing/shelter.

From HUDCO and NHB subsidies flow mainly in the form of low interest loans. In addition, both the Central and State governments provide funds through the budgets for various social housing schemes, for construction and maintenance of housing for employees and house building loans to employees. Further, to promote investment in housing/housing sector various tax exemptions/concessions have been provided.

It is commonly perceived that subsidies in the housing sector have grown over the years and due to poor targeting have benefited the rich more than the poor, hence

there is a need to reduce such subsidies. However, there is insufficient information in India on the level and composition of subsidies in the housing sector to examine the above perception. In an attempt to bridge this gap, the present study on subsidies in the housing sector is undertaken.

This study examines the budgetary subsidy implied in the various housing schemes, the interest subsidy on account of concessionality in interest rate and other lending terms, subsidisation of rents of tenements allotted to government employees or the slum dwellers, and direct and indirect support to HUDCO and NHB.

1.1   Objectives of the Study

The objectives of the study as embodied in the terms of reference are:

i.   to identify the main channels of the flow of subsidy to the housing sector, provided through the Central and State governments, financial institutions, and housing agencies;

ii.   to estimate the magnitude of such subsidies in a clearly defined conceptual framework;

iii.   appraising the forms of provision of subsidy viz., capital or interest subsidy and the subsidy on account of defaults in repayment by the beneficiaries, and

iv.   to examine what changes in policies and programmes should be brought

about for the subsidy programmes to be more effective and efficient.

1.2   Data Base and Sample

Information obtained through questionnaires' designed by the National Institute of Public Finance and Policy and circulated to Central and State governments, State level housing agencies and the financial institutions constitute the core data for this study. This is further supplemented by structured discussions with the officials of State level housing agencies and financial institutions.

Secondary data were collected from the publications of Reserve Bank of India (RBI), published accounts and other documents of the State-housing agencies, Annual Reports of housing finance institutions, Budget documents of Central and State governments, Report of the RBI working group on housing finance (1993), and income tax returns of the individuals and companies.

The present study has obtained estimates of subsidy from the Central Government Budget as well as those due to taxation and other policies of the Central government. A number of States are implementing the subsidised housing programmes. However, due to availability of detailed information, established sound housing agencies and considerable experience in implementing various housing programmes, the two States Andhra Pradesh and Tamil Nadu are chosen for estimation of the volume of subsidy.

1.3 Organisation of the Report

This study is organised into seven chapters. In chapter one, the specific objectives of the study, and the main data sources are outlined. Chapter two is divided into five parts. Part one presents an overview of the public housing finance delivery system in India. Part two and three examine various forms and channels of subsidy provided to housing sector. Part four presents a discussion of the concepts of subsidy and outlines method used in calculation of subsidy. While part five presents estimates of the volume of subsidies that flow through housing schemes sponsored by the Central government, HUDCO, NHB and Central government employees' housing organisation.

In chapter three estimates of the volume of subsidy to Government and Public Sector employees through staff housing and house building loans are presented. It also makes some observations on the distribution of subsidy in staff housing and house building loans.

In chapter four estimates of the revenue losses due to tax concessions to housing sector are discussed. In chapters five and six the estimates of subsidies in housing programmes in Tamil Nadu and Andhra Pradesh are analysed. The final chapter focuses on the main conclusions that emerge from the study and offers some suggestions to make the system more transparent and efficient.

Chapter 2

SUBSIDY FROM THE CENTRAL GOVERNMENT

In this chapter we discuss about the public sector housing finance delivery system, the various forms of subsidy, the channels through which subsidy flows to the housing sector, the measurement of subsidy and the estimates of subsidy in Central government housing schemes and also due to Central government policies.

The chapter is organised in 6 sections. In section 2.1, the public sector housing/housing finance delivery system is presented. In section 2.2, the various forms of subsidies are highlighted. The channels of subsidy at the Central government level is detailed in section 2.3. The measurement of subsidy and the method of estimation is discussed in section 2.4. In section 2.5, the estimates of subsidy in Central government schemes is analysed. The final section summaries the observations.

2.1 Public Sector Housing/Housing Finance Delivery System

Houses built by public sector for general public (Central government employee's housing excluded) is the responsibility of State governments. The State governments carry out their shelter schemes through respective housing boards and corporations, municipal bodies and public works departments. Shelter schemes implemented by State governments include, provision of built housing, housing sites, housing related services, loan and/or capital grant for house construction/upgradation

6

and relocation of slum dwellers.

While State governments provide substantial amount of funds, a large part of loan funds of State level housing agencies comes from Housing and Urban Development Corporation (HUDCO). Other sources of borrowing are Life Insurance Corporation (LIC), General Insurance Corporation of India (GIC), Commercial Banks and Housing Finance Companies and State level apex housing finance societies. National Housing Bank (NHB) set up as a subsidiary of Reserve Bank of India (RBI) provides refinance to the scheduled commercial banks, housing finance companies and State level apex cooperative housing finance societies in respect of housing loans granted by them to individuals (including co-operatives) and to public and private housing agencies for acquisition of land, laying of infrastructure and construction of houses. The amounts of fund that these agencies can lend and the terms of loans under various housing schemes viz., Economically Weaker Section (EWS), Low Income Group (LIG), Middle Income Group (MIG) and High Income Group (HIG) housing, are prescribed from time to time by the Central government. While lending agencies prescribe eligibility criterion, cost ceilings and physical standards etc., the responsibility for recoveries and other aspects of management rests with the concerned State level agencies. The lending agencies mentioned above generally give loans under State government guarantees.

In addition to the funds provided by the above agencies, the Central government provides funds to State governments/agencies for various social housing schemes introduced by it from time to time. While the Central government

formulates these housing schemes, the State governments are the actual implementing agencies. Generally, the grant component in such schemes is provided directly to the State governments by the concerned Central ministries. However, the loan component in the schemes is channelled through HUDCO to the State level agencies implementing the schemes.

Besides financing housing schemes sponsored by the Central government, HUDCO provides funds for the State government housing schemes. LIC, GIC and NHB are important sources of funds for HUDCO. HUDCO is able to mobilise resources from these agencies partly on account of provisions which require them to set aside a past of their funds for socially oriented schemes. In addition, HUDCO has access to equity support from the government, government guaranteed bonds and debentures, and other sources as determined by the government from time to time. HUDCO's distinctiveness as a housing agency lies in its social focus and direct emphasis on housing for the economically weaker and low income households. For maintaining and pursuing this focus, it is mandatory on the part of HUDCO to set aside 55 per cent of its total resources for the economically weaker (30 per cent) and low income households (25 per cent).

To enable HUDCO meet its obligations government provides several kinds of support which are both direct and indirect in nature. They are as follows:

the equity capital which until 1991-92, carried no dividend payment by HUDCO;

ii.   a share of credit from the statutory obligations of LIC, GIC and the banking sector;

iii.   the external funds in the form of both grants and loans received from different agencies has been passed on to HUDCO;

iv.   loans from Central government for the purpose of financing housing schemes of the government employees has also been routed through HUDCO; and

v.   access to low cost credit from the capital market includes issuance by HUDCO of tax free bonds, SLR debentures and capgain debentures.

The National Housing Bank, in support of its refinancing programme and others, receives the following kinds of support from the government.

i.   The equity capital on which dividends have not been paid/declared till date.

ii.   Has access to credit from the capital market by issuing SLR debentures, capgain bonds and tax free bonds.

iii.   NHB receives funds under USAID housing guarantee loan scheme and also from the Overseas Economic Cooperation Fund (OECF) of Japan

with the Central government bearing the exchange risk.

iv.   Funds accumulated from the declaration of unaccounted money, in the NHB Voluntary Deposit Scheme, have been made available to NHB.

v.   Deposits under the Home Loan Account (HLA) scheme of NHB enjoy tax concessions under the Income Tax Act.

vi.   A share of credit from the statutory obligations of LIC and scheduled commercial banks are passed on to NHB.

vii.   Profits of NHB are exempted from taxation.

The Life Insurance Corporation of India as well as the General Insurance Corporation of India support housing activity both directly and indirectly. LIC is statutorily required to invest 25 per cent of its incremental resources in socially oriented sectors, housing being one among them. Besides subscribing to bonds/debentures floated by HUDCO and State level housing agencies, LIC grants loans to State governments for their rural housing programmes. LIC also grants loans directly to individuals. Similarly, GIC and its subsidiaries are required to invest 35 per cent of their annual accretions by way of loans to socially oriented schemes including housing for EWS. The GIC supports housing only indirectly by subscribing to bonds/debentures of HUDCO and State level housing agencies.

Besides, the Central government provides rental housing and house building loans for its employees. It contributes towards the seed capital of the Employees Housing Welfare Organisation and allows various tax exemptions and concessions for investment in housing/housing sector.

In brief, the above discussion summaries the operation of the public sector housing/housing finance delivery system. Now let us examine the various forms of subsidy in India.

2.2   Various Forms of Subsidy

Strategies followed for public intervention in housing, in most countries, can be broadly labelled 'supply side' and 'demand side' strategies.

Two commonly used instruments for pursuing a supply-side strategy in housing are:

i.   construction programmes in which the government builds its own housing for rent, and

ii.   subsidies to private/public producers of housing.

Till mid seventies, in India, housing subsidies were given mainly through subsidised rental housing. Overtime, the severe resource constraints and also the

failure of rental housing programmes led to a shift in programmes towards promoting owner occupation and from direct to indirect subsidies. The second instrument has been used extensively, however, it is confined mostly to public producers of housing.[1]

The second strategic option available to Governments is to stimulate housing demand by subsidising housing consumers. The instruments used to subsidise consumers are:

i.   tax concessions,

ii.   providing subsidised or free land, and

iii.   provision of subsidised credit.

All these options have been used in India. However, there is little evidence on their effect in terms of inducement to housing consumption of the target groups.

Housing subsidies provided by the public sector, in India, are categorised under three heads: direct subsidies, indirect subsidies and regulatory measures. Direct subsidies include the provision of built housing or plots under various social housing schemes, low interest loans and grants for ownership housing and rent free or concessionally charged residential accommodation to employees.

Built up housing has been provided on both ownership and rental basis under various schemes of Central and State governments. Under these schemes, beneficiaries have included government employees industrial workers. EWS and LIG households.

These schemes provided two types of subsidies to the beneficiaries - the price paid for the house was less than the market price and the rent charged on rental houses was lower than the market rate of rent.

Under various social housing schemes individuals are provided loans at low rates of interest. In addition to this, both Central and State governments, and public sector organisations provide loan at low rate of interest to their employees for house construction/purchase/repairs/alteration, etc. Also, commercial banks provide low interest loans to SC/STs.

Indirect Subsidies include exemption of imputed rental income to owner-occupiers from income tax base, deduction of mortgage interest upto a maximum of Rs. 10,000 to owner occupiers, deduction of mortgage repayment up to a ceiling of Rs. 10,000 per year to house owners, deduction of deposits made in approved housing finance institutions and deduction of interest/dividend earned upto a ceiling of Rs. 10,000 on such deposits and income tax exemptions/deduction to profits of certain housing finance institutions.

Regulatory measures include rent control acts, prescription of interest rates for loans for housing, urban land ceiling act and restrictions on private sector to reserve and sell plots/houses at predetermined prices to EWS and LIGS.

In this study only direct and indirect subsidies are considered. In the discussion that follows we present the various housing schemes and other channels of subsidy at

the Central government level considered in this study.

2.3 Channels of Subsidy at the Central Government Level

Subsidies at the Central government level can be categorised into (i) subsidies through the Central budget and (ii) subsidies that are not directly from the budget such as subsidies through tax concessions and government supported borrowings of HUDCO and NHB.

The following subsidies through the Central budget are considered.

a. **Indira Awas Yojana.** The first major direct intervention of the Central government in the provision of rural housing was the introduction of the Indira Awas Yojana (IAY) in 1985-86 as a programme for providing fully subsidised houses for SC/ST families and freed bonded labourers below the poverty line in rural areas. The target group has now been expanded to cover the non-SC/ST poor, subject to the condition that the benefits to the non-SC/ST should not exceed 4 per cent of the total IAY allocation. This scheme is operated by the Ministry of Rural Affairs and Employment (MRAE). IAY is a sub scheme of the Nehru Rozgar Yojana (NRY). Since inception to the end of March 1995 about 18.5 lakh houses have been built under the scheme. The outlay has been substantially raised from Rs. 437.69 crores in 1994-95 to Rs. 1,000 crores in 1995-96.

The unit cost of the house, including provision for sanitary latrine and smokeless chullah and the cost of infrastructure, was raised with effect from January 1994, from Rs. 12,700 for plain areas and Rs. 14,500 for the hill/difficult areas, to Rs. 14,000 and Rs. 15,800, respectively. The entire cost is provided as subsidy by the Central and State governments in the proportion of 80:20. The construction is to be done by the beneficiary, with an emphasis on local materials and low cost technology. However, in a number of States, the construction was done by Public Agencies.

b.   Other Rural Housing Schemes. A new Centrally sponsored Rural Housing Scheme was introduced in 1993-94 in order to support State governments in their efforts to expand rural housing supply for weaker sections and families below the poverty line. Three types of rural housing schemes are operated viz., sites and services, shelter upgradation and the construction of new houses. The schemes are operated by MRAE. Finance for these schemes is provided as grants to the State level agencies which implement these schemes.

c.   The Scheme of Housing and Shelter Upgradation. The Scheme of Housing and Shelter Upgradation provides assistance for housing and shelter upgradation to the economically weaker sections living in urban areas. A loan upto a limit of Rs. 3,000 at 6.25 per cent rate of interest and a capital grant of Rs. 1,000 is provided under this scheme to each beneficiary. The scheme is operated by the Ministry of Urban Affairs and Employment (MUAE). The capital grant is shared between the Central and State governments in the proportion of 80:20.

d.   NRY Training Grants. In order to derive maximum benefits from the above scheme and also to make it fully operational, grants are being provided under Nehru Rozgar Yojana (NRY) through HUDCO towards training for upgrading the construction skills of the beneficiaries through Local Bodies and selected training centres. Expenditure incurred under the scheme amounts to Rs. 1,500 per trainee. Financial support for the scheme comes as grants from MUAE.

e.   Night Shelter Scheme. This scheme, introduced in 1990, is operated by MUAE to provide night shelter and sanitation facilities to footpath dwellers in metropolitan/large cities. Under the scheme per capita cost is fixed at Rs. 5,000. Twenty per cent of which is capital grant from Central government and 80 per cent is loan from HUDCO. The scheme has now been extended to all urban areas, wherever the problem of footpath dwellers exists.

f.   Reconstruction of Cyclone Affected Houses. The Central government approved a special assistance package in 1993-94 for the reconstruction of houses in rural areas damaged by cyclone in the States of Tamil Nadu, Karnataka and Kerala. The cost of reconstruction of 77,969 houses was met through 30 per cent Central grant, 30 per cent State grant and 40 per cent HUDCO loan. This scheme is operated by MUAE.

g.   Equity Capital to HUDCO. Ministry of Urban Affairs and Employment provides equity capital to HUDCO. As on March 31, 1992-93 HUDCO's share capital was Rs. 185 crores.

.h.   Central Government Employees Welfare Housing Organisation.
Contribution is made by MUAE towards the seed capital of the Central Government Employees Housing Welfare Organisation, which has been set up as an autonomous body for the construction of houses on hire purchase basis for eligible Central government employees. Similar assistance has been provided by the Ministry of Defence and Railways for such organisation set up for housing their employees.

i.   Housing Scheme for Beedi Workers. The Ministry of Labour has been operating two types of housing schemes for the workers engaged in beedi manufacturing. The cost of the subsidy is met out of the Beedi Workers Welfare Fund, which is generated out of the levy of cess on the employers in the industry.

In the first scheme a capital subsidy of Rs. 3,000 and interest free loan of Rs. 10,000 is provided to eligible workers. This is perhaps the only instance of direct assistance for housing from a Central ministry to individuals.

The second scheme is administered through the State governments. The ceiling for the total cost (land and construction) is Rs. 15,000 per tenement at present. The Ministry of Labour provides a capital grant of Rs. 7,500 per house to the State governments. An additional grant of Rs. 1,500 per house is provided for BC soils. Loan of Rs. 6,500 per unit is provided by HUDCO and the balance Rs. 1,000 is contributed by the beneficiary.

j.   **Fishermen Housing Scheme**. In order to improve the living standard of fishermen and provide them with minimum civic amenities, the Central ministry incharge of fisheries introduced the Model Fishermen Villages Scheme in 1985-86. The Scheme was integrated into the National Welfare of Fishermen Scheme in 1991-92. Under the Scheme, selected villages are provided with basic civic amenities like houses, drinking water, community facilities etc. The cost of development is provided as a subsidy, shared equally by the Central and State governments. The ceiling cost of a house (including the development) is Rs. 35,000.

k.   **Workshed-Cum-Housing Scheme for Handloom Weavers**. This is one of the welfare schemes for the handloom weavers operated by the Development Commissioner for Handlooms. Unlike the traditional housing schemes, this scheme provides an improved workplace along with the house for the target group, because weaving is carried on in the house itself by the entire family.

This scheme was introduced for handloom weavers in 1985. It is implemented both in rural and urban areas. The scheme is overseen at the State level by the Director of Handlooms. The unit cost is Rs. 22,500 for rural areas and Rs. 31,500 for urban areas. The Central government provides 70 per cent of the cost as capital grant subject to a maximum of Rs. 14,000. The beneficiary contribution is Rs. 2,000, and the balance cost is provided as institutional loan.

l.   **Maintenance of General Pool Accommodation**. Data available in respect of expenditure on maintenance and repair of General Pool Accommodation

(GPA) and rent receipts on GPA shows that former has exceeded the latter. Difference between the two is reckoned as subsidy from the budget on account of GPA.

m. **Equity Capital to National Housing Bank.** National Housing Bank, which is a subsidiary of the Reserve Bank of India receives funds through equity capital. Since NHB does not pay any dividend to RBI, equity capital of NHB is reckoned as subsidy from the Central budget.

n. **House Building Advance to Employees.** Central government and public sector institutions/organisations provide house building loans to their employees at low rates of interest. Estimates of interest subsidy on house building advance to employees are presented in Table 2.1. For detailed calculations refer to Chapter 3 of the Report.

Measurement of subsidies through these schemes and the method of computation is examined in the following section.

As noted earlier, subsidies that are not reflected in the budget include subsidies through tax concessions and government supported borrowings of HUDCO and NHB. Method used in calculation of subsidy through tax concessions is discussed in Chapter 4 of the Report. However, estimates of subsidy through tax concessions are not presented in this chapter. Due to non-availability of data, estimates of subsidy could not be made for the years 1990-91 to 1993-94 excepting in the case of Section

36(1)(viii). Measurement of subsidies through government supported borrowings of HUDCO and NHB is discussed in the following section.

2.4 Measurement of Subsidy and its Computation

a.   Measurement of Subsidy. In the literature on subsidy, various concepts have been used. In the government budgets, subsidy mainly refers to the explicit payments made to producers to alter their price or output decisions. An example in this context is the case of fertilizer subsidy. The National Accounting concept of subsidy includes the above mentioned explicit payments and the implicit subsidies arising from the losses of departmental enterprises. The concept of subsidy employed in Mundle and Rao (1991) study is broader. "In addition to National Accounts concept of subsidies it includes subsidies to households implicit in the provision of social and economic services below cost as well as the unrecovered cost of loans given and investments made in non-departmental enterprises and co-operatives". However, this study has not taken into account revenue losses incurred in tax incentives and expenditure incurred on transfer payments for the computation of subsidies as these cannot be treated as costs incurred in the public provision of services which could be priced in principle.

In the present study, the concept of subsidy as used by Mundle and Rao is not feasible, unless the attention is focused exclusively on the budgetary subsidies at the macro level. The reasoning is that Central government intervention in the housing sector consists, to a large extent, of transfers to the States, tax expenditures and

directed lending to housing sector at low rates of interest which cannot be reckoned as expenditure incurred in the public provision of a service. Consequently, each form of intervention is dealt with separately for computation of subsidy. Here, subsidy is defined as the unrecovered cost of publicly provided loans and investments made in housing finance institutions and also in the provision of rental housing plus expenditure incurred on transfers to the States and revenue losses due to tax concessions/exemptions.

b.   **Method of Computation.** Subsidy is computed separately for rental housing for employees, house building advance to employees (HBA), equity capital to HUDCO, NHB and Central government Employees Housing Welfare Organisation (CGEWHO), directed credit to HUDCO and NHB and transfers under various Centrally sponsored housing schemes and tax concessions.

While details regarding computation of subsidy in staff housing and HBA, and subsidy due to tax concessions are discussed in Chapters 3 and 4 respectively, this chapter discusses calculation of subsidy on loans, directed credit, equity capital and transfers for housing schemes sponsored by the Central government. Here subsidy is calculated by taking the difference between the rate of interest/dividend payable and the benchmark rate of interest/dividend. Benchmark rate of interest/dividend is the rate at which funds can be obtained or mobilised in the market.[2]

While interest rates in India are administered, there exists at any point of time in the market a large number of interest rates on long term lending. The prime
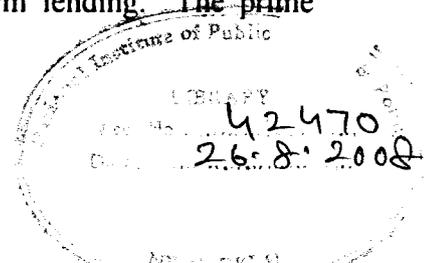
lending rates of term lending institutions,[3] for instance, ranged between 18 to 20 per cent in 1991-92, while the interest rate on non-convertible debentures and bonds was 14 and 13 per cent, respectively. In the case of company deposits the rate was 14 per cent. For purposes of this study, interest rates on assets which are not eligible for tax concessions are used as a proxy for the market rate of interest, these being the non-convertible debentures.[4] Further, dividend rates of Housing Development and Finance Corporation (HDFC) are taken as benchmark dividend rates.

2.5   Estimates of Subsidy

Estimates of subsidy in housing sector from the Central government are presented in Tables 2.1 to 2.4. These estimates are based on annual flows of transfers, loans and investment by the Central government. These estimates do not include the revenue loss to the Central government due to tax concessions/exemptions to individual house owners and housing finance institutions. Due to lack of information, estimates of subsidy due to tax concessions could not be made for the years 1990-91 to 1994-95, excepting in the case of Section 36(1)(viii). In Table 2.1, estimates of subsidy from Central government in the years 1991-92 to 1994-95 are presented. These schemes have been discussed in section 2.3 of this Chapter. In this table Central government subsidy includes subsidy from Central government budget, and subsidy on Central government supported borrowings of HUDCO and NHB. In Table 2.2 estimate of subsidy from Central government budget are presented. This excludes interest subsidies on Central government supported borrowing of HUDCO and NHB. In Table 2.3, the subsidy on borrowings due to Central government support to

HUDCO and NHB is detailed. While, Table 2.4 contains the housing subsidy from Central government. From the estimates presented in Tables 2.1 to 2.4 the following observations are made.

i.   Subsidies in housing sector have grown from Rs. 259.22 crores in 1991-92 to Rs. 432.27 crores in 1994-95 registering a growth rate of 67 per cent during the period.

ii.   Of the total subsidy, capital subsidy constituted more than 90 per cent excepting in the year 1991-92 when it was little lower at about 79 per cent.

iii. The importance of the schemes like Indira Awas Yojana (IAY) has grown over the years. The share of IAY in the total subsidy from Central government has increased from 45 per cent in 1991-92 to about 64 per cent in 1993-94. For House Building Advance to employees it was about 6 per cent for the corresponding period, while in the case of GPA, the share declined from 12.4 per cent in 1991-92 to 10.5 per cent in the following year and rose again to 13.08 per cent in 1993-94. On the whole, IAY scheme benefited most from subsidy of Central government.

iv.   The share of interest subsidy in the total subsidy from Central government has declined over the years. The share fell from about 21

per cent in 1991-92 to about 7 per cent in 1993-94. This is mainly due to decline in subsidy on borrowings by HUDCO and NHB. It has declined from Rs. 34.36 crores in 1991-92 to Rs. 6.21 crores in 1992-93. Thereafter in 1993-94 it has shown marginal increase (see Table 2.3).

v.   Subsidy from the Central government budget formed 86.7, 98.2 and 98.0 per cent of the total subsidy in the years 1991-92, 1992-93 and 1993-94, respectively.

vi. Subsidy in rental housing for employees, HBA and contribution to Central Government Employees Housing Welfare Organisation constituted 20 per cent of the total subsidy in 1991-92, which declined to 16.4 per cent in 1992-93 and increased again to 18.9 per cent in 1993-94. However, in absolute terms it has risen from Rs. 52.13 crores in 1991-92 to Rs. 70.56 crores in 1993-94.

vii. Housing subsidy as per cent of budgetary expenditure on social services ranged between 4.4 per cent in 1991-92 to 5.53 per cent in 1992-93.

viii. As noted earlier, the estimates of subsidy presented in Table 2.1 do not include subsidy on account of tax concessions. Further, in respect of GPA the subsidy estimates represent the difference between the maintenance expenditure on and the rent receipts from GPA. Taking

into account the estimates of subsidy due to tax concessions[5] and substituting the estimates of subsidy in GPA as obtained using the concept of replacement cost of housing stock[6] for the estimates presented in Table 2.1, the volume of subsidy works out to Rs. 520.83 in 1992-93. And the share of GPA, HBA, CGEHWO and tax concessions in total subsidy is 43.2 per cent during the corresponding year. Thus, subsidy in other housing programmes accounts for about 57 per cent of the total subsidy in 1992-93. Taking into account the leakages due to poor targeting, etc., subsidy to the poor would be even lower.

ix. More than 50 per cent of the Central government subsidy has gone towards urban housing during the years 1991-92 and 1992-93. Thereafter, it has reversed with the share of rural housing rising to about 72 per cent of the total subsidy in 1993-94. This is mainly due to inclusion of subsidy given to cyclone housing and rural housing schemes.

2.6   Summary

Houses built by public sector for the masses is the responsibility of the State governments. They, in turn, carry out their commitments through respective housing boards, municipal bodies and public works departments. A significant part of their funding is through Housing and Urban Development Corporation. Life Insurance

Corporation of India, General Insurance Corporation of India, Commercial Banks and House Financing Institutions. Besides, National Housing Bank refinances Commercial Banks and HFIs. In addition, the Central government formulates various housing schemes. They are implemented by the State governments. Funds for Centrally sponsored housing schemes are directly provided to the States through concerned Central ministry. Over the years, due to severe resource constraints and also failure of rental housing programme the emphasis has shifted from provision of rental housing (excepting Government Pool Accommodation) to promoting ownership housing and from direct to indirect subsidies.

Subsidies in the housing sector from Central government have grown from Rs. 259.22 crores in 1991-92 to Rs. 432.27 crores in 1994-95 register a growth rate of 67 per cent during the period. This is in spite of the fact that subsidy figures for 1994-95 are an underestimate due to paucity of data on a number of items. Considering, the fact that subsidy estimates are based on annual flows and also that these do not include subsidy due to tax concessions to housing and expenditure on construction of Government Pool Accommodation, the volume of subsidy appears to be substantial.

Bulk of the subsidy is provided in the form of capital subsidy. Further, the share of capital subsidy has risen steadily over the years implying increased importance to explicit *vis-a-vis* implicit subsidies. Among the various schemes, Indira Awas Yojana benefitted most from subsidy of the Central government followed by government employees housing and HBA. The share of schemes for government

employees in total subsidy ranged between 16 to 20 per cent during the period under study. Over the years, the importance of rural housing schemes in the housing subsidy from Central government budget *vis-a-vis* the urban housing schemes has grown from about 45 per cent to above 72 per cent during the period 1991-92 to 1993-94.

As noted earlier, Central government operates a number of housing schemes with varying size and mix of subsidy. Also, the size and mix of subsidy differs under different housing schemes meant even for people in the same income group. This is reported to have resulted in complicated management, dissatisfaction among the beneficiaries and has affected the recovery of loans/interest. The benefit of subsidies is limited to a small proportion of the population.

Housing Subsidy from Central Government[5]

(Rs. Crores)

Schemes	1991-92			1992-93			1993-94			1994-95		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1. Indira Awas Yojana	117.96	-	117.96	167.97	-	167.97	238.59	-	238.59	328.27	-	328.27
2. Rural Housing Schemes							11.00	-	11.00	30.00	-	30.00
3. NRY (SHASU)	10.00	-	10.00	10.64	-	10.64	10.45	-	10.45	9.76	-	9.76
4. NRY Training Scheme	13.38	-	13.38	2.66	-	2.66	2.61	-	2.61	24.44	-	24.44
5. Night Shelter Scheme	3.61	-	3.61	1.00	-	1.00	-	-	-	0.10	-	0.10
6. Reconstruction of Cyclone Affected Houses							18.66	-	18.66			
7. Equity Capital and Loan to HUDCO*	1.20	19.97	21.17	14.40	3.17	17.57	0.00	7.41	7.41	N.A.	0.15	0.15
8. Contribution to Central Government Employees Housing Welfare Organisation	5.00	-	5.00	3.50	-	3.50	3.50	-	3.50	N.A.	-	N.A.
9. Beedi Workers Housing	0.04	0.03	0.07	0.05	0.04	0.09	0.06	0.06	0.12	0.01	-	0.01
i. Direct Scheme	4.93		4.93	2.42	-	2.42	2.70	-	2.70	1.40	-	1.40
ii. Through States												

28

Schemes	1991-92			1992-93			1993-94			1994-95		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
10. Fishermen Housing Scheme	1.06	-	1.06	1.34	-	1.34	3.34	-	3.34	4.85	-	4.85
11. Handloom Weavers Housing Scheme	3.25	-	3.25	5.02	-	5.02	8.00	-	8.00	11.15	-	11.15
12. Maintenance of GPA (net of receipts)	32.15	-	32.15	37.29	-	37.29	48.94	-	48.94	N.A.	-	N.A.
13. i. Equity Capital and Loan to NHB*	12.00	19.66	31.66	0.00	15.23	15.23	0.00	0.00	0.00	0.00	0.00	0.00
ii. Other Grants to NHB				72.13	-	72.13						
14. HBA to Employees	-	14.98	14.98	-	17.14	17.14	-	18.12	18.12	-	22.14	22.14
15. Loan to HDFC							-	0.66	0.66			
Total	204.58	54.64	259.22	318.42	35.58	354.00	347.85	26.25	374.10	409.98	22.29	432.27

Notes: $ Includes subsidy from Central government budget and subsidy on Central government supported borrowings of Housing and Urban Development Corporation and National Housing Bank.

* Capital subsidy denotes subsidy due to no or low rate of dividend paid.

Source: Computed from data supplied by the Central government, and Annual Reports of HUDCO and NHB.

Table 2.2

Housing Subsidy from Central Government Budget

(Rs. Crores)

Schemes	1991-92			1992-93			1993-94			1994-95		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1. Indira Awas Yojana	117.96	-	117.96	167.97	-	167.97	238.59	-	238.59	328.27	-	328.27
2. Central Rural Housing Schemes							11.00	-	11.00	30.00	-	30.00
3. NRY (SHASU)	10.00	-	10.00	10.64	-	10.64	10.45	-	10.45	9.76	-	9.76
4. NRY Training Scheme	13.38	-	13.38	2.66	-	2.66	2.61	-	2.61	24.44	-	24.44
5. Night Shelter Scheme	3.61	-	3.61	1.00	-	1.00	-	-	-	0.10	-	0.10
6. Reconstruction of Cyclone Affected Houses							18.66	-	18.66			
7. Equity Capital and Loan to HUDCO*	1.20	2.52	3.72	14.40	2.14	16.54	0.00	0.10	0.10	N.A.	0.15	0.15
8. Contribution to Central Government Employees Housing Welfare Organisation	5.00	-	5.00	3.50	-	3.50	3.50	-	3.50	N.A.	-	N.A.
9. Beedi Workers Housing												
i. Direct Scheme	0.04	0.03	0.07	0.05	0.04	0.09	0.06	0.06	0.12	0.01	-	0.01
ii. Through States	4.93	-	4.93	2.42	-	2.42	2.70	-	2.70	1.40	-	1.40

Schemes	1991-92			1992-93			1993-94			1994-95		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
10. Fishermen Housing Scheme	1.06	-	1.06	1.34	-	1.34	3.34	-	3.34	4.85	-	4.85
11. Handloom Weavers Housing Scheme	3.25	-	3.25	5.02	-	5.02	8.00	-	8.00	11.15	-	11.15
12. Maintenance of GPA (net of receipts)	32.15	-	32.15	37.29	-	37.29	48.94	-	48.94	N.A.	-	N.A.
13. i. Equity Capital and Loan to NHB*	12.00	2.75	14.75	0.00	10.05	10.05	0.00	0.00	0.00	0.00	0.00	0.00
ii. Other Grants to NHB				72.13	-	72.13						
14. HBA to Employees	-	14.98	14.98	-	17.14	17.14	-	18.12	18.12	-	22.14	22.14
15. Loan to HDFC							-	0.66	0.66			
Total	204.58	20.28	224.86	318.42	29.37	347.79	347.85	18.94	366.79	409.98	22.29	432.27

Note: * Capital subsidy denotes subsidy due to no or low rate of dividend paid.

Source: Same as in Table 2.1.

Table 2.3

Subsidy on Borrowings Due to Central Government Support

| | | | (Rs. Crores) |
Item	1991-92	1992-93	1993-94
(1)	(2)	(3)	(4)

1.   HUDCO

	1991-92	1992-93	1993-94
i. Capgain Debentures	0.91	0.38	N.A.
ii. PSU Bonds	15.00	0.00	7.16
iii. Government Guaranteed Debentures	1.54	0.65	0.15

2.   NHB

	1991-92	1992-93	1993-94
i. Bonds and Debentures*	16.91	5.18	0.00
Total	**34.36**	**6.21**	**7.31**

Note: *   Since break-up of bonds and debentures is not available equal distribution between the two is assumed. Further, subsidy is based on net accretions during the year.

Sources: 1.   NIPFP, 1994.
            2.   Annual Reports of NHB.
            3.   Annual Reports of HUDCO.

Table 2.4

Housing Subsidy from Central Government: Relative Levels

<div align="right">(Rs. Crores)</div>

Years	Volume of Subsidy	Total Expenduture on Housing*	Total Expenditure on Social Services	Total Expenduture	Column (2) as Percentage of Column (3)	Column (2) as Percentage of Column (4)	Column (2) as Percentage of Column (5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1991-92	259.22	301.78	5892	111414	85.89	4.40	0.23
1992-93	354.00	365.93	6397	122618	96.74	5.53	0.29
1993-94	374.10	442.70	7906	141853	84.50	4.73	0.26

Note: * Represents budgetary expenditure of the Central government under major head 'Housing'.

Source: Columns 3 to 5 are from Budget documents.

Notes

1. Public housing agencies have been provided grants, low interest loans and free or subsidised land. Private builders are also eligible now for finance from National Housing Bank (NHB) for certain projects. As a precondition for finance the private builders are, however, required to give preferential allotment of plots developed or houses built to the members of Home Loan Account scheme of NHB at predetermined prices.

2. Mundle and Rao apply an imputed interest rate on government lending which is calculated as the ratio of domestic interest payments by government to the stock of domestic public debt. Since a large part of domestic public debt is raised through tax preferred instruments, effective cost of capital to the government would be higher than the rate of interest paid on capital.

3. See, Reserve Bank of India, Report on Currency and Finance, 1991-92, Vol. II.

4. For mobilising loan funds in the capital market institutions can use three instruments, namely; deposits, bonds and debentures. Since debentures and bonds are relatively longer term *vis-a-vis* deposits, housing finance institutions are likely to have a preference for these instruments. Further, debentures being relatively more liquid *vis-a-vis* bonds, interest rate on debentures has been used as the benchmark rate of interest. Similarly, opportunity cost of own funds to individuals would be the rate of return on investment in assets with similar risk as housing. Here also the rate of interest on non-convertible debentures seems appropriate.

5. The tax concessions considered are; Sections 36(1)(viii), 24(2) and 80GG. Estimates of subsidy due to Sections 24(2) and 80GG pertain to 1987-88 while estimates of subsidy due to Section 36(1)(viii) are for the year 1992-93. For details of computation of subsidy refer to Chapter 4 of this Report.

6. Refer to Chapter 3 of this Report.

Chapter 3

SUBSIDIES TO GOVERNMENT AND PUBLIC SECTOR EMPLOYEES THROUGH STAFF HOUSING AND HOUSE BUILDING LOANS

This chapter presents estimates of the size of subsidies to the government and public sector employees through staff housing and house building loans. First, subsidy in Central government employees' housing is examined, followed by subsidy through housing loans to employees and lastly, a summary of the findings.

3.1   Subsidy in Central Government Employees' Housing

The practice of providing rent free or subsidised residential accommodation to staff is common both to the public and the private organised sector. In the Public Sector, Central government is the dominant provider of staff housing. It is believed that the Central government staff housing is highly subsidised. For instance, it can be seen from Table 3.1 that during the years 1990-91 to 1992-93 expenditure on maintenance and repair of housing provided by the Central government for its employees (henceforth, General Pool Accommodation), is 4 to 5 times higher than the rent receipts from General Pool Administration (GPA) (columns 2 and 3). Thus the return on GPA calculated by dividing the difference between the licence fee receipts and the expenditure on maintenance and repair, by total capital cost was negative (column 5). Once the allowance for depreciation was made (2 per cent of the capital cost[1]) the return on GPA was even lower.

Though provision of staff housing is not guided by considerations either of profitability or high rate of return, the negative rate of return may, however, influence the allocation of funds for expenditure on this head and thus supply of additional staff housing. Further, since the extent of subsidy to different allottees of staff housing is not readily apparent, unintended subsidy is therefore a possibility. Also, though all government employees are eligible for staff housing, government has not been able to provide such housing to all leading to horizontal inequality. Finally, provision of subsidised housing encourages individuals to consume relatively more housing than they would do in the absence of rental subsidy. For, in the presence of subsidy, housing demand is not based on individuals affordability. To address these concerns it is necessary to have information on the magnitude of subsidy in GPA.

This section aims at estimating the size of subsidies in GPA and on the basis of estimates of subsidy draw some inferences about (i) the extent of subsidy to allottees in different income groups, and (ii) the budgetary impact. With these objectives in view, this section is organised into four sub-sections. In Section 3.1.1, studies on subsidy in government housing are reviewed. In Section 3.1.2, the amount of subsidy involved in government housing is evaluated. This is followed by individual estimates of subsidies for railway employees and government employees' rental housing maintained by Tamil Nadu Housing Board in Sections 3.1.3 and 3.1.4.

3.1.1 Previous Studies on Subsidy in Government Housing

Subsidy involved in government housing can be measured as the difference

between the rent payable to the government and the rent which a similar accommodation would realise in the same locality. However, in the absence of reliable indices on comparable rent it is difficult to follow this approach in measuring subsidy. This is, perhaps, one of the reasons why there are no firm statistics available on the size of subsidy in government housing.

However, one view is that the monetary value of certain facilities such as staff housing, personal transport, telephones and personal orderlies enjoyed by the higher category of government employees could be as high as 90 per cent of their salary.[2] According to another recent study,[3] in certain cases rental subsidy alone in Central government housing is about 90 per cent of the allottees salary, if subsidy is defined as the difference between the damage fee[4] and the rent actually charged. However, the Tax Reforms Committee[5] (TRC) has taken the fair rental of government housing to be 40 per cent of the salary for individuals drawing a salary of Rs. 10,000 per month. Assuming the rent payable by the allottee is equal to 10 per cent of his salary (as per the rules governing the fixation of licence fee, the rent charged cannot exceed ten per cent of the emoluments of the allottee), housing subsidy as per TRC would be equal to 30 per cent of the allottees salary. In calculating the subsidy coefficient, the TRC assumed the fair rental value at Rs. 4,000 of the accommodation to which the individuals earning Rs. 10.000 per month would be entitled. while Dutta's paper equated the damage fee with the fair rent/market rent of government accommodation. Though. the above studies provide a good basis for calculating subsidy involved in government housing in specific cases, they do not however, lead us far in obtaining a global estimate of subsidy involved in Central government employees' housing.

3.1.2 Calculation of Subsidy in Government Housing

a.   A Theoretical Perspective. In the absence of any firm indices on market rent on similar accommodation, the following method is used in calculating subsidy in government housing. Subsidy is defined as the difference between economic rent and the current rent payable on per unit of government housing plus the House Rent Allowance (HRA) forgone by the allottees. Subsidy per unit of government housing is then multiplied by the GPA stock to arrive at the total housing subsidies.

There are two key factors unavailable in calculating the size of subsidies using the above approach. They are (i) capital value of housing stock and (ii) economic rent.

i.   Capital Value of Housing Stock. Evaluation of housing stock on the basis of total housing investment[6] is not appropriate as it would be far less than the market value/replacement cost of the same which is an important determinant of the market rent. Further, it does not reflect the increase in the value of investment due to inflation which a landlord as an investor would consider in evaluating the rate of return on his investment.

In making a choice between the market value and replacement cost of housing stock, a particular problem concerns the differences between market value and replacement cost (which would occur if the market is not in equilibrium). If they

differ, it is the lower of the two which is more appropriate to use in measuring the capital resources actually being used. In the case of housing market in India, replacement cost would generally be lower than the market value of the property. We have, therefore, used the replacement cost of housing stock in estimating the subsidies.

Differences in the perceptions of the house construction prices would lead to different values of replacement cost of housing stock. Housing construction prices usually contain construction costs and on-site infrastructure cost.[7] From a theoretical point of view, an investor for the purposes of calculating the return from his investment in housing would include the land cost. Due to non-availability of data on land prices in cities/localities where government housing is available, cost of land is excluded in the calculation of the value of housing stock. While exclusion of land would result in under estimation of the value of housing stock, valuation of construction at current prices may lead to an upward bias in the value of housing stock.[8] To the extent value of the former is more than the value of the latter, the estimate of the value of housing stock is biased downward thereby resulting in an underestimation of subsidy.

ii.   **Economic** Rent. Another crucial factor in calculating subsidy is the economic rent. Several studies in India as well as in other countries on considerations of both equity and efficiency have suggested that the present anarchy of rents in relation to costs of staff housing both in the public and private sector should be removed and replaced by a more rational structure in which rents would be set at a 'rational level' with housing subsidy given only through income related

allowance which would be more transparent and would also bring equity across salaried people.

Economic rent does not necessarily correspond to a market rent. For any particular property, market rent could be higher or lower, although in general, market rent would be higher as it would reflect existing shortages and imperfections of the housing market and would also incorporate a premium to cover a private investor against future uncertainties. Economic rent does equal a rent which would result in the long-run in a theoretically perfect market situation. In this study, the concept of economic rent is used in estimating the rental subsidy in government employees' housing.

Economic rent reflects the true long-run cost of providing rental housing and equals the return on alternative investment bearing similar risk. It would consist of four types of costs: (i) expenditure on maintenance, repairs and administration, (ii) cost towards depreciation of the house (only the structure) implying that maintenance and repair is not enough to fully replace the capital consumed over time, (iii) a charge for the capital tied up in the house, that is, the return that could be generated in alternative investments, and (iv) any taxes that may have to be paid.

While the costs (i) and (iv) are straight forward to measure, the other two are not, as these depend on the capital value of housing. In view of the high maintenance and repair expenditure incurred (Rs. 143 per square meter in 1991-92) depreciation is taken as one per cent of the replacement cost. An important factor in rent calculation

is rate of return. From an investor's point of view the rate of return should be at least equal to the interest rate on long-term loans. Though the capital incorporated in the current capital stock would have been borrowed at various interest rates, but it is not the financial cost of capital that we are concerned with. With respect to replacement cost the current rate of interest would be an appropriate choice.

It is important to note that the allottees of staff quarters do not get the House Rent Allowance which they would otherwise be entitled to. On account of this, the government would save Rs. 2.95 crores per month if the allotment of quarters is as per the entitlement of the employees.

b.   Description of the Data. Rate of depreciation is taken to be one per cent of the replacement cost. Maintenance expenditure is obtained from the Central government Budgets. An annual interest rate of 10 per cent is taken to calculate the economic rent for 1992-93.. Data in respect of the type and number of units of General Pool Accommodation has been taken from the Estimates Committee Report. However, construction prices are taken from the Central Public Works Department (CPWD). Plinth area rate of CPWD for residential quarters was Rs. 2810 per square meter in 1992-93. Total plinth area for each house type is calculated by multiplying the number of houses in a given house type with the plinth area of such house type as notified by the CPWD (Table 3.2, column 5).

While the rate of property tax charged on GPA is same as the rate applicable for the private residential accommodation, the method of calculation of tax base,

however, differs *vis-a-vis* private residential accommodation. For, on GPA, property tax is levied on the 75 per cent of the total rateable value of the property. Rateable value of the GPA is taken at 9 per cent of the cost of GPA (refer to Table 3.1, column 4). At the rate of 9 per cent the rateable value and taxable rateable value of GPA works out to Rs. 13.12 crores and Rs. 9.84 crores, respectively. The rate of property tax in Municipal Corporation of Delhi for the year 1992-93 was 28 per cent for properties having rateable value of Rs. 20,000 and above.

c. **Calculation of Subsidy.** Subsidy is obtained by taking the difference between economic rent and current rent plus HRA forgone by the allottees. The rate of subsidy is calculated in terms of subsidy per square meter for the year 1992-93. It involves two steps. First, obtaining the rate of economic rent per square meter and second, the rate of current rent and the HRA forgone per square meter. The rate of economic rent is calculated using data on physical stock of GPA. While, current rent is calculated from licence fee received and total plinth area. Further, the rate of economic rent is a sum of the depreciation of housing stock, interest costs, maintenance expenditure and the property tax. The HRA forgone is obtained by multiplying the HRA entitlement by the number of allottees of each house type. The sum of HRA forgone by the allottees of quarters of each type gives the total HRA forgone.

i. **Depreciation.** This is assumed to be one per cent (per annum) of the replacement cost of housing stock (Table 3.2, column 6). Hence, the depreciation works out to be Rs. 2.341 per square meter per month.

ii.   Interest. Interest cost per square meter is calculated at an interest rate of 10 per cent per annum. This works out to Rs. 23.42 per month.

iii.   Maintenance Expenditure. Maintenance expenditure per square meter is calculated by dividing the total expenditure on maintenance and repair by total living area (Table 3.2). This amounts to Rs. 9.31 per month.

iv.   Property Tax. At the rate of 28 per cent, the property tax cost is Rs. 0.37 per square meter per month.

The total economic rent [adding (i) to (iv)] works out to Rs. 35.44 per square meter per month.[9]

The rate of current rent per square meter is calculated by dividing the licence fee received by the total plinth area. The rate of rent works out to Rs. 2.55 per square meter per month.

The HRA forgone per square meter is calculated by dividing the total HRA forgone by the total plinth area. This works out to Rs. 6.41 per square meter per month.

Thus, the subsidy (economic rent - current rent plus HRA forgone) per square meter per month is Rs. 26.48. Multiplying the per unit subsidy with total living area gives total subsidy in GPA which works out to Rs. 12.18 crores per month and

Rs. 146.16 crores in the year 1992-93.

d.   **Subsidy as Proportion of Total Salary of Allottees.** Having obtained an estimate of total subsidy in GPA it would be interesting to calculate the subsidy as per cent of the total salary of allottees. To do this, information on total salary of the allottees is required. This has been obtained by weighting the midpoints of the basic salary range of the allottees (Table 3.2, column 8). Weights used are the number of allottees which is proxied by the number of quarters of each type. Total average basic salary of the allottees works out to Rs. 14.79 crores per month and Rs. 177.48 crores per annum. On dividing the HRA adjusted subsidy (Rs. 146.16 crores) by the total basic salary of allottees, the rental subsidy in GPA is calculated to be 82.35 per cent of the average basic salary of the allottees in the year 1992-93.

e.   **Distribution of Subsidy.** Since average plinth area per house is higher for bigger type of accommodations and the HRA forgone as per cent of salary income is higher for the allottees in lower and middle income range, distribution of rental subsidy is biased in favour of allottees falling in higher income range (Table 3.2, column 15).

3.1.3   Calculation of Subsidy in Staff Housing for Railway Employees

The concepts used in calculation of subsidy here are same as in the case of GPA. Data are obtained from the Ministry of Railway.[10] Estimates of subsidy are obtained for the year 1993-94 and are shown in Table 3.3. The economic and current

rate of rent are calculated as below.

The economic rent, as mentioned earlier, is the sum of depreciation, interest costs, maintenance expenditure and property tax. The details are as follows:

a.   **Depreciation.** This is assumed to be one per cent (per annum) of the replacement cost of housing stock. Depreciation works out to Rs. 2.341 per square meter per month.

b.   **Interest.** Interest cost works out to Rs. 23.42 per square meter at the interest rate of 10 per cent per annum.

c.   **Maintenance Expenditure.** In the absence of data on actual expenditure, budget allocations (Rs. 116.36 crores) are taken to be the amounts spent on maintenance of housing stock. Dividing this by total living area, maintenance expenditure works out to Rs. 4.64 per square meter per month.

d.   **Property Tax.** Due to non availability of data on historic cost of the housing stock, property tax payable cannot be calculated. To that extent. the estimate of economic rent as well as the estimate of subsidy will be an underestimate.

On adding items (i) to (iii), the economic rent works out to Rs. 30.40, while the rate of current rent is Rs. 1.57. Thus the subsidy per square meter per month is Rs. 28.83. Multiplying the per unit subsidy with total living area gives total subsidy

45

in rental housing for railway employees which works out to Rs. 60.25 crores per month or Rs. 723 crores in the year 1993-94. It is important to mention here that the estimates of subsidy are an over estimate as these are not adjusted for the HRA forgone by the allottees.

3.1.4 Subsidy in Government Employees' Housing Maintained by the Tamil Nadu Housing Board

Methodology and concepts used in computation of subsidy in State government employees rental housing maintained by Tamil Nadu Housing Board (TNHB) is same as discussed in the earlier sections.

Data on total plinth area, capital cost, maintenance expenditure, rent received and property tax paid is presented in Table 3.4. It is observed that the expenditure by the TNHB on maintenance and repair of rental housing (column 5) is far in excess of the rent realised (column 6) during the years 1990-91 to 1992-93. Therefore, the rate of return realized by the TNHB is negative during the same years (column 8). Columns 9 and 10 give the rates of economic and current rent on the housing stock of TNHB. On subtracting the current rent from the computed economic rent, the rate of subsidy works out to Rs. 348.34 per square meter during the year 1992-93. Comparatively, the rate of subsidy in the year 1990-91 was higher at Rs. 354.68. Also, the volume of subsidy was the highest in the year 1990-91 (Rs. 42.922 crores) as compared to the years 1991-92 and 1992-93.

The discussion above concentrated mainly on the Central government employees' housing, the subsequent section examines the subsidy through housing

loans to employees.

3.2 Subsidy Through Housing Loans to Employees

Housing loans by employers to their employees, in the organised sector, constitute an important part of the total formal sector funds channelled into the housing sector. The employers provide advance for house building (HBA) or purchase of houses to their employees. The rates of interest charged on these loans vary from employer to employer but these are always lower than the market rate of interest[11] or the rate of interest charged by the banks on non-priority sector loans (Table 3.5).

The amount of permissible housing loan is related to the salary of the employees. These loans carry a differential rate of interest. On the higher loan slabs, the differential between the rate of interest payable on HBA and the market rate of interest appears to be low. But in the case of HBA, liberal repayment terms result in lowering the effective rate of interest substantially.

Further, since higher rate of interest is charged on higher amount of loan it may appear that the low income employees are being subsidised more. But, in fact, it is not so because employees receiving higher salary get higher amount of loans as loan amounts are tied to income of the employees, and are thus beneficiaries of higher amount of subsidy (amount of loan multiplied by the rate of subsidy).

This section on subsidy through housing loans, aims at estimating the rate and volume of subsidy in housing loans to employees. The section is organised into three

sub-sections. In section 3.2.1, the sources of data and their limitations are discussed. The measurement of subsidy and the method of estimation is examined in section 3.2.2. The last section, presents the estimates of subsidy using discounted cash flow approach.

3.2.1 Data Sources and Their Limitations

For estimation of subsidy involved in HBA to employees information on the distribution of housing loans outstanding at each interest rate range is required. In addition, information on the maturity period of loan and the method of loan recovery is also required. Since the rate of interest and the method of recovery vary from employer to employer, the information on loans advanced by each employer would be required. There exists only secondary source of data. The Reserve Bank of India has through a survey collected data on housing loans extended by the commercial and co-operative banks, all-India term lending institutions, public sector undertakings of the Central government and some State governments to their employees. This study largely draws on the RBI data. This has further been supplemented by the data obtained from the annual budgets of the Central and State governments.

Information on loans outstanding is available only in respect of scheduled commercial banks. For other institutions, data on loans is available only for the years 1990-91 and 1991-92. Therefore, estimates of subsidy are based on loans advanced during the years 1990-91 and 1991-92.

48

The coverage of RBI data of various institutions is weak in respect of cooperative banks and public sector undertakings (Table 3.6). To that extent the estimates of volume of subsidy will be an underestimate.

3.2.2 Measure of Subsidy

Subsidy rate is defined as the difference between a benchmark rate of interest and the rate of interest payable on housing loan. Subsidy rate multiplied by the amount of loans gives the volume of subsidy. This measure of subsidy is also used in the RBI (1993) study in estimating the volume of subsidy in housing loans advanced by scheduled commercial banks to their employees. In the RBI study, the benchmark rate of interest is taken to be the rate prescribed by Reserve Bank of India for advances by scheduled commercial banks, while the interest rate on HBA is the statutory rate payable by the employees. It needs to be stressed that by doing so the study does not take comparable rates of interest in their analysis.

Comparison of the benchmark rate of interest chosen in the RBI study and the rate of interest on HBA is inappropriate in estimating subsidy because the method of recovery of loan in the case of HBA is different from what it is in the case of a non-priority sector loan given by the banks. For instance. majority of commercial banks have fixed the repayment period (for housing loan to employees) of 15 years for the principal and 5 years for the recovery of interest (Table 3.5). The principal is cleared first and then the interest that accrues on the reducing balance of the principal over the 15 years. It is this benefit, implicit in the method of recovery of loan. which makes the effective rate of interest substantially lower than the statutory rate of interest on

HBA.

Effective rate of interest has been used in estimating the rate of subsidy. Effective rate of interest is calculated by dividing the interest accrued to the loan maturity period, as interest payment starts after the principal is cleared and no interest is charged on the interest that accrues over the repayment period of principal. Further, as mentioned above, interest accrued on the reducing balance of principal over the repayment period of principal, is paid over a five year period. In order to take into account the benefit derived by the borrower due to the facility of paying the interest in instalments, mid point of the period over which interest is paid is added to the repayment period of principal.

Benchmark rate of interest is reckoned as the market rate of interest. Since there is no single market rate of interest in India, three different interest rates are used as a proxy to the market rate of interest (Table 3.7).

Terms of loan and effective interest rates charged by the institutions covered in this study are presented in Table 3.5. Estimates of rate and volume of subsidy on housing loans to employees are presented in Tables 3.7 and 3.8, respectively for the years 1990-91 and 1991-92.

It may be seen from Tables 3.7 and 3.8 that the effective rates of interest on HBA (column 3) of all the institutions covered in this study are substantially lower than the statutory rates of interest (columns 4, 5 and 6) charged by these institutions. Considering the lowest benchmark interest rate (12 per cent), the volume of subsidy

50

works out to Rs. 68.65 crores (Table 3.7, column 12) and Rs. 104.29 crores (Table 3.8, column 12) on HBA advanced in the years 1990-91 and 1991-92, respectively. At a benchmark rate of 14.5 per cent the volume of subsidy was higher at Rs. 89.54 crores and Rs. 136.21 crores which works out to 10.71 per cent and 10.66 per cent of the HBA given by these institutions during the years 1990-91 and 1991-92, respectively.

3.2.3 Calculating Subsidy Using Discounted Cash Flow Approach

In the previous section the concept of effective rate of interest was used in calculating the rate of subsidy. This approach compared the cost to the borrower of HBA and a non-priority sector loan by banks on the basis of the net cash flows arising from these loans over the loan maturity period. However, since cash flows from the two loans occur at different points in time these are not strictly comparable unless converted to a common point of time viz., the present. This is because of the time value of money. The time value of money can be taken into account through the discounting process. Present value method uses this process for expressing the cash flows of different loans in terms of their present value. Using this method, present values of cash flows of HBA and non-priority sector loan by banks have been computed. These are presented in Tables 3.9 and 3.10. Present value of the cash flows of HBA and non-priority sector loan by banks are used to calculate the present value of subsidy in HBA vis-a-vis non-priority sector loan. These estimates of present value of subsidy may also be interpreted as present value of opportunity loss (of lending institutions) on housing loans advanced during the years 1990-91 and 1991-92.

51

At a benchmark rate of 14.5 per cent and a discount rate of 10 per cent the present value of subsidy on a housing loan of Rs. 100 by the Central government *vis-a-vis* a non-priority sector loan of Rs. 100 by a commercial bank was computed to be Rs. 58.12 in the years 1990-91 and 1991-92. The rate of subsidy on HBA was higher at Rs. 61.26 in the case of Nationalised Banks, SBI and associates, and all India investment and term lending institutions. At the above mentioned benchmark and discount rates, the present value of total subsidy works out to Rs. 588.53 crores (Table 3.9, column 7) and Rs. 775.14 crores (column 9) during the years 1990-91 and 1991-92, respectively. If the nominal discount rate is altered from 10 to 12 per cent, the present value of subsidy works out to Rs. 547.71 crores (Table 3.10, column 7) and Rs. 720.49 crores (column 9) during the corresponding years.

3.3   Summary

Using the concept of economic rent the total subsidy in General Pool Accommodation (GPA) for the year 1992-93 works out to a little over Rs. 146 crores. The proportion of subsidy in GPA to the average basic salary of the allottees is above 82 per cent. Further, the distribution of subsidy is biased in favour of allottees falling in higher income range.

In the case of staff housing for railway employees, the total subsidy is about Rs. 723 crores for the year 1993-94. The rate and volume of subsidy for government employees' rental housing maintained by Tamil Nadu Housing Board (TNHB) is Rs. 348.34 per square meter and Rs. 42.54 crores, respectively, in the year 1992-93. In the case of TNHB, GPA and housing for railway employees, it is observed that

expenditure on maintenance and repair of rental housing is far in excess of the rent realised for the years 1990-91 to 1992-93. Consequently, the rate of return realised is negative during the three years.

Now, turning to subsidy through housing loans to employees, it is observed that the effective rates of interest on HBA are substantially lower than the statutory rates of interest charged by these institutions. With benchmark interest rate of 12 per cent per annum, the volume of subsidy has been around Rs. 69 crores and Rs. 104 crores for the years 1990-91 and 1991-92, respectively. While at 14.5 per cent, the volume of subsidy was higher at about Rs. 90 crores and Rs. 136 crores for the corresponding years.

The present value of subsidy on a HBA of Rs. 100 by the Central government *vis-a-vis* non-priority sector loan by a commercial bank is computed to be Rs. 58.12 for the years 1990-91 and 1991-92. The present value of subsidy on HBA by banks was higher at Rs. 61.26 on a loan of Rs. 100 as compared to the subsidy on HBA by the Central and State governments. The rate of subsidy was highest at Rs. 69.25 per rupees 100 of loan in the case of foreign banks for the corresponding years. At benchmark interest rate of 14.5 per cent, the present value of total subsidy was over Rs. 588 crores and Rs. 775 crores at 10 per cent nominal discount rate, in the years under consideration. Since employees in higher income range are allowed higher amounts of HBA as compared to employees in lower income range, subsidy due to HBA is skewed towards the former.

Table 3.1

Rate of Return on Staff Housing Provided by the Central Government

(Rs. Crores)

Year	Licence Fee Received	Expenditure on Maintenance and Repair and Lease Charges	Total Capital Cost	Rate of Return Per Cent	
				1	2*
(1)	(2)	(3)	(4)	(5)	(6)
1990-91	7.5281	39.8408$	-	-	-
1991-92	11.8658	44.0063$	145.7739	-22.05	-24.05
1992-93	14.1077	51.3935	145.7739**	-25.57	-27.57

Notes: * After allowing for 2 per cent rate of depreciation of capital stock.

** Taken to be same as in the previous year. This implies that there is no additon of new units and also no major repair in the existing units.

$ Does not include lease charges.

Source: Columns 2 and 3 are from Budgets of the Ministry of Urban Development; Column 4 from Public Works Department; while Columns 5 and 6 are computed.

Table 3.2

General Pool Accommodation (1992-93)

··rters ·

<div align="right">(Rs. Crores)</div>

Sl. No.	Type of Accommodation	Number of Houses*	Average Plinth Area Per House (sq. mt.**)	Total Plinth Area sq. mt. Columns (3) X (4)	CPWD$ Plinth Area Rate (Rs./sq.mt)	Replacement Cost of Total Plinth Area Columns (5) X (6)	Mid Points of Salary Range of Allottees (Rs.)***	Average Total Salary Per Month Columns (3) X (8)	HRA Allowed to Non-Allottees (Rs. Per month)	HRA Saved Per Month (Rs. Crores) Columns (3)X(10)	Rate of Licence Fee Per House (Rs.)	Licence Fee as Per Cent of Mid Point of Salary Range Columns (12)X(8)	HRA Entitlement as Per Cent of Mid Point of Salary Range Columns (10)X(8)	Subsidy Per House (Rs./Month)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1.	A	24392	30.00	731760	2810	205.62	850	2.07	150	0.37	30.00	3.53	17.65	883.20
2	B	33957	45.00	1528065	2810	429.39	1225	4.16	250	0.85	95.50	7.80	20.41	1249.30
3	C	21024	60.00	1261440	2810	354.46	2150	4.52	450	0.95	130.00	6.05	20.93	1546.40
4	D	7019	82.25	577313	2810	162.22	3200	2.25	600	0.42	179.50	5.61	18.75	2135.44
5	E	2965	106.00	314290	2810	88.32	4050	1.20	900	0.27	260.50	6.43	22.22	2596.64
6	E-I	765	159.40	121941	2810	34.27	5600	0.43	1000	0.08	384.50	6.87	17.85	4264.64
7	E-II	109	207.00	22563	2810	6.34	7000	0.08	1000	0.01	490.00	7.00	14.29	5846.08
8	F-III	112	382.50	42840	2810	12.04	7650	0.09	1000	0.01	868.50	11.35	13.07	11687.30
	Total	90343		4600212		1292.66		14.80		2.96				

Notes

*   Taken from Estimates Committee Report, 1994.

**   Mean of the lower and upper limits notified by CPWD. This, does not include car/scooter garage and servant quarters.

***   Calculated from Income Tax Ready Reckoner, 1994.

$ Obtained from CPWD. Rates are applicable for 1992-93.

@   In salary range of Rs. 3600 to Rs. 5699, those earning between Rs. 3600 to Rs. 4499 are entitled to a HRA of Rs. 800 and those earning above Rs. 4500 get a HRA of Rs. 1000. The figure here is an average of the two.

Table 3.3

Staff Quarters of Ministry of Railways (1993-94)

(Rs. Crores)

Sl. No.	Type of Accommodation	Number of Units	Average Plinth Area Per House (Per sq. mt.**)	Total Plinth Area Per sq. mt. Columns (3) X (4)	CPWD$ Plinth Area Rate (Rs. Per sq. mt)	Replacement Cost of Total Plinth Area (Rs. Crores) Columns (5) X (6)	Rate of Licence Fee Per House (Rs.)	Licence Fee Payable Columns (8) X (3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	A	352515	30.00	10575450	2810	2971.70	30.00	1.06
2	B	151940	45.00	6837300	2810	1921.28	95.50	1.45
3	C	34515	60.00	2070900	2810	581.92	130.00	0.45
4	D	12641	82.25	1039722	2810	292.16	179.50	0.23
5	E	3533	106.00	374498	2810	105.23	260.50	0.09
Total		555144		20897870		5872.29		3.28

Notes: ** Means of the lower and upper limits notified by CPWD. This does not include car/scooter garage and servant quarters.

$ Obtained from CPWD. Rates are applicable for 1992-93.

Source: Columns 2 and 3 are from Ministry of Railways, while column 8 is from Central Public Works Department.

Table 3.4

Government Staff Housing in Tamil Nadu

(Rs. Crores)

Years	Total Plinth Area Per sq. mt.	Total Cost	Replacement Cost of Plinth Area Per sq. mt. (Rs.)	Expenditure On Maintenanc e and Repair	Rent Received	Property Tax Paid	Rate of Return on Government Housing Per sq. mt. (Rs.) Per Annum	Rate of Rational Rent on Government Housing Per sq. mt. (Rs.) Per Annum	Rate of Current Rent Per sq. mt. (Rs.) Per Annum	Rate of Subsidy Per sq. mt. (Rs.) Per Annum	Volume of Subsidy Per Annum
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1990-91	1210206.45	81.77	2739.8	10.1808	4.523	0.79	-46.75	392.05	37.37	354.68	42.92
1991-92	1213668.45	83.61	2810.0	6.3631	4.952	1.00	-11.63	369.77	40.80	328.97	39.93
1992-93	1221234.45	85.20	2810.0	10.1721	6.879	1.50	-26.96	404.67	56.33	348.34	42.54

Source: Columns 2, 3, 4, 5, 6 and 7 are from Tamil Nadu Housing Board, while column 4 is from Central Public Works Department.

Table 3.5

Terms of Housing Loans to Employees

Sl. No.	Institutions	Terms of Loan*			
		Interest Per Annum (Per Cent)	Repayment Period (Years)@	Moratorium (Month)$	Effective Rate of Interest (Per Cent)
(1)	(2)	(3)	(4)	(5)	(6)
1.	Central Government	10.16	20	14	4.6
2.	State Governments	10.16	20	14	4.6
3.	State Bank of India and Its Associates	8.00	20	14	3.7
4.	Nationalised Banks	8.00	20	14	3.7
5.	Cooperative Banks	9.50	20	14	4.3
6.	Other Scheduled Commercial Banks	8.00	20	14	3.7
7.	Foreign Banks	2.50	20	14	1.1
8.	All India Investment and Term Lending Institutions	8.00	20	14	3.7
9.	Public Sector Enterprises	10.00	20	14	4.6

Notes: * Terms are same for the years 1990-91 and 1991-92.

@ Principal is recovered in the first 15 years and interest is paid from the 16th to 20 Year.

Source· Columns 3 to 5 are from Report of the RBI Working Group on Housing Finance, 1993., while column 6 is computed.

Table 3.6

Housing Loans to Employees

(Rs. Crores)

Institutions		Number of Institutions Covered	Loan Disbursement	
			1990-91	1991-92
(1)		(2)	(3)	(4)
1.	All Banks	141		
(i)	State Bank of India and Its Associates	8	136.43	221.38
(ii)	Nationalised Banks	20	369.16	490.64
(iii)	Other Scheduled Commercial Banks	19	20.89	31.83
(iv)	Foreign Banks	17	39.28	57.03
(v)	Cooperative Banks	77	7.11	10.13
2.	Public Sector Enterprises	34	66.11	61.44
3.	All India Investment and Term Lending Institutions	9	53.33	94.99
4.	State Governments	All States	143.44	157.56
5.	Central Government	1	137.60	152.00

Sources: 1.   Report of the RBI Working Group on Housing Finance, 1993.

2.   Budget documents of the Central and State governments.

Table 3.7

Rate and Volume of Subsidy on Housing Loans to Employees (1990-91)

(Rs. Crores)

Sl. No.	Institutions	Effective Nominal Rate of Interest on Loans (Per Cent)	Benchmark Rates of Interest (Per Cent)			Rate of Interest Subsidy (Per Cent)			Loans Advanced	Volume of Subsidy		
			A	B	C	A	B	C		A	B	C
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1.	Central Government	4.6	15.0	12.0	14.5	10.355	7.355	9.855	137.60	14.25	10.12	13.56
2.	State Governments	4.6	15.0	12.0	14.5	10.355	7.355	9.855	143.44	14.85	10.55	14.14
3.	State Bank of India and Its Associates	3.7	15.0	12.0	14.5	11.343	8.343	10.843	136.43	15.48	11.38	14.79
4.	Nationalised Banks	3.7	15.0	12.0	14.5	11.343	8.343	10.843	369.16	41.87	30.80	40.03
5.	Co-operatives Banks	4.3	15.0	12.0	14.5	10.676	7.676	10.176	7.11	0.76	0.55	0.72
6.	Other Scheduled Commercial Banks	3.7	15.0	12.0	14.5	11.343	8.343	10.843	20.89	2.37	1.74	2.27
7.	Foreign Banks	1.1	15.0	12.0	14.5	13.858	10.858	13.358	39.28	5.44	4.27	5.25
8.	All India Investment and Term Lending Institutions	3.7	15.0	12.0	14.5	11.343	8.343	10.843	53.33	6.05	4.45	5.78
9.	Public Sector Enterprises	4.6	15.0	12.0	14.5	10.429	7.429	9.929	66.11	6.89	4.91	6.56
	Total								835.75	93.72	68.65	89.54

Notes: A. Average of lending rates prescribed by RBI for loans by commercial banks.
B. Maximum rate charged by the Central Government on housing loans to employees.
C. Mean of maximum and minimum rates charged by housing finance companies.

60

Table 3.8

Rate and Volume of Subsidy on Housing Loans to Employees (1991-92)

(Rs. Crores)

Sl. No.	Institutions	Effective Nominal Rate of Interest on Loans (Per Cent)	Benchmark Rates of Interest (Per Cent)			Rate of Interest Subsidy (Per Cent)			Loans Advanced	Volume of Subsidy		
			A	B	C	A	B	C		A	B	C
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1.	Central Government	4.6	15.0	12.0	14.5	10.35543	7.35543	9.85543	152.00	15.74	11.18	14.98
2.	State Governments	4.6	15.0	12.0	14.5	10.35543	7.35543	9.85543	157.56	16.31	11.59	15.53
3.	State Bank of India and Its Associates	3.7	15.0	12.0	14.5	11.34286	8.34286	10.84286	221.38	25.11	18.47	24.00
4.	Nationalised Banks	3.7	15.0	12.0	14.5	11.34286	8.34286	10.84286	490.64	55.65	40.93	53.20
5.	Co-operatives Banks	4.3	15.0	12.0	14.5	10.67570	7.67570	10.17570	10.13	1.08	0.78	1.03
6.	Other Scheduled Commercial Banks	3.7	15.0	12.0	14.5	11.34286	8.34286	10.84286	31.83	3.61	2.66	3.45
7.	Foreign Banks	1.1	15.0	12.0	14.5	13.85800	10.85800	13.35800	57.03	7.90	6.19	7.62
8.	All India Investment and Term Lending Institutions	3.7	15.0	12.0	14.5	11.34286	8.34286	10.84286	94.99	10.77	7.92	10.30
9.	Public Sector Enterprises	4.6	15.0	12.0	14.5	10.42900	7.42900	9.92900	61.44	6.41	4.56	6.10
	Total								1277.00	142.60	104.29	136.21

Notes: A. Average of lending rates prescribed by RBI for loans by commercial banks.
B. Maximum rate charged by the Central Government on housing loans to employees.
C. Mean of maximum and minimum rate charged by housing finance companies.

Table 3.9

Volume of Subsidy in HBA: DCF Approach

(Rs. Crores)

Sl. No.	Institutions	Rate of Interest on HBA Per Annum (Per Cent)	Present Value of Principal and Interest Paid* (Rs.)	Rate of Subsidy when Interest Rates on a Non-Priority Bank Loans are:		Present Value of Total Subsidy			
						1990-91		1991-92	
				14.5%	15.0%	14.5%	15.0%	14.5%	15.0%
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Central Government	10.16	65.46	58.12	61.14	79.98	84.12	88.35	92.93
2.	State Governments	10.16	65.46	58.12	61.14	83.37	87.69	91.58	96.33
3.	State Bank of India and Its Associates	8.00	62.32	61.26	64.27	83.58	87.69	135.62	142.29
4.	Nationalised Banks	8.00	62.32	61.26	64.27	226.15	237.27	300.57	315.35
5.	Co-operatives Banks	9.50	64.50	59.08	62.09	4.20	4.41	5.99	6.29
6.	Other Scheduled Commercial Banks	8.00	62.32	61.26	64.27	12.80	13.43	19.50	20.46
7.	Foreign Banks	2.50	54.34	69.25	72.26	27.20	28.38	39.49	41.21
8.	All India Investment and Term Lending Institutions	8.00	62.32	61.26	64.27	32.67	34.28	58.19	61.05
9.	Public Sector Enterprises	10.00	65.23	58.36	61.37	38.58	40.57	35.85	37.70
10.	Non-Priority Bank Loans	14.50	123.58						
11	Non-Priority Bank Loans	15.00	126.60						
	Total					588.53	617.84	775.14	813.61

Note: *   Estimates are for a loan of Rs. 100 using a nominal discount rate of 10 per cent.

Table 3.10

Volume of Subsidy in HBA: DCF Approach

(Rs. Crores)

Sl. No.	Institutions	Rate of Interest on HBA Per Annum (Per Cent)	Present Value of Principal and Interest Paid* (Rs.)	Rate of Subsidy when Interest Rates on a Non-Priority Bank Loans are:		Present Value of Total Subsidy			
						1990-91			1991-92
				14.5%	15.%	14.5%	15.0%	14.5%	15.0%
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Central Government	10.16	56.11	54.55	57.25	75.06	78.77	82.92	87.02
2.	State Governments	10.16	56.11	54.55	57.25	78.25	82.12	85.95	90.20
3.	State Bank of India and Its Associates	8.00	53.84	56.83	59.52	77.53	81.21	125.80	131.78
4.	Nationalised Banks	8.00	53.84	56.83	59.52	209.78	219.74	278.82	292.05
5.	Co-operatives Banks	9.50	55.42	55.25	57.94	3.93	4.12	5.60	5.87
6.	Other Scheduled Commercial Banks	8.00	53.84	56.83	59.52	11.87	12.43	18.09	18.95
7.	Foreign Banks	2.50	48.04	62.62	65.32	24.80	25.66	35.71	37.25
8.	All India Investment and Term Lending Institutions	8.00	53.84	56.83	59.52	30.31	31.74	53.98	56.54
9.	Public Sector Enterprises	10.00	55.94	54.72	54.72	36.18	37.96	33.62	35.28
10.	Non-Priority Bank Loans	14.50	110.66						
11.	Non-Priority Bank Loans	15.00	113.36						
	Total					547.71	573.75	720.49	754.94

Note: * Estimates are for a loan of Rs. 100 using a nominal discount rate of 12 per cent.

Notes

1. Capital cost includes cost of GPA at historic cost and cost of major repairs.

2. Basu, Kaushik, "Budget'93 Some Simple Suggestions", **Economic Times**, February, 1993.

3. Abhijit Dutta, "Housing Subsidies to Government Servants Through Staff Quarters", (Unpublished).

4. Damage fee is the penalty fee charged when an allottee fails to vacate the house though he is required to do so as per the rules.

5. Government of India (1991), Tax Reforms Committee: Interim Report, Ministry of Finance, Department of Revenue, December.

6. This comprises the historical cost of construction plus cost of alterations and additions made from time to time. This is used by the Central Public Works Department (CPWD) in fixing the licence fee for government housing.

7. For instance, plinth area rates of the CPWD.

8. This would occur when expenditure on maintenance and repair is not adequate to replace the depreciation in structure.

9. At Rs. 35.44 per square meter rent per month, the annual rate of return on replacement value of GPA works out to 15.13 per cent. It may be recalled that in computation of economic rent, expenditure on maintenance is taken from the budgets which is 3.97 per cent of the total replacement cost of GPA. This appears to be on the higher side. If the depreciation (one per cent annum) is allowed, in calculation of rent an annual expenditure on maintenance equal to 1.5 per cent of the replacement value seems adequate (see NIPFP 1992). On making adjustment for this, maintenance expenditure would be Rs. 3.51 per square meter per month. The economic rent and rate of return on replacement value would then be Rs. 29.64 per square meter per month and 12.65 per cent respectively.

10. Ministry of Railways provides a number of barracks/quarters free of charge to employees. Such accommodation has not been included due to lack of required data.

11. Benchmark rates of interest are used as a proxy for market rates (see Table 3.7).

Chapter 4

REVENUE LOSS TO THE GOVERNMENT DUE TO TAX CONCESSIONS TO HOUSING

The objective of this chapter is to estimate the tax saving to the assessees or alternatively revenue loss to the Government due to various tax concessions provided for saving and investment in housing and the housing sector. The chapter is organized into 6 sections. section 4.1 contains the description of various types of tax concessions. In section 4.2, the scope and limitations of the data are discussed. Estimates of the amount of tax saved using income tax returns are presented in section 4.3. A theoretical model on present value of housing investment is conceived in section 4.4, followed by a discussion of the results in section 4.5 and finally, the summary of main observations.

4.1   Types of Tax Concessions

Under the Income Tax Act 1961 various concessions have been extended to promote investment in housing. Broadly, concessions are categorised into three types viz., tax concessions on income from house property; tax concessions to long-term capital gains arising from housing or other asset sales reinvested in housing; and tax concessions on investment in housing or the housing sector. In addition, expenditure incurred towards payment of rent, in respect of any accommodation occupied by the assessee for the purpose of his residence is also deductible subject to certain conditions. Further, approved housing finance companies are also allowed to deduct upto 40 per cent of their profits in any financial year provided such amounts are transferred to a special reserve. A brief description of these concessions is presented in Annexure 1.

65

4.2 Scope and Limitations of Data

Estimation of tax saving/revenue loss in any financial year requires information on income category-wise distribution of deductions and exemptions availed of by the taxpayers. Since information on exemptions is not available, estimation of revenue loss due to exemptions in income tax has not been attempted. Information on deductions has been obtained from the income tax returns of a sample of individual assessees as well as companies. This information has been compiled by the Income Tax Department and made available to National Institute of Public Finance and Policy. The latest year for which this information is available is financial year 1988-89.

Estimates of tax saving are obtained for the financial years, 1987-88 and 1988-89. From the sample data for 1987-88, information on deductions, in the case of individual taxpayers, is available only in respect of Sections 24(2) and 80GG, while for 1988-89, data are available for Section 80GG only. Therefore, estimates of tax saving to individual tax payers are obtained only in respect of the above mentioned sections. In the case of company assessees required break-up of data in respect of deductions under Sections 35AC[1] and 35CCA is not available. For estimating tax saving to Housing Finance Companies (HFCs) due to Section 36(1)(viii), data has been obtained from the Annual Reports of the individual housing finance companies. In the absence of data on deductions under Section 88 and Section 80L, estimates of tax saving due to these and other tax concessions have been made for specific cases of housing investment. An analysis of its consequences for the choice between self-occupation and renting, and progressivity of the income tax is also made.

Data on individual taxpayers is available for the financial year 1987-88 and 1988-89. The total number of individual assessee covered are 26945 and 20718, respectively. To obtain all India estimates, sample information has been blown using the multipliers derived from the data contained in All India Income Tax Statistics (AIITS) and Report of the Comptroller and Auditor General of India (RCAG) in respect of individual taxpayers.[2] The multipliers have been worked out separately for 10 income ranges (see Table 4.1). The total sample individuals are also classified into ten income ranges on the basis of their returned income. Tax saving under Section 24(2) has been estimated in respect of only those assessees reporting negative income from their self occupied properties. Tax saving due to Section 36(1)(viii) has been estimated in respect of 19 approved Housing Finance Companies.

In the next section, we present estimates of the amount of tax saved using income tax returns.

4.3   Estimates of Tax Saving Using Income Tax Returns Data

Estimates of income class-wise total deductions and tax saving under Sections 24(2) and 80GG are presented in Tables 4.2 and 4.3. The total deductions under Section 24(2), in the year 1987-88 amounted to Rs 19.92 crores (Table 4.2). Of which, 29 per cent was claimed by the assessees falling in the returned income range of Rs 30,000 to 50,000 and 39 per cent by the assessees having returned income in the range of Rs 18,000 to 25,000. Total tax saving under this section worked out to Rs 6.84 crores. Taxpayers falling in the returned income range of Rs 30,000 to Rs. 50,000, had the highest share (33.39 per cent) in total tax savings.

67

During the same year, total deductions under Section 80GG worked out to Rs. 17.61 crores resulting in tax saving of Rs. 7.43 crores. In this case, more than 44 per cent of total tax savings accrued to the individuals in the income range of Rs. 50,000 to 1,00,000. Tax saving due to Sections 24(2) and 80 GG together was Rs. 14.27 crores; in terms of proportion, it was less than ½ per cent (0.45 per cent) of the total income tax (other than corporation tax) collected in 1987-88.

In 1988-89 total deductions under Section 80GG amounted to Rs 25.02 crores resulting in tax saving of Rs. 10.81 crores (Table 4.3). This is 1.45 times higher than the comparable figure in 1987-88. In both the years distribution of tax saving due to Section 80GG was in favour of the middle income taxpayers. Tax saving due to Section 80GG was 0.26 per cent of the total income tax (excluding corporation tax) collected during the year 1988-89.

Estimates of tax saving due to Section 36(1)(viii) have been obtained for the years 1987-88 to 1993-94 (Table 4.4). During this period total tax saving worked out to Rs. 135.68 crores. Tax saving under this Section has grown many folds from Rs. 3.25 crores in 1987-88 to Rs. 43.70 crores in 1992-93. In 1993-94, tax saving is estimated to be Rs. 40.46 crores; which is lower than the comparable figure in the previous year. This is mainly due to lack of information in respect of many of the HFCs for the year 1993-94.

From Table 4.4, the following main points emerge:

i.   Most of the HFCs are availing of Section 36(1)(viii) concession to the full admissible limit.

ii.   Since this concession is conditioned on positive net profits, growth in

tax saving implies the growth in profits of HFCs. While growth in

HFCs profits is an encouraging trend, growth in tax saving has

implications for the revenue loss to the government.

iii.   A declining trend in the share of tax saving of HDFC and HUDCO

together as per cent of total tax saving due to Section 36(1)(viii) points

towards decreasing market shares of HDFC and HUDCO which, it

appears is mainly due to the entry of new HFCs in the market.

As noted in the previous section that due to lack of required information,
estimates of revenue loss to the Government due to certain concessions available to
housing could not be made. The following section presents a framework to estimate
the tax saving due to current tax provisions applicable to housing, in representative
investment in housing. This framework uses net present value of the cash flows of
housing investment. The framework is designed to handle cash flows both 'with' and
'without' tax concessions. The framework can be used to analyse and compare a
number of representative investments. It also permits sensitivity analysis to study the
effects of changes in assumptions on outcomes.

4.4   The Present Value Model of Housing Investment[3]

a.   A Theoretical Perspective. To illustrate the computation of net present
value, let us first consider the case of investment in an owner-occupied house. The
financial flows of investment in an owner-occupied house may be divided into three

stages. In the first stage, there is a cash outflow equivalent to the price of the house and certain transaction costs. In the second stage, imputed rental income accrues while operating costs, property taxes, mortgage interest, mortgage repayment and certain taxes less tax saving allowed under the tax law have to be borne. In the final phase, when the house is sold, sale proceeds are received and certain transaction costs and taxes are paid. Each item of cash inflow and outflow is discounted using appropriate discount factors to arrive at net financial flows. These net financial flows are added to compute the net present value of investment in housing.

The contribution of outflows in the first stage to the present value of the house is represented as

$$- [1 - m + (1-u')c]\ V_0 \qquad\qquad (1)$$

where V_0 is the purchase price of the property, m is the proportion of borrowed funds used to finance house purchase, c refers to transaction costs as a fraction of purchase price and u' represents the rate of tax credit allowed under Section 88.

During the holding period the contribution of total cash inflows and outflows both actual and imputed to present value can be represented as the sum of the following terms:

$$\left[\frac{R_i}{(1+r)^i} - \frac{Q_i}{(1+r)^i} - \frac{PT_i}{(1+r)^i} - \frac{MI_j}{(1+r)^j(1+r)^j} - \frac{MR_j}{(1+r)^j(1+p)^j} + \frac{uq}{(1+r)^j(1+p)^j} + \frac{u'B}{(1+r)^j(1+p)^j}\right] \qquad (2)$$

$$i = 1,...,.N$$
$$j = 1,...,.M$$

where,

R	=	imputed rent,
Q	=	operating cost,
PT	=	property tax,
MI	=	mortgage Interest,
MR	=	mortgage repayment,
t	=	marginal income tax rate of the house-owner,
q	=	amount of mortgage interest on which deduction is allowed,
u'	=	rate of tax credit,
B	=	amount of mortgage repayment on which tax credit is allowed,
r	=	house-owner's real discount rate, and
p	=	general inflation rate.

The subscript i denotes the holding period of the house which could run from 1 to N number of years, while the subscript j represents the repayment period of mortgage which runs from 1 to M number of years.

The contribution of the year in which the house is sold is given by

$$\left[\frac{(1-g)V_n - at' - SI}{(1+r)^n(1+p)^n} \right] \qquad (3)$$

where,

g	=	ratio of selling costs to sale price,
V_n	=	sale price,
a	=	capital gains,
t'	=	tax rate applicable to capital gains,
S	=	amount liable to surcharge, and
I	=	rate of surcharge,

We now consider the case of investment in tenant-occupied housing. The division of cash inflows and outflows into three periods is the same for tenant-occupied housing as for owner-occupied housing. The tax calculations for tenant-occupied housing during the holding period. however, are different as incomes

71

flowing from rental housing are subjected to tax under the current laws. The net present value (NPV) expression for such housing is found by summing up the following terms:

$$\left[-\{1-m+(1-u')C\}V_o\right] + \left[\frac{R_i}{(1+r)^i} - \frac{Q_i}{(1+r)^i} - \frac{PT_i}{(1+r)^i} - \frac{t(NI)}{(1+r)^i(1+P)^i}\right] +$$

$$\left[\frac{-MI_j}{(1+r)^j(1+P)^j} + \frac{-MR_j}{(1+r)^j(1+P)^j} + \frac{U'B)}{(1+r)^j(1+P)^j}\right] + \left[\frac{(1-g)V_n-at'-SI}{(1+r)^n(1+P)^n}\right] \qquad (4)$$

$i = 1, ..., N$ and $j = 1, ..., M$

where NI is net taxable income from house property.

Estimates of tax saving and also the net present value are obtained for each income tax bracket separately. Main variables to which results could be sensitive are the interest rate, discount factor, cost of house, investors' marginal tax rate and the proportion of loan in the total cost of the house. They have been varied for tax saving calculations of both owner-occupied and tenant-occupied housing. Tax saving due to investment in Home Loan Account (HLA) Scheme of the National Housing Bank is also discussed.

For a given discount rate, a zero NPV would imply that the value of the house to the owner equals the initial cost or price of the house plus transaction costs. The sum of the price of the house and the NPV (whether positive or negative) would be

the maximum price which the investor would be willing to pay for the house. Let us call this price as his 'demand price'. For a positive (negative) NPV the 'demand price' would be higher (lower) than the price of the house by an amount equivalent to the present value of the net benefits (costs). The 'demand price' measures the short-run asset price effects of tax concessions.

Let us examine what happens in the long-run if NPV is positive in the short run. To a positive NPV, the market would respond in the following way if it functioned with reasonable efficiency. Market forces would lead to growth in investment in housing, resulting in growth of the stock of housing. The increase in the stock of housing will have the effect of lowering the price of housing services. As a result, the return on housing will also decline. Similarly, a negative NPV implies the value of the house to the owner/investor falling below the cost/price. This would effectively mean a disincentive to investment in housing. Decrease in investment in housing will have the effect of disturbing the demand/supply equations. Eventually this will lead to an increase in the price of housing services.

Tax concessions have the effect of increasing the net present value of housing investment and thus the demand price of the investor. Increase in demand price, in turn, leads to an increase in the quantity of housing demanded. Increase in demand can be met either from new construction or by renovating the existing unused stock. In both the cases capital investment is made, which implies increase in the volume of tax saving.

b.   **An Application of the Theory**. The theoretical model discussed above

has been used to estimate the tax saving due to tax concessions in India. Before, we proceed with the estimation, the underlying assumptions and specifications of the variables used in the model are discussed.

1. **Assumptions.** To compute present values, the following assumptions have been made.

Initial cost of the house or price received by the seller is taken to be Rs. 5 lakh. Proportion of land and construction in the total cost is assumed to be 60 and 40 per cent, respectively. It is assumed that the owner holds the house for 25 years. During the holding period the house generates a rent which is 12 per cent (per annum) of the initial cost. Each year 1.5 per cent of the initial cost is spent in maintaining (operating cost) the house. Ratio of loan to initial cost of house is taken to be 0.40. A 15 year repayment period and a 16 per cent mortgage interest is assumed. Expected annual rate of increase in rent and operating cost and price of land is assumed to be 8 and 16 per cent, respectively. While house (only the structure) is assumed to depreciate at 2 per cent . Owner's real after tax rate of return or opportunity cost is 3 per cent and general inflation rate is taken to be 8 per cent. Owner's marginal income tax rate is 30 per cent.

2. **Interpretation of Variables**

i.   The initial cost, V_o, is taken to be the price received by the

        seller - let it be a development authority, a housing board, etc.

        Clearly, this is not the price prevailing in the market for similar

housing. Market price is expected to be generally higher.

ii. Land and construction components of the initial cost are taken as 60 and 40 per cent, respectively.[4]

iii. Annual rent is taken to be 12 per cent of the value of property.[5] The rental stream during the holding years begins at 12 per cent of the initial cost and it increases during subsequent years by 8 per cent per annum.[6]

In terms of the model described earlier, the increase in the value of house (capital appreciation) is notional till the house is sold and the gain is actually realised.

Thus, in effect, increases in rent do not keep pace with the increase in value of the house to the full extent.[7] This implies that the major gain then comes from capital appreciation rather than from rentals.

iv. The annual operating cost is taken to be 1.5 per cent of the initial cost. This includes expenditure on repair and maintenance and house insurance premium.

v. The house is expected to be held for 25 years.

vi. Quite apart from the problem of assessing the potential profile of rental income from a given house, there are knotty questions

regarding land appreciation. Because of variation in individual preferences for various housing attributes - important among them being location and size - determination of appreciation in land value becomes very difficult. Data on land prices in Delhi is available from two sources: one of them is the New Delhi Municipal Corporation (NDMC) and the other source is a study by the Town and Country Planning Organisation (TCPO). It may, however, be mentioned that none of these data reflect the true market prices of land. While the TCPO estimates, which are based on data obtained mostly from government agencies (and therefore reflect either predetermined or controlled prices, or prices reported on sale deeds), would be lower than market prices and, at best, represent the price paid in white money, the NDMC price would be quite close to the market value of land. The NDMC prices are used here.

vii. Mortgage terms of the Housing Development and Finance Corporation (HDFC) are used here. The Home Loan Account (HLA) scheme of the National Housing Bank (NHB) is also discussed and incorporated in NPV calculations.

viii. It is assumed that all investors are able to realise a mortgage loan equivalent to at least 40 per cent of the initial cost.

ix. The registration fee, stamp duty and other such levies at the

time of buying and selling the house are taken to be 2 per cent of initial cost and 6 per cent of the sale proceeds respectively.

x.   The property tax, income tax, capital gains tax and surcharge on capital gains are taken as statutory tax rates. As is well known, at the individual level, increase in the marginal tax rate occurs if inflation pushes taxpayers into higher brackets. The effect of inflation on individuals' marginal income tax rates is, however, ignored though, in principle, it can be incorporated into the model.

xi.   The inflation rate, p, is taken to be the change in the wholesale price index.

xii. The discount factor, or investor's opportunity cost, r, is proxied by the after tax real rate of return on investment with the same risk as investment in housing. This is taken to be 3 per cent. The opportunity cost could vary across income tax brackets and is likely to be higher (lower) for low (high) income bracket households. Therefore simulations are also carried out with a 4 per cent discount rate.

xiii. Some parameters to which results are sensitive - mortgage interest rate, cost of the house, cost of house to loan ratio, discount factor and the investors' marginal tax rate - are varied

for NPV computations. Computations are carried out with:

a. the rate of mortgage interest at 16 and 14.5 per cent,

b. a loan to total cost ratio of 40, 50 and 60 per cent,

c. cost of house at Rs. 5 lakh, and Rs. 8 lakh,

d. discount factor at 3 and 4 per cent, and

e. the owners marginal income tax rates from 20 to 40 per cent.

Simulations are also done with alternative tax treatment of housing.

4.5   Results

a. **Tax Saving Due to Tax Concessions to Owner Occupied Housing**

i.   The annual tax saving to the house-owner, in rupees, per hundred rupees of investment in housing is given in Table 4.5. In this model with base case assumptions, an investment of Rs. 5 lakh in owner-occupied housing results in a total nominal tax saving of Rs. 81,420 or Rs. 16.28 per rupees 100 of investment in housing over 25 years (column 5). Tax saving due to exemption of imputed income (column 2),[8] interest deductibility (column 7) and Section 88 (column 3) are respectively Rs. 5.4. Rs. 4.28 and Rs. 6.6 per rupees 100 of

investment in housing.

ii.   Tax saving due to interest deductibility and Section 88 per rupees 100 of mortgage loan are Rs. 10.71 and Rs. 15.0, respectively, over 15 years.

iii.   As noted earlier, with effect from 1.4.1995 the amount of interest allowed for deduction under Section 24(2) has been raised from Rs. 5,000 to Rs. 10,000 (row 2). Due to this change, an investment of Rs. 5 lakh with base case assumptions would result in a total nominal tax saving of Rs. 99,400 over 25 years or Rs. 19.88 per rupees 100 of investment in housing (column 5). Tax saving due to Section 24(2) would increase from earlier Rs. 4.28 to Rs. 7.88 per rupees 100 of investment in housing.

iv.   Tax saving due to Section 24(2) increases with the marginal tax rate of the house-owner. For instance, for the 30 per cent tax bracket and a 40 per cent loan/cost ratio it is about Rs. 19.7 per rupees 100 of mortgage loan or Rs. 7.88 per rupees 100 of investment in housing. Comparable figures for a 40 per cent tax bracket and a 40 per cent loan/cost ratio were Rs. 26.27 and Rs. 10.51 respectively. Tax saving due to this section also rises with the increase in loan/cost ratio (refer rows 2 and 5 in Table

4.5). This suggests that the provisions under Section 24(2) on the one hand have an adverse impact on income distribution and on the other result in greater benefits to those with large mortgages rather than those investing their own savings. Clearly, Sections 24(2) and 88 introduce a bias in favour of debt financing.

v.   Tax concessions via Section 24(2) are found to be relatively more generous than tax concessions available under Section 88, in terms of loss in revenue.

vi.   One of the major modifications in the Finance Act 1992-93 relates to capital gains taxation. This had been effected through the withdrawal of Section 53 and amendment of Section 48 (2) of the Income Tax Act. A new Section 112 was inserted to provide that long term capital gains will be subject to a flat rate of income tax. The rate of tax is 20 per cent in the case of individuals.

Under similar economic conditions for a 30 per cent bracket individual, existing provisions of capital gain are more generous compared to the earlier provisions of capital gains taxation. As is obvious a priori 40 per cent bracket house-owners are also better off under the existing provisions of capital gains. For instance, in the base case investment a 40 per cent bracket individual under the existing provisions would

pay as capital gains tax Rs. 15.7 per rupees 100 of sale value, which is 5.3 percentage points less than the capital gains tax he would have paid under earlier provisions i.e. Rs. 21.0 per rupees 100 of the sale value of the house.

vii. Current tax provisions are less favourable to investment in rental housing than to investment in owner-occupied housing. Under similar economic conditions (base case assumptions) net present value of owner occupied housing is 40.6 per cent more than the net present value of housing let out by the owner (Table 4.6). This implies that it is more profitable to invest in housing for self occupation than in housing for rental purpose. However, there is no apparent reason for relatively heavy taxation of rental housing vis-a-vis self occupied housing especially when the supply of rental housing needs to be enhanced in view of the considerable financial barriers to entry for most potential home owners.

b. **Tax Saving Due to Tax Concessions to Rental Housing.** Unlike self occupied housing, owners of rented housing are not allowed concessions under Sections 23(2) and 24(2). Tax saving to such housing, during the holding years, comes due to the provisions of Section 88 only. On examination of the estimates in Table 4.5 (column 3) it is apparent that the base case investment results in a tax saving equivalent to Rs. 6.6 per rupees 100 of investment as against Rs. 16.28 in self

occupied housing (column 5).

c. **Tax Saving Due to Home Loan Account Scheme of the National Housing Bank.** In brief, the Home Loan Account (HLA) requires a member to save regularly (monthly or quarterly or annually) for a minimum period of five years. Deposits earn interest at 10 per cent per annum. After the subscription period, the member is entitled to a loan equal to a multiple of accumulated savings at concessional interest.

In this exercise we have assumed that the individual saves a constant amount annually. If he desires to take a loan of Rs. 2.0 lakh, the person plans his savings in such a way that he gets Rs. 2.0 lakh after 5 years. His contributions and interest thereon are eligible for tax concession under Section 88 of the Income Tax Act. The NHB advises an individual to save one twelfth of the cost of the house per year as a thumb rule. Accordingly, he saves Rs. 16,666.66 per annum for 5 years. Therefore, his gross return on deposits would be interest plus tax saving under Section 88. Tax savings under Section 88 over the subscription period of 5 years work out to Rs. 10.12 per rupees 100 of loan. Adding tax savings due to Section 24(2) and Section 88 (on repayment of loan) total saving is calculated to be Rs. 35.83 per rupees 100 of loan over a period of 20 years.

4.6   Summary

The total tax saving due to Sections 24(2) and 80GG for the year 1987-88 was

Rs. 14.27 crores or 0.45 per cent of the total income tax (other than corporation tax) collected in that year. In 1988-89 tax saving due to Section 80GG was 1.46 times higher than that of in the previous year.

Tax saving due to Section 36(1)(viii) has grown many folds from Rs. 3.25 crores in 1987-88 to Rs. 43.70 crores in 1992-93. This is about 2.5 times higher than the subsidy in HBA and about 12 per cent of the total subsidy through the Central government budget during the year 1992-93.

Tax concessions currently available to investment in housing have significantly increased the net return from this form of investment. For instance, the net present value of owner-occupied housing (with base case assumptions) increases from Rs. 4.99 lakh to Rs. 5.24 lakh due to Sections 24(2) and 88.

Under the basic assumptions described in section 4.4 (b) (1) in this Chapter, an investment of Rs. 100 in owner-occupied and tenant-occupied housing results in tax saving of Rs. 16.28 and Rs. 6.6 respectively. Since, the limit upto which deduction can be claimed under Section 24(2) has been raised from 1.4.1995, tax saving to owner-occupied housing will be higher at Rs. 19.88 per rupees 100 of investment. The most important finding is that, in this model, 30 per cent income bracket investors save an amount equivalent to about 15 per cent of the mortgage loan due to Sections 24(2) and 88 and about 20 per cent of the mortgage loan due to Sections 23(2), 24(2) and 88.

Tax saving due to Section 24(2) increases with the marginal tax rate of the assessee and also with the amount of loan. This shows that the provisions under this

Section reduce the progressivity of the tax system by giving more generous concessions to house-owners in higher tax brackets than non-taxpayers or taxpayers in low income brackets. Also, this Section accords greater benefits to those with large mortgages rather than those investing their own savings. Section 88 also introduces a bias in favour of debt financing. Further, owner of a self-occupied house if happens to be a participant of HLA, realises total tax saving of Rs. 35.8 per rupees 100 of housing loan or 36 per cent of the mortgage loan in this model. As noted earlier, the amount of tax saving would be higher for investors in higher income tax brackets. This suggests that the structure of these tax concessions has an adverse impact on income distribution as well as on tax revenue to the exchequer.

Table 4.1

Sample to Total Taxpayer Multipliers for Assessment Years 1987-88 and 1988-89

Returned Income (Rs '000)	1987-88 Sample to Total Multiplier	1988-89 Sample to Total Multiplier
(1)	(2)	(3)
18 - 22	176.98910	258.21304
22 - 25	176.98910	258.21304
25 - 30	176.98910	258.21304
30 - 50	176.98910	258.21304
50 - 100	181.71098	266.72364
100 - 200	15.96052	21.90537
200 - 300	16.79478	21.89357
300 - 500	16.19098	22.77156
500 - 1000	11.14803	9.86874
Above 1000	10.89744	9.42743

Source: Columns 2 and 3 are obtained by multiplying sample to All India Income Tax Statistics (AIITS) multiplier with AIITS to total multiplier.

Table 4.2

Estimates of Deductions and Tax Saving for Assessment Year 1987-88

(Rupees)

Returned Income (Rs. '000)	Gross Income as Per Cent of Total	Total Deductions		Total Tax Savings		Deductions as Per Cent of Total		Tax Savings as Per Cent of Total	
		80GG	24(2)	80GG	24(2)	80GG	24(2)	80GG	24(2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
18 - 22	8.79	13899131	53449647	3474783	13362412	7.89	26.83	4.68	19.54
22 - 25	3.60	8655652	24669980	2163913	6167495	4.91	12.38	2.91	9.02
25 - 30	5.03	15266549	29834522	4579965	8950356	8.67	14.98	6.16	13.09
30 - 50	12.62	50509504	57091552	20203802	22836620	28.68	28.66	27.19	33.39
50 - 100	15.58	65703421	29399384	32851711	14699692	37.31	14.76	44.21	21.49
100 - 200	25.41	12419438	4419420	6209719	2209710	7.05	2.22	8.36	3.23
200 - 300	8.73	2126488	153790	1063244	76895	1.21	0.08	1.43	0.11
300 - 500	6.92	2868702	78057	1434351	39028	1.63	0.04	1.93	0.06
500 - 1000	0.68	1615974	113966	807987	56983	0.92	0.06	1.09	0.08
above 1000	12.64	3047600	0	1523800	0	1.73	0.00	2.05	0.00
Total	100.00	176112459	199210318	74313275	68399191	100.00	100.00	100.00	100.00

Source: Calculated from Income Tax Returns data.

86

Table 4.3

Estimates of Deduction and Tax Saving for Assessment Year 1988-89

(Rupees)

Returned Income (Rs '000)	Gross Income as Per Cent of Total	Total Deductions	Total Tax Savings	Deductions as Per Cent of Total	Tax Savings as Per Cent of Total
		80GG	80GG	80GG	80GG
(1)	(2)	(3)	(4)	(5)	(6)
18 - 22	7.12	20442210	5084280	8.17	4.70
22 - 25	2.70	9381138	2345285	3.75	2.17
25 - 30	3.72	22356860	6707058	8.93	6.20
30 - 50	10.56	50469546	20187819	20.17	18.67
50 - 100	14.36	96917502	48458752	38.73	44.82
100 - 200	29.31	25112864	12556435	10.04	11.61
200 - 300	10.63	7623910	3811956	3.05	3.53
300 - 500	0.95	8718820	4359410	3.48	4.03
500 - 1000	10.12	3515956	1757979	1.41	1.63
above 1000	10.53	5705743	2852872	2.28	2.64
Total	100.00	250244549	108121846	100.00	100.00

Source: Calculated from Income Tax Returns data.

87

Table 4.4

Estimates of Tax Saving Due to Section 36(1)(viii)

(Rs. Crores)

Years	Amount Transferred to Special Reserve	Tax Rate (Per Cent)	Tax Saving	Number of HFC's for Which Data are Available	Tax Savings as Per Cent of Total Tax Savings		
					HDFC	HUDCO*	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1987-88	6.50	50	3.25	1	100.00	-	100.00
1988-89	5.30	50	2.65	1	100.00	-	100.00
1989-90	10.48	50	5.24	3	98.28	-	98.28
1990-91	38.14	50	19.07	9	45.62	40.17	85.79
1991-92	53.26	40	21.31	16	46.92	31.27	78.19
1992-93	97.11	45	43.70	13	36.17	41.75	77.90
1993-94	89.90	45	40.46	6	51.90	26.89	78.79
Total	300.69		135.68				

Note: * HUDCO was exempted from paying tax on profits till the year 1989-90.

Source: Annual Reports of HFC's for column 2 and Taxman's Income Tax Manual (various years) for column 3.

Table 4.5

Tax Saving to Owner Occupied Housing*

(Rupees)

Assumptions	Tax Saving (Nominal)				Present Value of Tax Saving			
	Due to Section 23(2)**	Due to Section 88***	Due to Section 24(2)***	Total	Due to Section 23(2)	Due to Section 88	Due to Section 24(2)	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Base case assumptions$	5.4	6.6	4.28	16.28	1.78	3.44	2.08	7.30
2. Base case when q raised to Rs. 10,000	5.4	6.6	7.88	19.88	1.78	3.44	4.01	9.23
3. Base case when q=10,000 and t=40%	7.2	6.6	10.51	24.31	2.38	3.44	5.34	11.16
4. Base case when q=10,000 and t=20%	3.6	6.6	5.25	15.45	1.19	3.44	2.67	7.30
5. Base case when q=10,000 and l/c=0.5	5.4	6.6	8.16	20.16	1.78	3.44	4.08	9.30
6. Base case when q=10,000, l/c=0.5 & t=40%	7.2	6.6	10.88	24.68	2.38	3.44	5.43	11.25
7. Base case when q=10,000, l/c=0.6 & t=40%	7.2	6.6	11.14	24.94	2.38	3.44	5.49	11.31
8. Base case when l/c = 0.25	5.4	5.0	4.08	14.48	1.78	3.44	2.04	7.26
9. Base case when l/c = 0.2	5.4	4.0	3.94	13.34	1.78	2.49	2.00	6.27
10. Base case when b = 15,000	5.4	8.6	4.28	18.28	1.78	4.38	2.08	8.24
11. Base case when b = 15,000, l/c = 0.5	5.4	9.6	4.36	19.36	1.78	4.86	2.10	8.74
12. Base case when b = 15,000, l/c = 0.6	5.4	9.6	4.39	19.39	1.78	4.86	2.11	8.75
13. Base case when b = 20,000, l/c = 0.6	5.4	12.6	4.39	22.39	1.78	6.28	2.11	10.17
14. Base case when t = 20%	5.4	6.6	2.86	14.86	1.19	3.44	1.39	6.02
15. Base case when t = 40%	7.2	6.6	5.71	19.51	2.38	3.44	2.78	8.60

Notes:
*   Per hundred rupees of investment in housing.
**   Over the holding period of 25 years.
***   Over mortgage repayment period of 15 years.
q   Denotes the ceiling on which deduction is allowed under Section 24(2).
t   Denotes marginal tax rate of the houseowner.
l/c   Denotes the loan to cost of house ratio.
b   Denotes the ceiling on which tax credit is allowed under Section 88 in respect of repayment of loan.
$ Refer to section 4.4 (b) (1) of this chapter.

Table 4.6

NPV of Owner-Occupied and Rental Housing

(Rs. Thousand)

Assumptions	Net Present Value		Net Present Value*	
	Owner-Occupied Housing	Rental Housing	Owner-Occupied Housing	Rental Housing
(1)	(2)	(3)	(4)	(5)
1. Base case$	524.26	311.30	499.64	297.10
2. Base case when t = 20%	520.78	313.84	499.64	299.65
3. Base case when t = 40%	527.73	308.75	499.64	294.56
4. Base case when q = 10,000, t = 20%	527.19	-		
5. Base case when q = 10,000, t = 30%	533.87	-		
6. Base case when q = 10,000, t = 40%	540.55	-		
7. Base case when q = 10,000, l/c = 0.5, t = 20%	466.27	-		
8. Base case when q = 10,000, l/c = 0.5	473.06	-		
9. Base case when q = 10,000, l/c = 0.5, t = 40%	479.85	-		
10. Base case and i = 14.5	538.28	324.87		
11. Base case when q = 10,000, i = 14.5	547.75	-		
12. Base case when l/c = 0.5	463.18	300.96		
13. Base case when l/c =0.5, t = 40%	466.68	298.69		
14. Base case when b = 15,000	528.99	316.03		
15. Base case when b = 15,000, l/c = 0.5	470.28	308.06		
16. Base case when cost of house = Rs. 8 Lakh	824.17	495.51		

Notes:
*   When Sections 24(2) and 88 are withdrawn.
i   Rate of interest.
$ Refer section 4.4 (b) (1) of this chapter; other notations are same as in Table 4.5.

CONCESSIONS TO HOUSING UNDER THE INCOME TAX ACT - 1961

4.1 Concessions Applicable to Individuals

A. OWNER-OCCUPIED HOUSING

Section 23(2)

This Section was substituted by the Finance Act, 1986 w.e.f. 1.4.87. According to this amendment, the Annual Value of a house occupied for his residence by the tax payer is to be taken as nil. This concession is applicable to one house specified by the tax payer. If the property is partially let out or let out for a part of the year and the rest is used for residential purposes, a pro rata deduction is given for self-occupation.

Section 24(2)

This Section provides for deduction for interest paid by the assessee on funds borrowed for constructing, repairing, renewing or reconstructing the property. Such interest is deductible subject to a ceiling of Rs. 5,000. From the Financial Year 1995-96 this limit has been raised to Rs. 10,000.

Section 71(4)

Under the provision of this Section losses from self-occupied house are allowed to be set off against income under any other head of income.

Section 71A

Carry forward losses (to the extent it relates to interest on borrowed capital) for assessment year 1993-94 and 1994-95 can be set off against income under any other head. For the assessment year 1995-96 the loss to the extent not set off will not be allowed to be carried forward.

Section 88

Under this Section, payment of instalments due under a self-financing scheme of a housing development authority or due to a company or cooperative society of which the assessee is a member or a shareholder, towards the cost of the house allotted to her/him or repayments of amounts borrowed for purchase, construction of a house is eligible for tax credit. The limit on qualifying instalments is Rs. 10,000 per year.

Tax credit is also available on investment/payment made in the following schemes within the overall limit of Rs. 10,000.

i.   Subscription to Home Loan Account Scheme of National Housing Bank.

ii.   Subscription to any deposit scheme of a public sector company engaged in providing long term finance for construction or purchase of residential houses or of any legal authority constituted for promoting housing activities.

B. HOUSING LET-OUT BY THE OWNER

Section 24(1)

This Section provides for deduction of an amount equal to 1/5th of the annual value of the property for repairs, insurance premium and collection charges, etc.

Section 24(1)(vi)

Under this Section interest paid on borrowed funds for construction, purchase of house is fully admissible.

Section 71(4)

This Section was amended by the Finance Act, 1994. According to this amendment for the assessment years 1995-96 and 1996-97 current years loss under income from house property can be set off against income under any other head of income for let out housing also.

Section 71A

Provision under this Section are same as in the case of owner-occupied housing.

Section 88

Provisions under the Section are applicable to the owners of let out housing. For description see section A of this Annexure.

4.2   Concessions Available to Business Assessees

Section 35AC

Subject to approval by the National Committee for Promotion of Social and Economic Welfare as also if the project is undertaken by a public sector company or a local authority or an association or institution approved by such Committee, Section 35 AC allows 100 per cent deduction in respect of expenditure by way of payment by a business or professional assessee towards a project engaged in construction of dwelling units for the economically weaker sections.

Section 35CCA

Under this Section the following expenditures/donations can be deducted from the gross profits.

i. Expenditure by way of payment to associations and institutions for carrying out rural development programmes. Programmes of rural development includes any programme for promoting the social and economic welfare of, or the uplift of the public in any rural area.

ii. Donation to an association, institution, which has the object of training persons for implementing programmes of rural development.

iii. To a rural development fund set up and notified by the Central Government.

Section 36(1)(viii)

Provisions under this Section allow public companies formed and registered in India with the main objective of carrying on the business of providing long term finance for construction or purchase of houses in India for residential purposes to claim a deduction of upto 40 per cent of their total income in respect of amounts transferred to a special reserve.

4.3 Concessions in Respect of Expenditure Made Towards Payment of Rent

Section 10(13A)

Provisions of this Section provide for a deduction equivalent to the least of the following amounts.

i. Amount of HRA received.

ii. Expenditure on rent·in excess of 10 per cent of the salary.

iii. 50 per cent of the amount of salary where such accommodation is situated in Bombay, Calcutta, Delhi and Madras and 40 per cent of the salary if the accommodation is at any other place.

Section 80GG

In the case of self employed and in areas notified by Government, provisions of Section 80GG provide for deduction in respect of rent paid in excess of 10 per cent of total income for residential accommodation subject to a maximum of Rs. 1000 per month or 25 per cent of total income, whichever is less. Provisions of this section shall not apply to an assessee where any residential accommodation is owned by the assessee or by his spouse or minor child at the place where he performs his duties or the assessee has a self-occupied property anywhere in India, which is occupied by him.

Notes

1. In the case of Section 35AC, which refers to donations, it was ascertained from the Central Board of Direct Taxes (CBDT) that there are very few cases of donations to notified schemes of low cost housing. The reported donations for 4 schemes are only Rs. 18.9 lakh. Applying a tax rate of 40 per cent, the tax saving under Section 35AC works out to Rs. 7.56 lakh.

2. See Aggarwal, et.al. (1991).

3. See Pandey (1992).

4. See NCAER (1967) and Gupta (1985).

5. Rent to value ratio may be higher for luxury houses or house at prime locations. Given the cost of house assumed here, 12 per cent rent is justified.

6. The rent is taken to be 12 per cent of the initial cost. Further, the rent increases annually by 10 per cent. Growth in rent is taken to be a little less than the average growth in rent, 12.5 per cent per annum for Municipal Corporation of Delhi area of Delhi, to make it representative for Class I cities, where the level of and growth in rent is lower than that in Delhi.

7. Alternatively, an increase in rent roughly proportionate to the increase in the value of the house can be hypothesised if the house-owner calculated the rate of return, not on his equity or the initial price paid, but on the new higher market value of the house. Most recurring costs such as the property tax, cost of maintenance and repair will also have to increase with the increasing value of the house, which may also be added to the rent. However, available data on average rent for the MCD area in Delhi does not support the latter view of rent determination. For instance, while the average rate of growth in rent per square foot has been 12.50 per cent per annum, growth in land prices and construction cost per unit were reported to be about 22 and 10 per cent respectively for the period 1970-71 to 1988-89.

8. As per the provisions of Section 23(2) which came in effect from 1.4.1987 the annual value of a house for his/her residence by the taxpayers (and which has not been let out nor any benefit derived from their) is to be taken as nil. Prior to this amendment, deductions permissible for owner-occupied house under Section 23(2) was equivalent to 50 per cent of the annual value of the house or Rs. 3,600 whichever is lower. Here, exempted income is taken at Rs. 3,600 for the base case investment.

Chapter 5

SUBSIDY IN HOUSING PROGRAMMES IN TAMIL NADU

The objective of this chapter is to estimate the housing subsidies in Tamil Nadu. In Tamil Nadu, there are mainly three agencies engaged in the provision of shelter and shelter related basic infrastructure. These are Tamil Nadu Housing Board (TNHB), Tamil Nadu Co-operative Housing Federation Limited (TNCHFL) and Tamil Nadu Slum Clearance Board (TNSCB). The TNHB services the housing needs of primarily the LIG, MIG and HIG households. The focus on Economically Weaker Section (EWS) in TNHB's activity profile is insignificant. While TNSCB is devoted exclusively to housing activities of the economically weaker households, the TNCHFL is designed to meet the housing needs of all income groups of households. However, EWS housing forms a significant component in the housing activities of TNCHFL.

The Chapter is organised into six sections. In section 5.1, provisions for housing under Five Year Plans are examined. The channels of subsidy are detailed in section 5.2. Housing schemes implemented in Tamil Nadu are briefly presented in section 5.3. Recovery performance of these schemes is discussed in section 5.4. The measurement of subsidy and the method of estimation is discussed in section 5.5. The estimates of subsidy are analysed in section 5.6 followed by the main observations.

5.1 Provisions for Housing Under Five Year Plans

Over successive Five Year Plans, the State government of Tamil Nadu has operated a wide range of housing and urban development schemes, through a number of State level agencies and Local institutions. The funds were provided by the State

Plan, Central government (in Centrally Sponsored Schemes), additional Plan assistance on account of externally aided projects, institutional finance and beneficiary contribution. The Plan programmes cover housing for different income groups in urban and rural areas, residential accommodation for the Government employees including the Police Personnel, housing schemes for the artisans and slum improvement and clearance schemes.

a. **Seventh Plan Programmes.** The outlay in the housing sector during the Seventh Plan period of 1985-90 was Rs. 165 crores, representing 2.9 per cent of the total Plan outlay of Rs. 5750 crores. The actual expenditure was however higher at Rs. 290 crores. It is important to note that of this expenditure, as much as 40 per cent was accounted for house building advance (HBA) to and rental housing for the Government employees. The balance amount was utilised for other housing schemes.

b. **Housing Programme for the Eighth Plan.** Although the housing outlay for the Eighth Plan (1992-1997) has been increased to Rs. 300 crores, it is only marginally higher than the actual expenditure (Rs. 290 crores) in the previous Plan in nominal terms. Out of this outlay, the scheme for rental housing and HBA for Government employees would account for Rs. 51 crores, besides the provision for Police housing. The TNHB has been provided with Rs. 190 crores for social and rental housing schemes. The TNSCB has been allocated Rs. 59.63 crores and the TNCHFL has been provided with Rs. 30.71 crores for construction of 1.6 lakh houses for the urban and rural poor. The Co-operative Housing Federation will raise additional funds by way of borrowings from financial institutions and beneficiary contribution.

5.2   Channels of Housing Subsidy

The main channels of housing subsidy in Tamil Nadu are:

HBA and rental housing to Government employees, built up houses, plots and basic services under various social housing schemes, low interest loans under social housing schemes, loan waivers from time to time in both rural and urban housing schemes. While explicit subsidies in the form of grants, loan waivers, expenditure on rental housing are reflected in the State budget the implicit subsidies are reflected in subventions for the payment of interest and repayment of loan to financial institutions and interest subsidies on HBA. Besides, poor recovery of loan/interest from the beneficiaries results in ex-post subsidy.

In brief, the above discussion examines the channels of subsidy in Tamil Nadu. In the discussion that follows we present various housing/housing finance schemes considered for estimation of subsidy in Tamil Nadu.

5.3   Housing Schemes in Tamil Nadu

a.   **Housing Schemes Implemented by Tamil Nadu Co-operative Housing Federation Limited.** The TNCHFL is the principal agency for implementing all the housing schemes through the Housing Cooperatives in the State. The following schemes are implemented by this agency:

1.   Social housing schemes in rural areas:

2. Shelter upgradation scheme in rural areas;

3. Housing for low income group (LIG) and middle income group (MIG); and

4. Reconstruction of houses for flood and cyclone affected people.

However, subsidy is provided only through schemes numbered 1, 2 and 4. The Federation mobilises funds from a variety of sources like LIC, GIC, NHB, HUDCO, HDFC, and Commercial Banks. The pooled cost of funds from different sources is reported to be 14 per cent for 1994-95. This is on lent for non-EWS housing at a differentiated interest structure, ranging from 13.5 per cent for loans of less than Rs. 25,000 to 15.5 per cent for loans between Rs. 50,000 and Rs. 1,20,000 and 17.5 per cent for loans exceeding Rs. 1,20,000 but less than Rs. 2 lakh. The Federation's social housing programme is supported mainly by the grants from Central and State governments low cost loans from HUDCO and also by cross subsidy from earnings in other activities. The Federation reported a net profit of Rs. 10.76 crores in 1992-93 and declared a dividend of 15 per cent during the same year. The TNCHFL has reported a recovery rate of 95.4 per cent for urban and 86 per cent for rural areas. However, since in many rural housing schemes the State government operates a loan waiver scheme in which equivalent amounts of loan instalments paid by the beneficiary are waived off, the actual rate of recovery in rural housing scheme is much lower. In EWS rural housing rate of recovery is reported to be between 4 to 24 per cent except in 1992-93 when it was higher at 51 per cent.

i. **Rural Housing Schemes.** The TNCHFL operates various housing schemes for rural EWS households since 1978-79. These schemes include,

provision of housing and services free of cost, grants and low interest loans for house construction. The rate of interest charged on loans is same as charged by HUDCO on EWS (rural) loans. In rural housing schemes subsidy is provided in the form of capital grant and low interest loans. Also, poor recovery from beneficiaries results in substantial ex-post subsidy.

ii.   **Indira Awas Yojana.** The State government undertakes this scheme with the help of grants received from the Central government. In this scheme built houses and sanitary facilities are provided for the rural poor families mainly belonging to the SC/ST households below the poverty line as well as those affected by natural calamities and freed bonded labourers.

The scheme is implemented by the State Rural Development Department. The scheme carries 100 per cent grants for the construction of houses and sanitary facilities. Total cost is shared between the Central and State governments in the proportion of 80:20 respectively. Houses are provided free of cost to the beneficiaries.

Unlike other States which conform to the prescribed cost ceiling for the scheme, the Tamil Nadu government has been providing since 1990-91, an additional State subsidy of Rs. 6,500 per house for the provision of RCC roof for the Scheduled Caste families.

iii.   **Shelter Upgradation in Rural Areas.** The State government operates since 1992-93, a housing upgradation scheme in rural areas called SHUPRA. Under SHUPRA loans are given to EWS families living in rural areas for upgradation

of their houses such as changing of thatched roof into tiled roof, strengthening of walls. Under the scheme each household is provided a loan of Rs. 2,080 and State government grant of Rs. 500. The rate of interest charged on loan was 9 per cent per annum in 1993-94. In the absence of information in respect of defaults in repayment of loan, estimates of subsidy under this scheme include only capital and interest subsidy. Thus estimates of subsidy here would be an under estimate.

iv.   **Housing for Flood Affected.**   The beneficiaries under this scheme are those whose houses were fully damaged due to flood during the years 1991-92 and 1992-93.

In this scheme ceiling cost of houses was fixed at Rs. 15,000, of which Rs. 4,500 is met by the Central government grant with a matching State government grant and a loan of Rs. 6,000 at 9 per cent rate of interest. The houses are constructed by the beneficiaries themselves, with technical help and training from the Building Centres set up by the Central government.

v.   **Shelter Upgradation for SC/ST Households.**   This is a fully subsidised scheme for the Scheduled Caste families. Under the scheme a grant of Rs. 5,000 per eligible family are provided for upgradation of the existing house. 30,000 households were benefited under this scheme through grants provided by the Director of Adidravidar and Tribal Welfare.

vi.   **Free House Sites for SC/ST Households.**   As a part of the Minimum Needs Programme free house sites were given to the rural poor. In 1994-

95, one lakh fifty thousand house sites were distributed with an outlay of Rs. 12.25 crores.

vii. **Housing for Cyclone Affected.** This is a scheme for providing assistance to the cyclone victims for reconstruction of houses. Under the scheme, the cost of a house was fixed at Rs. 15,000. Of which 60 per cent constituted the State and Central subsidy shared equally and 40 per cent was loan. The rate of interest charged is same as charged by HUDCO on EWS loans.

b. **Housing Schemes Implemented by Tamil Nadu Slum Clearance Board.** The TNSCB operates shelter schemes primarily for the slum dwellers and pavement dwellers. TNSCB implements the following schemes:

i **Pavement Dweller Scheme.** Main objective of this scheme is to shift the pavement dwellers squatting on pavements and road margins in Madras city to alternative sites in the Metropolitan Area, by providing serviced plots with core houses to each family. The cost per family is reported to be Rs.7,000.

ii **Cash Loan Scheme.** This scheme is being implemented since 1988-89. Under the scheme a loan of Rs. 8,000 each is given to EWS households for house construction. The beneficiaries are among those who have occupancy rights of the plot. The rate of interest on loan, in 1993-94, was 9 per cent per annum.

iii **Shelter for the Shelterless.** The TNSCB, under this scheme, provides houses to families living in slums in Madras and other cities. Houses are

allotted on hire purchase basis. The scheme was implemented with the help of loans from HUDCO. In the absence of information on hire purchase instalment and other details, interest subsidy on HUDCO loan is reckoned as subsidy to the beneficiaries.

iv.   **Sites and Services Schemes**. In this scheme sites with basic infrastructural facilities are provided to families squatting on public land. Sites are allotted on hire purchase basis. The scheme is implemented with the help of HUDCO loan. As in the case of above scheme interest subsidy on HUDCO loans is reckoned as subsidy to the beneficiaries.

v.   **Mass Housing Scheme**. This scheme was operated for a limited period from 1986-87 to 1988-89. The scheme had two components: One, a cash grant of Rs. 1,500 was given to each target family below the poverty line for the conversion of thatched roof to tiled roof, or mud wall to brick wall. Two, basic facilities like water supply and sanitation were provided. Cost of which was Rs. 1,400 per family.

vi.   **Madras Urban Development Project**. This scheme was undertaken by the TNSCB for the improvement of slums in Madras city. The cost per family was in the range of Rs. 4,500 to Rs. 5,500. The scheme involved the conferment of lease-cum-sale rights on the slum families in the identified pockets. The Board intended to recover the cost of improvement and the plot in instalments from the beneficiaries. The cost of the plot was fixed on a differentiated basis according to the location of the slum and the plot size. The Board was given capital grant for activities under Madras Urban Development Project (MUDP). The receipts from beneficiaries of the project were expected to be credited into a revolving fund for

undertaking additional works. However, recovery in this scheme is reported to be very poor.

vii. **Accelerated Slum Improvement Scheme.** In this scheme basic infrastructural facilities are provided to slum dwellers. The Accelerated Slum Improvement Scheme (ASIS) scheme is being operated in towns not covered by the World Bank assisted Urban Development Project. The per family cost is Rs. 2,000 and there are no recoveries to be made from the beneficiaries.

viii. **Tamil Nadu Urban Development Project.** The programme envisages improvements in the existing slums with the provision of basic services like drains, sanitation water supply etc. The programme was introduced with World Bank assistance to cover Madras and nine towns in the State. The allocation under Tamil Nadu Urban Development Project (TNUDP) was made in the proportion of 50 per cent loan and 50 per cent grant from the State government.

ix. **Rental Housing Schemes for the Slum-dwellers.** The TNSCB and the TNHB have constructed rental tenements for the slum dwellers. The TNHB has also constructed houses for industrial labour. TNSCB and TNHB have constructed houses with the help of loans and grants from the Central government and matching subsidy from the State. In 1969 Central government terminated the scheme of rental housing and thus stopped the grants/loans under this scheme. However, TNSCB continued with this scheme, even after the termination of the Scheme by the Central government, with the help of State budget provision and institutional finance. Following on the directives of the State government the TNSCB, in 1973, not only

reduced the rate of annual construction but also offered allotment of tenements on hire purchase to the existing tenants. Later, the Board stopped construction of rental tenements completely.

Presently, the Board undertakes construction of hire purchase tenements at a unit cost of Rs. 80,000 with the help of 30 per cent grant from the State government and 70 per cent loan from HUDCO. On these tenements instalment from the allottees is fixed at Rs. 150 per month payable over a period of 20 years.

The instalments on old tenements which are converted from rental to hire purchase tenements is lower ranging between Rs. 75 to Rs. 125 depending upon the year when these were converted into hire purchase tenements.

Despite low instalment amount for hire purchase, the response from the tenants is reported to be poor because of the extremely low rents, and the lax policy on eviction of defaulters and unauthorised occupants. There are still 30,007 tenements on rental basis, carrying a rent of Rs. 22 per month, and there is no proposal for revision in rent. The Board undertakes the maintenance of tenements and provision of services, apart from essential major repairs. The Board receives grants from the State government to meet these costs. There are heavy arrears of rent, and many of the tenements are found to be sublet.

It is interesting to note that in hire purchase scheme of the TNSCB tenements introduced in 1990, 50 per cent of the rental arrears were written off, and the balance was to be collected in one instalment. Hire purchase instalment fixed on the basis of

depreciated cost was to be recovered in 15 years. Terms of payment were made even more liberal in 1993-94 when it was decided to waive off 50 per cent of the rent arrears. Only 15 per cent of the balance 50 per cent rent arrears were to be recovered in one instalment, and the balance 35 per cent to be recovered along with the hire purchase instalment. In spite of these concessions only a few occupants have joined the hire purchase scheme. It appears that in the absence of pressures for paying economic rents and eviction, the remaining tenants are not likely to join the hire purchase scheme.

Subsidy in rental tenements provided by the TNSCB is reckoned as the difference between the expenditure incurred on maintenance and repairs and the rent receipts. This is done due to unavailability of information required for calculation of economic rent. Volume of subsidy in rental housing provided by the TNSCB is computed to be Rs. 1.61 crores and Rs. 1.60 crores in the years 1988-89 and 1989-90 respectively.

The TNHB is reported to be still maintaining 8365 tenements constructed for slum dwellers outside Madras and 760 EWS tenements built for the industrial labour. The Board receives grants from the State government for meeting the shortfall between the maintenance expenditure and the actual rent receipts for the slum tenements. It is interesting to note that the rent charged by TNHB for the rental tenements for slum dwellers outside Madras was double than that charged by TNSCB for the same tenements in Madras. There appears to be no proposal to offer these tenements on hire purchase to the existing occupants, or even to revise the rent.

c.   **Staff Housing For Government Employees.** Rental housing for the Government employees is constructed and maintained mainly by the TNHB. The TNHB had constructed over twenty five thousand houses till the end of February 1995, for Government employees in different places.

While detailed calculation of subsidy on account of the rental housing for Government employees (constructed and maintained by TNHB) have been presented in Chapter 3, estimates of subsidy are presented in Table 5.4 of this chapter.

d.   **Tamil Nadu Police Housing Corporation.** The Tamil Nadu Police Housing Corporation has been set up in 1981 to meet the housing needs of Police personnel. The Board has been constructing 1000 quarters per annum. since 1985-86, for allotment on rental basis. In the absence of required data calculation of subsidy in police housing is not attempted.

e.   **Beedi Workers Housing Scheme.** Under the scheme the unit cost of houses is Rs. 22,000, of which Rs. 5,000 is the Central subsidy and the balance amount is from HUDCO at the interest rate of 9 per cent per annum. In addition to this. the individual beedi workers are also eligible for direct loans from the Central Labour Commissioner.

f.   **Shelter Upgradation Through Nehru Rozgar Yojana.** The TNSCB is one of the four Agencies involved in the implementation of the National scheme for providing a Centre-State subsidy of Rs. 1,000 per family and HUDCO loan of Rs. 3,150 at EWS rates for the upgradation of the existing huts in identified slums.

This has been taken up in 104 Class I towns so far, mainly through the Tamil Nadu Urban Finance and Development Corporation (TUFDCO) and TNSCB, apart from the TNCHFL and the Handloom Weavers Cooperative Society in the initial years. The programme has benefited, till the end of March 1993, about 1.2 lakh families, with a subsidy amount of about Rs. 10 crores and a loan of about Rs. 38 crores.

The experience with recovery of the small loan under this scheme has varied with the nature of the Agency and the Budget support extended by the State Government. In the case of the TNCHFL and the Handloom weavers society, there was no Budget support for shortfalls in recovery, and the Agencies were encouraged to effect high rates of recovery. However, in the case of TUFDCO, the loans were to be recovered by the Municipalities and then passed on to the Agency for repayment to HUDCO. As the Municipalities did not exert themselves to recover the loans, the loan repayment to HUDCO was made by TUFDCO with the help of annual Budgetary subventions. In the case of TNSCB, Government assumed the loan liability, without regard to the actual cost recovery. Thus, in effect, the Nehru Rozgar Yojana shelter upgradation project, for bulk of the beneficiaries, has turned out to be a near 100 per cent subsidy scheme.

g.   **Fisherman Housing Scheme**. In order to alleviate the suffering of the poor fishermen living near the coast, the State government is operating the Centrally Sponsored scheme of model villages, with housing, water supply and community halls in rural areas. The earlier cost ceiling of Rs. 17,000 was raised to Rs. 26,000 in 1993-94 for a house with 210 sq.ft. plinth area and further raised recently to Rs. 35,000 according to Central guidelines. The scheme is financed with a capital grant (60 per

cent of the cost shared equally between the Central and State government) and loan from HUDCO.

h.   Handloom Weavers Housing Scheme. This Centrally assisted scheme is being implemented by the State Handloom Directorate. Central and State capital grant are provided for individual workshed as well as house-cum-workshed programmes. The schemes are being taken up as group housing schemes or on scattered basis.

The financial pattern of the scheme has been changed from time to time. The quantum of Central subsidy has increased steadily. In 1990-91, out of the total cost of Rs. 25,000, HUDCO loan was Rs. 14,000, while the Centre and State contributed a subsidy of Rs. 5,000 each. The present unit cost of Rs. 36,400 per house-cum-workshed provides for a Central subsidy of 70 per cent of the cost, subject to a maximum of Rs. 14,000, a State subsidy of Rs. 5,000 and a HUDCO loan of Rs. 15,400 at a rate of interest of 9 per cent per annum.

i.   House Building Advance to Government Employees. The Government employees are provided House Building Advance (HBA) on concessional terms for purchase/construction of house, upto Rs. 2.5 lakh. and for improving/ enlarging the accommodation owned by employees upto a ceiling loan of Rs. 1 lakh. Method used in calculation of subsidy on HBA given by the government of Tamil Nadu is detailed in Chapter 3.

As mentioned in Chapter 3 for calculation of subsidy in HBA information on the distribution of housing loans at each interest rate is required. In the absence of data on amounts of loans falling under different loan slabs equal distribution of loans under each slab is assumed. Hence, a simple average of the three rates of interest is used in calculation of subsidy. Terms of loan are same as applicable to HBA by the Central government. Estimates of subsidy are presented in Table 5.2.

5.4   Recovery Performance

Recoveries are crucial for the sustainability of public housing programmes. Therefore, it is important to examine the recovery of dues from the beneficiaries of these programmes. In the case of Tamil Nadu, data on rates of recovery is available only in respect of Tamil Nadu Co-operative Housing Federation Limited (TNCHFL) and Tamil Nadu Slum Clearance Board (TNSCB).

Data on the rates of recovery in the case of TNCHFL is available only in respect of rural housing schemes. The TNCHFL's recovery rates ranged between 4 to 10 per cent during the period 1985-86 to 1993-94, excepting the years 1991-92 and 1993-94 when recovery rates are higher at 28 and 53 per cent respectively. The rate of recovery appears to have picked up due to the State government policy of loan waiver. In 1994 the State government announced loan waiver upto 75 and 50 per cent of the individual loans of the beneficiaries who has obtained loans before 1st April, 1990 and between 1.4.1990 and 30.9.1994.

The collection to demand ratio of TNSCB is reported to be comparatively higher at about 40 per cent during the period under consideration. In 1992-93, it was even higher at about 89 per cent. However, rate of recovery from schemes for slum dweller is reported to be low.

5.5   Measurement and Computation of Subsidy

As noted earlier, housing for masses is provided by the State governments. They formulate and implement various housing schemes. These schemes are financed by the States through budgetary provisions and loans from financial institutions. In addition, Central government formulates various social housing schemes. They are implemented by the State governments through State level housing agencies. Finance for these schemes is mainly provided by the Central and State governments and HUDCO. Funds provided by HUDCO are generally loans and have guarantee from the State government.

Subsidy in housing schemes in both Tamil Nadu and Andhra Pradesh has been computed at two levels; (i) subsidy flowing through the State budget and (ii) subsidy at the beneficiaries level.

Subsidies from the State budget constitute grants, interest subsidy on loans and expenditure on maintenance of rental housing. Subsidy at beneficiaries level constitute capital and interest subsidy. Capital subsidy could be either in the form of a cash grant, free site/plot, built house, basic services or a combination of one or more of these. Interest subsidy results from the below market interest rates on housing loans.

Besides, default in loan repayment and payment of interest/instalment towards rent by the beneficiaries results in ex-post subsidy. While capital subsidy is reckoned as capital expenditure made by the housing authority and cash transfer to the beneficiaries, interest subsidy is measured as the difference between the rate of return charged from the beneficiary and the benchmark rate of interest. Subsidy on account of defaults by the beneficiaries is computed by applying the default rate in the scheme[1] to the estimated annual loan repayment/rent payment liability.

5.6   Estimates of Subsidy

Estimates of subsidy in housing schemes in Tamil Nadu are presented in Tables 5.1 to 5.3. In Table 5.1 housing subsidies in Tamil Nadu through various budgets of Tamil Nadu for the years 1990-91 to 1994-95 are presented. Here, total housing subsidies are segregated into two parts. One the capital component and the other interest component. Further, subsidies are classified according to various rural and urban housing schemes. Rural housing encompasses co-operative federation scheme for regular housing, SHUPRA for upgradation, fishermen housing, housing for cyclone affected people and Indira Awas Yojana. Urban housing covers grants to TNSCB, grants for repayment of loans to financial institutions, maintenance of rental housing for employees (TNHB & PWD), grants to TNSCB for pavement dwellers, Nehru Rozgar Yojana, handloom weaver housing, police housing corporation, grants to TNHB to cover losses in rental tenements for slum dwellers, other rents and maintenance grants to TNHB and loans. Loans include house building advances to employees and TNUDP. In Table 5.2, estimates of budgetary subsidies in housing for Tamil Nadu according to their relative levels are presented. Here, by level we refer

to the relative share of subsidy to expenditure on housing, expenditure on social services, State's total expenditure and State Domestic Product. The estimates of subsidy in housing schemes in Tamil Nadu at the beneficiaries level both for rural and urban housing are categorised into capital, interest and default subsidies for the years 1985-86 to 1994-95 and are presented in Table 5.3.

From the subsidy estimates shown in Table 5.1, the following observations are made.

i.   The volume of total subsidy - which includes capital and interest subsidy - in Tamil Nadu increased from Rs. 53.75 crores in 1990-91 to Rs. 67.11 crores in 1993-94 and further to Rs. 90.99 crores by 1994-95.[2] Total subsidies grew at a rate of 25 per cent for the period 1990-91 to 1993-94 but with the inclusion of 1994-95 the growth is around 69 per cent. Bulk of the subsidy is in the form of capital subsidy. However, the importance of interest subsidy has grown over the years. For instance, the share of interest subsidy has increased from less than one per cent to about 6 per cent during the period 1990-91 to 1993-94.

ii.   Of the total subsidies of Rs. 53.75 crores in 1990-91. both rural and urban housing accounted for equal share. This was maintained in 1991-92 as well. While in 1992-93, the share marginally (3 per cent) went in favour of urban housing. But. in 1993-94 and 1994-95, this was reversed. The importance of rural housing rose from 53 to 61 per cent during the period. However. this increase is to be viewed

cautiously as information on some schemes is not available during these years.

iii.   Of the total capital subsidy of Rs. 53.35 crores in 1990-91, rural and urban housing accounted for equal share. While in 1993-94, capital subsidy was Rs. 63.10 crores, of which 57 per cent was accounted for by the rural housing as compared to 43 per cent by urban housing. An important observation, in the case of rural housing in Tamil Nadu, is that the entire subsidy was in the form of capital subsidy.

iv.   Among the rural housing, Indira Awas Yojana accounted for about half of the subsidy in 1990-91 and it was about 71 per cent in 1992-93 but declined thereafter to about 64 per cent in 1994-95. If we rank the various schemes in the rural housing according their share for the years 1990-91 to 1993-94, Indira Awas Yojana was first followed by Co-operative Federation Scheme for regular housing, fishermen housing, housing for cyclone affected areas and SHUPRA.

v.   Among the urban housing, grants for repayment of loans to financial institutions accounted for a major share (ranging from 44 to 58 per cent) for the years 1990-91 to 1993-94. In terms of ranking, repayment to institutions stands first, followed by grants to TNSCB and maintenance of rental housing for employees. In the case of others there is no specific pattern.

The relative share of subsidy in the State Domestic Product of Tamil Nadu has been less than one-fourth per cent for the years 1990-91 to 1994-95 (Table 5.2). As a proportion of State's total expenditure, it has been below one per cent while it is about 2 per cent of total expenditure on social services. The relative shares have not altered over the period.

Estimates of subsidy at the beneficiary level are obtained from the data in respect of various housing schemes implemented in Tamil Nadu. From the estimates presented in Table 5.3, the following observations are made.

i.   The total volume of subsidies (capital, interest and defaults) at the beneficiary level in Tamil Nadu has risen from Rs. 82.41 crores in 1990-91 to Rs. 109.16 crores in 1993-94, and further to about Rs. 208.74 crores in 1994-95 registering a growth rate of 33 per cent during the years 1990-91 to 1993-94. In terms of proportion, the share of capital subsidy rose by 2 per cent in 1992-93 from 94 per cent in 1990-91 and fell marginally thereafter to about 95 per cent in 1993-94. This fall is partly due to non-availability of information for schemes implemented by TNHB and NRY. The share of interest subsidy has varied between 2 to 4 per cent during the period. In the case of default, the share was around 1 to 3 per cent for the years 1990-91 to 1992-93, but fell sharply to 0.7 per cent in 1993-94. This is mainly due to non-availability of information in respect of a number of schemes.

ii.	Of the total subsidies of Rs. 82.41 crores in 1990-91, the share of schemes implemented by TNCHFL, TNSCB and TNHB was 22, 8 and 52 per cent respectively, while the remaining went to beedi workers housing, NRY, fishermen housing and handloom weavers housing. In 1992-93, of Rs. 124.96 crores 56, 6 and 34 per cent went to TNCHFL, TNSCB and TNHB respectively, the remaining was shared by other schemes. In 1993-94, information is not available for TNHB. In the case of capital subsidies the general trend in total subsidies is followed.

iii.	Among the schemes implemented by TNCHFL, the share of free rural housing (IAY) was about 69 per cent and that of rural housing around 31 per cent for the year 1990-91. In 1991-92, the shares were 85 and 15 per cent respectively. Thereafter in 1992-93, their share fell to about 61 and 7 per cent respectively. Leaving these aside, the importance of other schemes has been minimal.

iv.	Among the schemes implemented by TNSCB, housing for pavement dwellers, ASIS and TNUDP accounted for the entire share. In terms of their share in TNSCB schemes, they accounted for 35. 30 and 34 per cent respectively for the year 1990-91. While in 1992-93, it was about 35, 32 and 32 per cent respectively. In terms of ranking, they are pavement dwellers, TNUDP and accelerated slum improvement scheme.

v.	Rental housing, which is the only social housing scheme under TNHB accounted for 52.1, 41.7 and 34 per cent of total subsidy in the years

1990-91, 1991-92 and 1992-93 respectively. This implies that over the years share of rental housing in total subsidy has gone down.

5.7 Summary

In Tamil Nadu there are mainly three agencies engaged in the provision of shelter programmes. These are Tamil Nadu Housing Board (TNHB), Tamil Nadu Co-operative Housing Federation Limited (TNCHFL) and Tamil Nadu Slum Clearance Board (TNSCB). Under TNCHFL, there are schemes for rural housing, Indira Awas Yojana, Shelter Upgradation in Rural Areas, Housing for Flood Affected, Shelter Upgradation for SC/ST Households, Free House Sites for SC/ST Households and Housing for Cyclone Affected. TNSCB implements pavement dweller scheme, cash loan scheme, shelter for the shelterless, sites and services schemes, mass housing scheme, Madras urban development project, accelerated slum improvement scheme, Tamil Nadu urban development project and rental housing schemes for the slum-dwellers. Apart from these, there are schemes for government employees, Tamil Nadu police housing corporation, beedi workers housing scheme, shelter upgradation through NRY, fishermen housing scheme, handloom weavers housing scheme and house building advance to government employees.

The information on recovery under housing schemes in Tamil Nadu is available only for TNCHFL and TNSCB. In 1991-92 and 1993-94, the recovery rates were about 28 and 53 per cent respectively for TNCHFL schemes. If the period 1985-86 to 1993-94 is taken into account the recovery has been very low ranging between 4-10 per cent. For TNSCB, the recovery rate was comparatively higher on an average. at

about 40 per cent during the above period. In 1992-93, it was still higher at 89 per cent. However, recovery performance in the schemes for weaker sections, especially slum-dwellers was very low.

The volume of subsidies in Tamil Nadu sanctioned through the budgets has grown at a rate of 25 per cent over the period 1990-91 to 1993-94. Bulk of the subsidy is in the form of capital subsidy. However, the importance of interest subsidy has grown over the years. For instance, the share of interest subsidy has increased from less than one per cent to about 6 per cent during the above period.

In terms of the share in total subsidies, rural housing schemes seem to have gained *vis-a-vis* urban housing schemes, over the years. This observation holds even if we consider capital subsidies separately. In terms of ranking among the rural schemes, Indira Awas Yojana benefited the most, followed by co-operative federation scheme for regular housing, fishermen housing, housing for cyclone affected and SHUPRA. In urban schemes, grants for repayment of loans to financial institutions accounted for a major share of the subsidy. This item ranks first, followed closely by grants to TNSCB and maintenance of rental housing for employees.

The relative level of subsidy to expenditures on social services, States total expenditure and State Domestic Product has not changed over the years, 1990-91 to 1994-95.

The classification of subsidies at the beneficiaries level in various schemes reveals that about 82 per cent of the total subsidy in the year 1990-91 went to the

schemes implemented by three government agencies TNCHFL, TNSCB and TNHB. The remaining 18 per cent went to beedi workers, NRY, fishermen and handloom weavers housing schemes. In the year 1992-93, 96 per cent went to the schemes of three agencies. Among the TNCHFL schemes, free housing (IAY) and rural housing accounted for bulk of the subsidy. In TNSCB schemes, housing for pavement dwellers, accelerated slum improvement and Tamil Nadu urban development project accounted for the entire subsidy.

One interesting observation is about the level and mix of subsidy in different housing schemes. There is significant variation in the level and mix of subsidy in various housing schemes meant even for the same income group. A priori there seems no justification for this.

Table 5.1

Housing Subsidy in Tamil Nadu Through the Budget

<div align="right">(Rs. Lakh)</div>

Schemes	1990-91			1991-92		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Rural Housing						
1. Grants to TNCHFL						-
i. Scheme Subsidy	450.00	-	450.00	450.00	-	450.00
ii. Grant to Cover Defaults and Interest Subsidy	246.75	-	246.75	193.06	-	193.06
2. SHUPRA	-	-	-	-	-	-
3. Fishermen Housing	666.05	-	666.05	400.13	-	400.13
4. Cyclone Housing						
i. State's Share for Central Schemes	-	-	-	-	-	-
ii. State Level Schemes	-	-	-	187.01	-	187.01
5. Indira Awas Yojana						
i. States' Share of Subsidy	299.31	-	299.31	268.29	-	268.29
ii. Additional Subsidy	1000.00	-	1000.00	1970.48	-	1970.48
Sub Total	2662.11	-	2662.11	3468.97	-	3468.97
	(49.90)	(0.00)	(49.52)	(52.69)	(0.00)	(51.10)
Urban Housing						
	200.00	-	200.00	200.00	-	200.00
1. Grants to TNSCB	150.00	-	150.00	150.00	-	150.00
i. TNUDP	240.00	-	240.00	300.00	-	300.00
ii. ASIS						
iii. Slum Clearance						

Schemes	1990-91			1991-92		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2. Grants for Repayment of Loans to Financial Institutions						
i. TNSCB	192.00	-	192.00	500.00	-	500.00
ii. TNCHFL (Rental Housing)	991.67	-	991.67	1133.01	-	1133.01
3. Maintenance of Rental Housing for Employees (TNHB & PWD)	452.30	-	452.30	495.20	-	495.20
4. Grants to TNSCB for Pavement Dwellers						
i. Relocation	77.00	-	77.00	77.00	-	77.00
ii. Night Shelter	1.08	-	1.08	-	-	-
5. Nehru Rozgar Yojana	93.40	-	93.40	91.93	-	91.93
6. Handloom Weaver Housing	262.49	-	262.49	150.00	-	150.00
7. Police Housing Corporation						
i. Grants for Maintenance of Staff Housing	-	-	-	-	-	-
ii. Grants Towards Loan Repayment	-	-	-	-	-	-
8. Grants to TNHB to Cover Losses in Slum Rental Tenements	10.00	-	10.00	10.00	-	10.00
9. Other Rents and Maintenance Grants to TNHB	3.24	-	3.24	8.16	-	8.16
10. House Building Advance to Employees	-	N.A.	N.A.	-	163.10	163.10
11. Loans for TNUDP						
i. Loans to TNSCB	-	7.50	7.50	-	7.50	7.50
ii. Loans to TNHB	-	33.75	33.75	-	33.75	33.75
Sub Total	-673.18 (50.10)	41.25 (100.00)	2713.35 (50.48)	3115.30 (47.31)	204.35 (100.00)	3319.65 (48.90)
Total	5335.29	41.25	5375.46	6584.27	204.35	6788.62

TABLE 5.1 (Contd.)

<div align="right">(Rs. Lakh)</div>

Schemes	1992-93			1993-94			1994-95		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Rural Housing									
1. Grants to TNCHFL									
i. Scheme Subsidy	450.00	-	450.00	480.00	-	480.00	640.00	-	640.00
ii. Grant to Cover Defaults and Interest Subsidy	142.36	-	142.36	159.63	-	159.63	98.69	-	98.69
2. SHUPRA	-	-	-	50.00	-	50.00	150.00	-	150.00
3. Fishermen Housing	279.23	-	279.23	326.72	-	326.72	616.38	-	616.38
4. Cyclone Housing									
i. State's Share for Central Schemes	-	-	-	405.00	-	405.00	405.00	-	405.00
ii. State Level Schemes	15.71	-	15.71	29.60	-	29.60	114.00	-	114.00
5. Indira Awas Yojana									
i. States' Share of Subsidy	556.41	-	556.41	556.41	-	556.41	693.93	-	693.93
ii. Additional Subsidy	1654.30	-	1654.30	1560.25	-	1560.25	2862.28	-	2862.28
Sub Total	3098.01 (48.85)	- (0.00)	3098.01 (47.11)	3567.61 (56.54)	- (0.00)	3567.61 (53.16)	5580.28 (61.86)	- (0.00)	5580.28 (61.33)
Urban Housing									
1. Grants to TNSCB									
i. TNUDP	225.00	-	225.00	250.00	-	250.00	150.00	-	150.00
ii. ASIS	195.00	-	195.00	250.00	-	250.00	308.00	-	308.00
iii. Slum Clearance	300.00		300.00	300.00	-	300.00	300.00	-	300.00
2. Grants for Repayment of Loans to Financial Institutions									
i. TNSCB	500.00	-	500.00	515.00	-	515.00	600.00	-	600.00
ii. TNCHFL	1230.50	-	1230.50	1307.94	-	1307.94	1450.06	-	1450.06

Schemes	1992-93			1993-94			1994-95		
	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total	Capital Subsidy	Interest Subsidy	Total
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
3. Maintenance of Rental Housing for Employees (TNHB & PWD)	687.90	-	687.90	N.A.	-	-	N.A.	-	-
4. Grants to TNSCB for Pavement Dwellers									
i. Relocation	33.15	-	33.15	-	-	-	-	-	-
ii. Night Shelter	-	-	-	-	-	-	-	-	-
5. Nehru Rozgar Yojana	2.35	-	2.35	-	-	-	-	-	-
6. Handloom Weaver Housing	51.85	-	51.85	8.30	-	8.30	150.00	-	150.00
7. Police Housing Corporation									
i. Grants for Maintenance of Staff Housing	-	-	-	-	-	-	28.88	-	28.88
ii. Grants Towards Loan Repayment	-	-	-	-	-	-	382.00	-	382.00
8. Grants to TNHB to Cover Losses in Slum Rental Tenements	10.00	-	10.00	72.74	-	72.74	72.00	-	72.00
9. Other Rents and Maintenance Grants to TNHB	7.50	-	7.50	38.50	-	38.50	-	-	-
10. House Building Advance to Employees	-	188.40	188.40	-	316.82	316.82	-	NA	-
11. Loans for TNUDP									
i. Loans to TNSCB	-	8.44	8.44	-	9.38	9.38	-	3.00	3.00
ii. Loans to TNHB	-	37.50	37.50	-	75.00	75.00	-	75.00	75.00
Sub Total	3243.25 (51.15)	234.34 (100.00)	3477.59 (52.89)	2742.48 (43.46)	401.20 (100.00)	3143.68 (46.84)	3440.94 (38.14)	78.00 (100.00)	3518.94 (38.67)
Total	6341.26	234.34	6575.60	6310.09	401.20	6711.29	9021.22	78.00	9099.22

Note: Figures within the parentheses are the percentages of the total housing subsidy in Tamil Nadu.

Source: Computed from data supplied by the State government and the relevent agencies.

Table 5.2

Budgetary Subsidy in Housing in Tamil Nadu: Relative Levels

(Rs. Lakh)

Years	Total Budgetary Subsidies	Total Expenditure on housing	Per Cent Columns (2 + 3)	Total Expenditure on Social Services	Per Cent Columns (2 + 5)	States' Total Expenditure	Per Cent Columns (2 + 7)	SDP at Current Prices	Per Cent Columns (2 + 9)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1990-91	5375.46	5472.05	98.23	263926.4	2.04	633896.63	0.85	2803100	0.19
1991-92	6788.62	5763.98	117.78	309457.8	2.19	937073.75	0.72	3269100	0.21
1992-93	6575.60	6476.65	101.53	354187.5	1.86	947081.46	0.69	3522500	0.19
1993-94	6711.29	5575.03	120.38	379532.5	1.77	1072564.08	0.63	3948723	0.17
1994-95	9099.22	7631.41	119.23	412154.4	2.21	1153466.72	0.79	4426518	0.21

Note: For expenditure, figures are Revised Estimates for 1994-95, Total Expenditure on Housing relates to the Major Head "Housing". State Domestic Product (SDP) figures are provisional for 1991-92, Quick Estimates for 1992-93 and Estimates for 1993-94 and 1994-95.

Source: State Budget documents.

Table 5.3

Subsidy in Housing Schemes in Tamil Nadu (Beneficiary Level)

(Rs. Lakh

Schemes	1990-91				1991-92			
	Capital Subsidy	Interest Subsidy	Defaults	Total	Capital Subsidy	Interest Subsidy	Defaults	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Schemes Implemented by TNCHFL								
1.1 Rural Housing	287.00	135.73	140.58	563.31	423.00	81.30	81.30	585.60
1.2 Indira Awas Yojana	1229.31	-	-	1229.31	3420.92	-	-	3420.92
1.3 SHUPRA	-	-	-	-	-	-	-	-
1.4 Housing for Flood Affected								
1.5 Shelter Upgradation for SC/ST in Rural Areas								
1.6 Distribution of Free House Sites in Rural Areas to SC/ST Families	-	-	-	-	-	-	-	-
1.7 Housing for Cyclone Affected								
2. Schemes Implemented by TNSCB								
2.1 Housing for Pavement Dwellers	232.37	-	-	232.37	77.37	-	-	77.37
2.2 Cash Loan Scheme for Slum Dwellers	-	3.60	N.A.	3.60	-	3.26	4.57	7.83
2.3 Shelter for Shelterless	-	1.80	1.50	3.30	-	0.60	0.50	1.10
2.4 Sites & Services Scheme	-	0.73	0.61	1.34	-	0.05	0.04	0.09
2.5 Accelerated Slum Improvement Scheme	200.00	-	-	200.00	200.00	-	-	200.00
2.6 Tamil Nadu Urban Development Project	200.00	15.62	9.30	224.92	-	-	-	-
3. Schemes Implemented by TNHB								
3.1 Rental Housing	4292.00	-	-	4292.00	3993.00	-	-	3993.00
4. Beedi Workers Housing*	4.16	-	N.A.	4.16	4.40	-	N.A.	4.40
5. Nehru Rozgar Yojana (all agencies)	373.20	88.17	82.05	543.42	367.31	92.94	86.48	546.73
6. Fishermen Housing	666.05	-	-	666.05	400.13	-	-	400.13
7. Handloom Weavers Housing	262.49	14.65	N.A.	277.14	150.00	17.10	N.A.	167.10
8. House Building Advance to Employees	-	N.A.	-	-	-	163.10	-	163.10
Total	**7746.58**	**260.30**	**234.04**	**8240.92**	**9036.13**	**358.35**	**172.89**	**9567.37**

Schemes	1992-93				1993-94				1994-95			
	Capital Subsidy	Interest Subsidy	Defaults	Total	Capital Subsidy	Interest Subsidy	Defaults	Total	Capital Subsidy	Interest Subsidy	Defaults	Total
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
Schemes Implemented by TNCHFL												
1.1 Rural Housing	220.01	110.64	139.84	470.49	226.00	82.75	64.82	373.57	412.72	82.59	123.89	619.20
1.2 Indira Awas Yojana	4219.87	-	-	4219.87	6536.60	-	-	6536.60	7981.50	-	7981.50	15963.00
1.3 SHUPRA	50.00	11.44	N.A.	61.44	150.00	31.20	N.A.	181.20	-	-	-	-
1.4 Housing for Flood Affected	512.00	19.16	N.A.	531.16	434.95	23.10	N.A.	458.05	-	-	-	-
1.5 Shelter Upgradation for SC/ST in Rural Areas	-	-	-	-	1500.00	-	-	1500.00	1500.00	-	-	1500.00
1.6 Distribution of Free House Sites in Rural Areas to SC/ST Families									1225.00	-	-	1225.00
1.7 Housing for Cyclone Affected	1620.00	54.00	N.A.	1674.00	103.20	3.44	N.A.	106.64	103.20	2.41	N.A.	105.61
Schemes Implemented by TNSCB												
2.1 Housing for Pavement Dwellers	257.33	-	-	257.33	554.52	-	-	554.52	N.A.	N.A.	N.A.	N.A.
2.2 Cash Loan Scheme for Slum Dwellers	-	3.78	3.17	6.95	-	2.36	7.57	9.93	-	18.00	7.57	25.57
2.3 Shelter for Shelterless	-	0.31	0.31	0.62	-	1.83	1.83	3.66	N.A.	N.A.	N.A.	N.A.
2.4 Sites & Services Scheme	-	0.03	0.01	0.04	-	0.02	0.02	0.04	-	1.40	1.40	2.80
2.5 Accelerated Slum Improvement Scheme	225.00	-	-	225.00	250.00	-	-	250.00	150.00	-	-	150.00
2.6 Tamil Nadu Urban Development Project	225.00	13.50	9.38	247.88	75.00	3.75	3.13	81.88	300.00	150.00	12.50	462.50
Schemes Implemented by TNHB												
3.1 Rental Housing	4254.00	-	-	4254.00	N.A.	-	-	N.A.	N.A.	-	-	N.A.
Beedi Workers Housing*	6.75	-	N.A.	6.75	8.08	-	N.A.	8.08	1.08	-	N.A.	1.08
Nehru Rozgar Yojana (all agencies)	9.46	2.98	2.77	15.21	N.A.	N.A.	N.A.	N.A.	42.00	1.60	1.79	45.39
Fishermen Housing	279.23	-	N.A.	279.23	526.72	-	N.A.	526.72	616.38	-	N.A.	616.38
Handloom Weavers Housing	51.85	5.54	N.A.	57.39	8.30	N.A.	N.A.	8.30	150.00	7.70	N.A.	157.70
House Building Advance to Employees	-	188.40	-	188.40	-	316.82	-	316.82	-	N.A..	-	-
Total	11930.50	409.78	155.48	12495.76	10373.37	465.27	77.37	10916.00	12481.88	263.70	9628.65	20874.23

Note: * Capital subsidy includes interest subsidy.

Source: Computed from data supplied by the State governments and the relevant agencies.

Table 5.4

Subsidy in Housing Schemes in Tamil Nadu (Beneficiary Level): Relative Levels

(Rs. Lakh)

Years	Subsidy in Housing Schemes	Total Expenditure on Housing	Per Cent Columns (2 ÷ 3)	Total Expenditure on Social Services	Per Cent Columns (2 ÷ 5)	States' Total Expenditure	Per Cent Columns (2 ÷ 7)	SDP at Current Prices	Per Cent Columns (2 ÷ 9)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1990-91	8240.92	5472.05	150.60	263926.40	3.12	633896.63	1.30	2803100	0.29
1991-92	9567.37	5763.98	165.99	309457.80	3.09	937073.75	1.02	3269100	0.29
1992-93	12495.76	6476.65	192.94	354187.50	3.53	947081.46	1.32	3522500	0.35
1993-94	10916.00	5575.03	195.80	379532.50	2.88	1072564.08	1.02	3948723	0.28
1994-95	20874.23	7631.41	273.53	412154.40	5.06	1153466.72	1.81	4426518	0.47

Notes: For expenditures, figures are Revised Estimates for 1994-95. Expenditure on housing relates to major head 'Housing'. SDP figures are Provisional for 1991-92. Quick Estimates for 1992-93 and Estimates for 1993-94 and 1994-95.

Source: Budget documents for expenditure figures.

Notes

1. Default rate is calculated as one minus Demand is collection ratio. Demand to collection of the implementing agency has been applied wherever scheme specific demand to collection ratio is not available.

2. Due to lack of data in respect of a number of items in 1994-95, the analysis of estimates of subsidy is generally restricted to the period 1990-91 to 1993-94.

Chapter 6

SUBSIDIES IN THE HOUSING PROGRAMMES IN ANDHRA PRADESH

The objective of this chapter is to estimate the subsidy in housing schemes in Andhra Pradesh. In Andhra Pradesh there are mainly four agencies engaged in the provision of shelter and shelter related basic infrastructure. These are Andhra Pradesh Housing Board (APHB), Andhra Pradesh Urban Development and Housing Corporation (APUDHC), Andhra Pradesh State Housing Corporation Limited (APSHCL) and Andhra Pradesh Co-operative Housing Societies Federation (HOUSEFED). These agencies have been set up by the State government. Although, the main objective of these agencies is to promote and encourage housing, their mandates and the focus of activities vary.

The APHB services the housing needs of primarily the Lower Income Group (LIG), Middle Income Group (MIG) and High Income Group (HIG) households, whereas APUDHC and APSCHCL are devoted exclusively to housing activities of the economically weaker households. While APSHCL implements housing programmes in rural areas, the APUDHC undertakes housing schemes in urban areas. The HOUSEFED provides housing loans to members of primary co-operatives which mainly constitute MIG and LIG households. Besides, these four housing agencies, Municipal Corporations and Municipalities in Andhra Pradesh also assist in implementation of schemes of environmental improvement and upgradation of slums. Rental housing scheme for government employees is undertaken by the Roads and Buildings Department and housing for police personnel is done by Andhra Pradesh Police Housing Corporation (APPHC).

This chapter is organised into five sections. In section 6.1, the different channels through which housing subsidy flows in Andhra Pradesh are highlighted. In section 6.2, the various housing schemes that are in operation in Andhra Pradesh are discussed. The recovery performance of housing agencies in Andhra Pradesh is examined in section 6.3. The estimates of subsidy for the various housing schemes are presented in section 6.4. The last section summarises the main observations.

6.1   Channels of Housing Subsidy

The main channels of housing subsidy in Andhra Pradesh are: rental and hire purchase tenements for slum dwellers, various urban and rural housing schemes and rental housing and HBA for government employees. Further, defaults on repayments of loan and payment of interest/rent instalment result in substantial amount of unintended subsidy.

The weaker section housing programme is the main plank for the provision of subsidised housing for the poor. All the housing activities are coordinated by the State Housing Department. The activities which are not under the control of this department, but related to shelter, are low cost sanitation programme and rental housing for government employees. In the discussion that follows we present various housing schemes that have been considered for estimation of subsidy in Andhra Pradesh.

6.2   Housing Schemes in Andhra Pradesh

The Central and State governments have laid down guidelines in respect of cost ceilings as well as financing of various housing schemes. These guidelines are to be followed by the housing agencies implementing the schemes. The pattern of assistance to each individual scheme is presented in Table 6.1. Assistance from the government is in the form of capital subsidy and low interest loans. These, in turn, depend upon the unit cost of the housing, affordability of target groups, etc. In some of the schemes the beneficiaries are also expected to contribute their own resources.

In this section we first discuss the housing schemes for the rural poor followed by the schemes for the urban poor.

a.   Housing Schemes for the Rural Poor. The State government operates a number of housing schemes with different unit costs and mix of capital and interest subsidy. The following rural housing schemes are considered:

i.   Normal Housing Scheme. The objective of normal housing scheme is to provide shelter to the weaker sections of the population. In this scheme beneficiaries are among those who have occupancy rights of land for house construction and have household income not exceeding Rs. 6,500 per annum. Ninety per cent of the total beneficiaries are from SCs/STs and backward classes.

Two types of houses are provided under the normal housing scheme. The Semi Permanent Rural Houses (SPRH) and Rural Permanent Houses (RPH). The

plinth area for both types of houses is 24.39 sq.mts.; though it can be marginally increased where the houses are constructed with locally available materials.

The normal housing scheme though implemented by the APSHCL, the houses are constructed by the beneficiaries themselves, and no contractor is permitted. Beneficiaries are assisted by the Nirmithi Kendras in securing access to low cost technology and materials. The State government ensures the provision of water supply, roads, electricity, drainage etc., from the grants under other rural development schemes. The unit cost of SPRH was Rs. 4,000 in 1993-94 of which Rs. 3,900 was provided by the government and Rs. 100 was through beneficiary contributions. The unit cost has now been raised to Rs. 5,000. The unit cost of the RPH was Rs. 8,000 in the corresponding year. Of which Rs. 3,750 was provided by the government as grant, Rs. 4,000 as loan from Housing and Urban Development Corporation (HUDCO) and the balance was beneficiary contribution. The cost of RPH has now been raised to Rs. 10,000 with a capital grant of Rs. 4,750 and a loan of Rs. 5,000. The loan is to be recovered in 120 instalments. The rate of interest on loan is 7 per cent per annum.

ii.   Indira Awas Yojana. The Indira Awas Yojana aims to provide shelter to the rural poor, especially those belonging to the SCs/STs and the freed bonded labourers. The houses are constructed on self help basis, subject to scheme guidelines. The unit cost is fixed at Rs. 14,000. The cost is shared in the ratio of 80:20 by the Central and State governments, respectively, as capital grant.

iii.   **The Beedi Workers Housing Scheme.** This is a Centrally sponsored scheme targeted for eligible beedi workers. The beneficiaries are identified by the Assistant Labour Commissioner and the District Manager of the Andhra Pradesh State Housing Corporation. The unit cost of house has now been raised from Rs. 10,000 in 1990-91 to Rs. 15,000. A capital grant of Rs. 7,500 and loan of Rs. 6,500 is provided and the balance was beneficiary contribution. Loan is recovered from the beneficiaries in 120 equal instalments.

iv.   **Weavers Housing Scheme.** This is also a Centrally sponsored scheme aimed at providing houses as well as home-cum-worksheds for handloom weavers having an annual income in the range of Rs. 1,800 to Rs. 8,400. The scheme is administered by the Commissioner for Handlooms, with the funds sanctioned by the Central Textile Ministry. In 1990-91, the unit cost was fixed at Rs. 22,500, of which Rs. 17,750 is provided as capital grant and Rs. 4,000 as loan which is recovered from the beneficiary. The balance of Rs. 750 is the beneficiary contribution.

v.   **Fishermen Housing Scheme.** This Central scheme aims to improve the living conditions of fishermen. The beneficiaries are identified by the Commissioner of Fisheries. The scheme is implemented by the APSHCL. Till 1992-93 houses in this scheme were provided free of cost to the beneficiaries. However, since 1993-94, of the total unit cost of Rs. 13,000, a capital grant of Rs. 7,000 is provided by the government, Rs. 1,000 is the beneficiary contribution and the balance is given as a loan to be repaid by the beneficiary in 120 instalments.

vi.   **Assembly Constituency Development Programme.** This housing programme was operated during the years 1992-93 and 1993-94 only. The beneficiaries in the scheme were selected by a Committee of MLAs and four nominated members. The pattern of funding is the same as that of normal housing programme.

b.   **Schemes for the Urban Poor.** In Andhra Pradesh there are mainly two schemes for the urban poor. The Urban Permanent Housing Scheme and Shelter Upgradation Scheme. A brief description of these schemes is presented below.

i   **Urban Permanent Housing Scheme.** This scheme covers the urban poor families with household income not exceeding Rs. 12,600 per annum. It is mandatory that at least 50 per cent of the beneficiaries should belong to Scheduled Castes. The houses are constructed by the beneficiaries themselves on the house sites allotted by the government or owned by the beneficiaries. Cost of a house is fixed at Rs. 13,000. It is financed with a capital subsidy of Rs. 1,000 per unit from the government, a loan of Rs. 11,700 from financial institutions and the beneficiary contribution of Rs. 300. Technical assistance for construction is provided by the Building Centres.

ii.   **Shelter Upgradation Scheme.** Shelter upgradation scheme is undertaken under the Nehru Rozgar Yojana. As part of the Central scheme, the APUDHC is implementing the scheme of shelter upgradation. State government provides a subsidy of Rs. 400 per unit in addition to the Central subsidy of Rs. 600 per unit out of the total cost of Rs. 4,000 per unit. The balance of Rs. 3,000 is

provided as loan from the financial institutions.

Besides the two schemes discussed above, the State government has been implementing the schemes of Environment Improvement in Urban Slums and Relocation of Slum Dwellers.

An important aspect of social housing programmes relates to the cost ceilings of houses and varying mix of subsidy. The cost ceilings and subsidy demonstrate that housing units of given physical standards are possible to be constructed within the amount prescribed, and that these amounts along with subsidy are within the affordable limits of the different categories of households. While the relevance of cost ceilings is undisputed, unrealistically low levels of the same have attracted criticism. Cost ceilings are reported to be unrealistic particularly in the case of EWS housing. Studies have shown cost over runs to be a normal feature in many HUDCO assisted programmes. Some housing agencies have reported to have resorted to reclassification of EWS units into LIG units wherever costs of units have exceeded the ceilings.[1] This clearly, leads to leakage in subsidy to other groups. Similarly, there is little justification in varying the amount of subsidy even among the same income group. For instance, in the case of Semi Permanent Rural Houses (SPRH) about 98 per cent of the unit cost in the year 1993-94 is in the form of capital subsidy from the government. While the remaining 2 per cent is contributed by the beneficiaries of the scheme. Under Rural Permanent Housing (RPH) the unit cost for the year 1993-94 is Rs. 8,000; of which 47 per cent is from government as capital subsidy, 50 per cent as loan and 3 per cent from the beneficiaries. It may be seen that the amount of subsidy in SPRH is more as compared to subsidy in RPH. It was noted earlier that

those eligible under this scheme belong to EWS. Among the EWS, there would be only a marginal difference, if at all, in affordability. There appears to be no rationale in providing different amounts of subsidy to those with similar affordability and social profile.

Housing provided under Indira Awas Yojana is completely subsidised by the government. In the case of beedi workers housing, about 50 per cent of the unit cost of Rs. 15,000 is from capital subsidy, 43 per cent from loans and 7 per cent from the beneficiaries. In housing schemes for flood/cyclone affected areas and assembly constituency development programme, 50 per cent of the unit cost for the year 1992-93 is to come from loans. In the schemes like Urban Permanent Housing and Nehru Rozgar Yojana bulk (75 to 90 per cent) of the finance is through loans.

Now let us examine the recovery performance of the various institutions financing housing in Andhra Pradesh.

6.3   Recovery Performance

Recoveries are crucial for sustaining public housing programmes. Recovery performance of housing agencies in Andhra Pradesh is examined for both rural and urban housing.

a.   Rural Housing. As noted earlier in the Normal Housing Scheme, the loan component is recovered from the beneficiary in 120 instalments. The rate of interest on loan is 7 per cent with a rebate of 3 per cent for prompt repayment. The

recovery in this scheme is reported to be poor. For instance, the target for recovery of loans by the APSHCL was initially set at 25 per cent of the total demand, but the actual collection has been consistently hovering around 5 to 7 per cent of the total demand. The reasons being the lax recovery and the parallel scheme of fully subsidised houses for SCs/STs. For the Normal Rural Housing scheme, the cumulative recovery of loans by the end of March 1994 is reported to be Rs. 16.60 crores against the outstanding demand of Rs. 298.95 crores. The recovery during 1993-94 was Rs. 4.38 crores against the current demand of Rs. 59.89 crores. The Government has been releasing grants to the Corporation to enable the repayment of loans to financial institutions. Thus, it can be seen that the rural housing programme in effect operates as a fully subsidised programme. The rate of recovery in other schemes of APSHCL is reported to be under 10 per cent.

b. **Urban Housing.** The collection performance of APUDHC is as bad as that of its rural counterpart. Out of the total demand of Rs. 9.07 crores (including the loan advanced for shelter upgradation), the recovery is reported to be Rs. 63.86 lakh as on 31st December 1994, or about 7 per cent. On account of non-recovery of loans the APUDHC, during the period 1990-91 to 1992-93 drew heavily on its shareholder's funds.[2] Reasons for poor recovery are traced to lack of any serious efforts for recovery on the part of APUPHC and also demand by the beneficiaries for subsidies at par with their counterparts covered under fully subsidised housing schemes.

6.4   Estimates of Subsidy

The methodology used in calculation of subsidy is same as discussed in Chapter 5. Estimates of subsidy in housing schemes in Andhra Pradesh are presented in Tables 6.2 to 6.5. In Table 6.2, the estimates of subsidy granted through the budget of Andhra Pradesh for the years 1990-91 to 1994-95 are detailed. As noted in Chapter 5, total subsidies through the budget comprise of capital and interest subsidies. Columns A, B and C in Table 6.2 present the capital, interest and total (capital plus interest) subsidies, respectively.

In Table 6.3, estimates of budgetary subsidy in housing for Andhra Pradesh according to their relative level are presented. Here, by levels, the reference is to the relative share of subsidy to expenditure on housing, expenditure on social services, States' total expenditure and State Domestic Product. The estimates of subsidy in Andhra Pradesh received by the beneficiaries in both rural and urban housing schemes are categorised into capital, interest and loan default subsidies for the years 1990-91 through 1994-95 and are presented in Table 6.4. Estimates of subsidy at the beneficiary level according to their relative levels are presented in Table 6.5.

From the subsidy estimates displayed in Table 6.2 the following observations are made:

i.   The volume of total budgetary subsidy (capital and interest) in Andhra Pradesh increased from Rs. 215.22 crores in 1990-91 to Rs. 243.77 crores in 1993-94,[3] registering a growth rate of 13 per cent over the

period. Capital and interest subsidy on the other hand increased at a little over 13 and about 11 per cent respectively during the corresponding years. In terms of proportion, their share remained constant about 98.7 and 1.3 per cent, respectively over the three year period.

ii.   Of the total subsidies of Rs. 215.22 crores in 1990-91, the share of rural housing was 60.3 per cent and the rest was accounted for by urban housing. The share of rural housing hovered above 60 per cent for the period upto 1992-93. Thereafter, it showed a steep climb to about 96.5 per cent in 1993-94. This could be due to non-availability of information in respect of ODA aided slum improvement under the urban housing schemes.

iii. In 1990-91, the total capital subsidy was Rs. 212.37 crores. Of this, 60.5 per cent was accounted for by rural housing and the remaining was attributed to the urban housing. Similarly, in 1993-94, capital subsidy stood at Rs. 240.61 crores, of which 97.3 per cent went in favour of rural housing as compared to 2.7 per cent for urban housing. In percentage terms, importance of capital subsidy in rural housing has grown substantially over the years. It may appear that some urban-rural inequality is implied here since the urban share is less as compared to rural share. However, any such inference would be premature without taking into account the subsidy in rental housing for government employees, share of rural population and per capita income

of rural population.

iv.   Among the rural housing, State government schemes accounted for over

90 per cent of subsidy for the years 1990-91 to 1992-93. But, in 1993-

94, their share declined to about 71 per cent. One of the reasons being

the renewed thrust to Centrally sponsored schemes. In the Central

schemes, Indira Awas Yojana accounted for bulk of the subsidy.

v.   In urban housing schemes about 98 per cent of the subsidies for the

years 1990-91 to 1992-93 were given as capital subsidy (refer to Table

6.2), and the rest as loans. In 1993-94, the share of capital subsidy fell

to about 75 per cent. This is mainly due to lack of information for one

of the schemes viz., ODA aided slum improvement which accounted

for about 90 per cent of the subsidies to urban housing in 1990-91 to

1992-93.

The relative share of subsidy to State Domestic Product of Andhra Pradesh has

been less than one per cent for the period 1990-91 to 1993-94 (Table 6.3). As a

proportion of States' total expenditure, subsidy has been around 3 per cent while as

proportion of expenditure on social services, it has varied between 8 to 10 per cent in

the corresponding period. The relative shares seem to have not altered much over the

period.

Turning to the subsidy received by beneficiaries in housing schemes in Andhra

Pradesh, it must be noted that estimates of subsidy at the beneficiary level are based

on the information regarding the expenditure made and cash grant/loan given by the implementing agencies in the State. These would be at variance with the estimates of budgetary subsidy for a number of reasons such as the lag between budgetary sanction and actual implementation of the scheme and budgetary sanction in a lump sum to make losses of housing agencies good on account of loan waivers and poor recovery. From the estimates presented in Table 6.4, the following observations are made.

i. The total volume of subsidy (capital, interest and loan default) in Andhra Pradesh has risen three fold from Rs. 66.26 crores in 1990-91 to Rs. 193.60 crores in 1993-94, registering a growth rate of about 192 per cent. Capital, interest and default subsidy grew at a rate of about 219, 56 and 52 per cent, respectively over the period. In terms of proportion, the share of capital subsidy rose from 84 per cent in 1990-91 to about 92 per cent in 1993-94. While interest and loan default subsidy individually fell from about 8 per cent to 4 per cent in the corresponding years.

ii. Of the total subsidies of Rs. 66.26 crores in 1990-91, the share of rural housing was 72.5 per cent and the rest was accounted for by urban housing. By way of comparison, in 1993-94, subsidy in rural housing stood at 74 per cent, recovering from a steep fall (57 per cent) in 1992-93.

iii. The total capital subsidy was Rs. 55.58 crores, in 1990-91, of which 76.7 per cent was accounted for by rural housing and the rest by urban

housing. Similarly, in 1993-94 capital subsidy was Rs. 177.14 crores, of which 74.7 per cent went to rural housing as compared to 25.3 per cent for urban housing.

iv. Among the rural housing schemes, Normal Housing accounted for more than 75 per cent of the subsidy in 1990-91 but declined to about 30 per cent by 1993-94. The share of Indira Awas Yojana rose from a little under one-fifth to about two-fifth over the period. Cyclone housing stood second in ranking for the years 1991-92 and 1992-93 but was negligible in 1993-94. The ACDP housing, introduced in 1993-94, accounted for little less than one-fourths' share in total subsidy for rural housing.

v. Among the urban housing, provision of free housing sites accounted for 31 per cent of the subsidy in 1990-91, but gradually rose to 60 per cent in 1993-94. The proportion of Urban Permanent Housing declined from 36 to 13 per cent over the period. While ODA grant for slum improvement accounted for 15 per cent in 1993-94.

The relative share of subsidy at the beneficiary level to State Domestic Product of Andhra Pradesh has been less than half per cent for the period 1990-91 to 1993-94 (Table 6.5). The share of subsidy to expenditure on social services doubled from about 3 to 6 per cent and that of total State expenditure from 1 to 2 per cent over the corresponding years.

6.5 Summary

The State government operates a number of housing schemes for the rural and urban poor. While the former contains schemes like Normal Housing, Indira Awas Yojana, Weavers Housing, Fishermen Housing, and Assembly Constituency Development Programme, the latter relates to Urban Permanent Housing and shelter upgradation schemes. Besides, the State government implements schemes relating to environment improvement in urban slums and relocation of slum dwellers. While ex-ante subsidy comprises of capital and interest subsidy, poor recovery of loans from beneficiaries results in substantial amount of ex-post subsidy.

The rate of recovery is very poor in Normal Housing Scheme. In spite of a low recovery target, 25 per cent of the total demand, the actual recovery ranged between 5 to 7 per cent in Normal Housing Scheme. The overall recovery rate in the case of Andhra Pradesh Urban Development and Housing Corporation is also reported to be low at about 7 per cent in 1994.

Cost ceiling especially for Economically Weaker Sections (EWS) housing are at unrealistically low levels. This is reported to have resulted in reclassification of EWS houses into Low Income Group housing and thus leakage in subsidy to better off groups. It is also reported that variation in the amount of subsidy even among the same income group beneficiaries results in dissatisfaction among them and, in turn, affects the recovery performance of the scheme.

The volume of budgetary subsidy for Andhra Pradesh registered a growth of 13 per cent over the three year period, 1990-91 to 1993-94. Capital subsidy accounted for bulk of the total subsidy, that is over 95 per cent. However, the relative share of capital and interest subsidy has remained steady over the years.

A comparison between urban and rural housing reveals that bulk of the subsidy has gone towards rural housing. In rural housing State government schemes attracted major share of the total subsidy provided through the State budgets. In the case of Central schemes, Indira Awas Yojana accounted for major share of the States' subsidy. The budgetary subsidy as proportion to State Domestic Product fluctuated between 0.54 - 0.70 per cent, while as proportion to States' total expenditure has remained below 4 per cent and has not varied much over the years.

The classification of subsidies at the beneficiary level reveals that the subsidy has grown three-fold over the period 1990-91 to 1993-94. In terms of proportion, the share of capital subsidy rose to 92 per cent in 1993-94, while those of interest subsidy and subsidy due to loan default fell from 8 to 4 per cent for the period. The share of rural housing was dominant. In the rural housing, for the year 1993-94, Indira Awas Yojana ranked first, followed by Normal Housing and Assembly Constituency Development Programme. In urban housing major share went to provision of free housing sites. In terms of relative share, subsidy has doubled as a proportion of expenditure on social services and as a proportion of states' expenditure.

Table 6.1

Guidelines and Financing Pattern of Housing Schemes in Andhra Pradesh

(Rupees)

Schemes	Unit Cost	Capital Subsidy	Loan	Beneficiary Contribution
(1)	(2)	(3)	(4)	(5)
1. Normal Housing				
a. Semi Permanent Housing				
Upto 1993-94	4000	3900	-	100
1994-95	5000	4900	-	100
b. Rural Permanent Housing				
Upto 1993-94	8000	3750	4000	250
1994-95	10000	4750	5000	250
2. Indira Awas Yojana				
1985-86	9000	9000	-	-
1987-88	10200	10200	-	-
1990-91	12700	12700	-	-
1994-95	14000	14000	-	-
3. Beedi Workers Housing				
1990-91	10000	5000	4750	250
1992-93	15000	7500	6500	1000
4. Weavers Housing				
1986-87	11000	6750	4000	250
1990-91	22500	17750	4000	750
5. Fishermen Housing				
1988-89	10800	10800	-	-
1990-91	12960	12960	-	-
1993-94	13000	7000	5000	1000
6. Flood/Cyclone Housing				
1990-91	9000	4500	4500	-
1992-93	9000	4750	4000	250
7. Assembly Constituency Development Programme				
1992-93	8000	3750	4000	250
1993-94	8000	3750	4000	250
8. Urban Permanent Housing				
1993-94	13000	1000	11700	300
9. Nehru Rozgar Yojana				
1993-94	4000	1000	3000	-

Sources: 1. Andhra Pradesh State Housing Corporation Limited.
2. Andhra Pradesh Urban Development and Housing Corporation.

Table 6.2

Housing Subsidy in Andhra Pradesh Through the Budget

(Rs. Lakh)

Schemes	1990-91			1991-92			1992-93			1993-94			1994-95		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Rural Housing															
1. Indira Awas Yojana*	346.50	-	346.50	251.25	-	251.25	1136.39	-	1136.39	6155.00	-	6155.00	833.60	-	833.60
2. Beedi Workers Housing*	N.A.	-	N.A.	6.60	-	6.60	245.35	-	245.35	567.13	-	567.13	N.A.	-	N.A.
3. Weavers Housing*	76.39	-	76.39	280.94	-	280.94	66.36	-	66.36	43.89	-	43.89	N.A.	-	N.A.
4. Fishermen Housing*	24.85	-	24.85	5.17	-	5.17	20.54	-	20.54	44.74	-	44.74	N.A.	-	N.A.
5. Scheme of Free House Sites	561.63	-	561.63	-	-	-	1600.00	-	1600.00	1600.00	-	1600.00	1600.00	-	1600.00
6. Allocation to A P Housing Corporation															
a. Plan	5177.00	-	5177.00	5637.00	-	5637.00	6852.00	-	6852.00	6837.00	-	6837.00	6837.00	-	6837.00
b. Non-Plan	5090.00	-	5090.00	5662.00	-	5662.00	7268.00	-	7268.00	7879.00	-	7879.00	8789.00	-	8789.00
7. SC/ST Colonies	-	-	-	250.00	-	250.00	288.00	-	288.00	288.00	-	288.00	288.00	-	288.00
8. Housing for Flood Areas	1575.00	-	1575.00	2475.00	-	2475.00	-	-	-	-	-	-	-	-	-
9. Loans to APSHCL	-	131.20	131.20	-	154.95	154.95	-	139.20	139.20	-	105.12	105.12	-	19.30	19.30
Sub Total	12851.37 (60.51)	131.20 (46.02)	12982.57 (60.32)	14567.96 (64.70)	154.95 (49.05)	14722.91 (64.48)	17476.64 (63.81)	139.20 (42.37)	17615.84 (63.56)	23414.76 (97.31)	105.12 (33.33)	23519.88 (96.48)	18347.60 (96.80)	19.30 (75.69)	18366.90 (96.77)

Urban Housing

Schemes	1990-91			1991-92			1992-93			1993-94			1994-95		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1. Allocation to APUDHC	300.00	-	300.00	360.00	-	360.00	400.00	-	400.00	300.00	-	300.00	300.00	-	300.00
2. Housing Upgradation (NRY)	3.87	-	3.87	0.84	-	0.84	22.78	-	22.78	57.70	-	57.70	18.40	-	18.40
3. Grants to A.P. Police Housing Corporation	300.00	-	300.00	300.00	-	300.00	-	-	-	-	-	-	N.A.	-	N.A.
4. Environment Improvement of Urban Slums	251.00	-	251.00	289.00	-	289.00	289.00	-	289.00	289.00	-	289.00	289.00	-	289.00
5. ODA Aided Slum Improvement	7531.00	-	7531.00	7000.00	-	7000.00	9200.00	-	9200.00	N.A.	-	N.A.	N.A.	-	N.A.
6. Loans to APUDHC	-	10.00	10.00	-	12.50	12.50	-	8.50	8.50	-	5.10	5.10	-	5.49	5.49
7. Loans to APHB	-	15.18	15.18	-	12.35	12.35	-	16.55	16.55	-	7.41	7.41	-	N.A.	N.A.
8. Debentures of APHB$	-	3.25	3.25	-	2.86	2.86	-	1.43	1.43	-	0.71	0.71	-	0.71	0.71
9. HBA to Employees	-	125.49	125.49	-	133.22	133.22	-	162.84	162.84	-	197.04	197.04	-	N.A.	N.A.
Sub Total	8385.87 (39.49)	153.92 (53.98)	8539.79 (39.68)	7949.84 (35.30)	160.93 (50.95)	8110.77 (35.52)	9911.78 (36.19)	189.32 (57.63)	10101.10 (36.44)	646.70 (2.69)	210.26 (66.67)	856.96 (3.52)	607.40 (3.20)	6.20 (24.31)	613.60 (3.23)
Total	21237.24	285.12	21522.36	22517.80	315.88	22833.68	27388.42	328.52	27716.94	24061.46	315.38	24376.84	18955.00	25.50	18980.50

Notes: Columns A, B and C represent capital, interest and total subsidy, respectively.
* Represents States' share of subsidy in Centrally sponsored schemes.
Figures within the parentheses are percentage to the total subsidies.
$ Debentures are guaranteed by the State government.

Source: Computed from data supplied by the State government.

Table 6.3

Budgetary Subsidy in Housing in Andhra Pradesh: Relative Levels

(Rs. Lakh)

Years	Total Subsidy	Expenditure on Housing*	Per Cent Columns (2 + 3)	Total Expenditure on Social Services	Per Cent Columns (2 + 5)	States' Total Expenditure	Per Cent Columns (2 + 7)	SDP at Current Prices	Per Cent Columns (2 + 10)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1990-91	21522.36	3606.42	596.78	225279.2	9.55	637378.63	3.38	3116500	0.69
1991-92	22833.68	4249.16	537.37	255693.5	8.93	752018.57	3.04	3716500	0.61
1992-93	27716.94	4494.99	616.62	293260.3	9.45	872673.31	3.18	3970400	0.70
1993-94	24376.84	4342.61	561.34	315254.4	7.73	945846.73	2.58	4481390	0.54
1994-95	18980.50	4963.26	382.42	371481.4	5.11	1056556.40	1.80	5058145	0.38

Notes: For expenditure, figures are Revised Estimates and Budget Estimates respectively for 1993-94 and 1994-95.
SDP figures are Provisional for 1991-92, Quick Estimates for 1992-93 and Estimates for 1993-94 and 1994-95.

*   Expenditure under the Budgetary major head "Housing".

Source: State Budget documents.

Table 6.4

Subsidy in Housing Schemes in Andhra Pradesh: Beneficiary Level

(Rs. Lakh)

Schemes	1990-91				1991-92				1992-93				1993-94				1994-95			
	Capital Subsidy	Interest Subsidy	Loan Default	Total	Capital Subsidy	Interest Subsidy	Loan Default	Total	Capital Subsidy	Interest Subsidy	Loan Default	Total	Capital Subsidy	Interest Subsidy	Loan Default	Total	Capital Subsidy	Interest Subsidy	Loan Default	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
Rural Housing																				
Normal Housing (Rural)	3196.06	238.61	280.37	3715.04	3719.43	277.69	328.27	4325.39	3039.63	226.93	266.38	3532.94	3735.09	278.85	326.99	4340.93	1367.66	100.77	116.84	1585.27
Indira Awas Housing	780.30	-	-	780.30	1322.22	-	-	1322.22	1380.87	-	-	1380.87	6197.66	-	-	6197.66	3548.27	-	-	3548.27
Beedi Workers Housing	-		-	-	19.33	0.64	1.52	21.49	194.78	5.91	13.87	214.56	254.17	7.71	18.08	279.96	70.28	2.13	5.00	77.41
Weavers Housing	118.14	0.93	2.19	121.26	265.81	2.10	4.96	272.87	88.60	0.70	1.64	90.94	126.67	1.00	2.34	130.01	37.88	0.30	0.70	38.88
Fishermen Housing	4.48	-	-	4.48	25.98	-	-	25.98	10.30	0.26	0.60	11.16	60.99	1.52	3.58	66.09	174.84	4.37	10.25	189.46
Cyclone Housing	165.06	6.6	13.14	184.80	1767.73	70.71	140.68	1979.12	1716.64	47.74	93.09	1857.47	45.39	1.26	2.43	49.08	52.98	1.11	2.86	56.95
ACDP Housing	-	-	-	-	-	-	-	-	-	-	-	-	2815.78	210.22	246.51	3272.51	1355.26	101.18	118.64	1575.08
Sub Total	4264.04 (76.72)	246.14 (47.22)	295.7 (54.10)	4805.88 (72.53)	7120.5 (92.32)	351.14 (53.53)	475.43 (58.55)	7947.07 (86.56)	6430.82 (58.14)	281.54 (45.60)	375.58 (53.12)	7087.94 (57.23)	13235.75 (74.72)	500.56 (61.45)	599.93 (72.19)	14336.24 (74.05)	6607.17 (59.60)	209.86 (70.52)	254.29 (52.71)	7071.32 (59.59)
Urban Housing																				
Nehru Rozgar Yojana	181.34	32.64	17.82	231.80	43.16	7.77	10.32	61.25	51.24	9.22	11.99	72.45	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Urban Permanent Housing	300.00	117.00	233.03	650.03	360.00	163.80	326.24	850.04	400.00	163.80	319.41	883.21	300.00	117.00	231.08	648.08	300.00	87.75	228.15	615.90
Provision of Free Housing Sites	561.63	-	-	561.63	-	-	-	-	3000.00	-	-	3000.00	3000.00	-	-	3000.00	3000.00	-	-	3000.00
Slum Improvement	251.00	-	-	251.00	189.00	-	-	189.00	436.20	-	-	436.20	436.2	-	-	436.2	436.2	-	-	436.20
ODA Grant for Slum Improvement	-	-	-	-	-	-	-	-	742.35	-	-	742.35	742.35	-	-	742.35	742.35	-	-	742.35
House Building Advance	-	125.49	-	125.49	-	133.22	-	133.22	-	162.84	-	162.84	-	197.04	-	197.04	-	NA	-	NA
Sub Total	1293.97 (23.28)	275.13 (52.78)	250.85 (45.90)	1819.95 (27.47)	592.16 (07.68)	304.79 (46.47)	336.56 (41.45)	1233.51 (13.44)	4629.79 (41.86)	335.86 (54.40)	331.40 (46.88)	5297.05 (42.77)	4478.55 (25.28)	314.04 (38.55)	231.08 (27.81)	5023.67 (25.95)	4478.55 (40.40)	87.75 (29.48)	228.15 (47.29)	4794.45 (40.41)
Total	5558.01	521.27	546.55	6625.83	7712.66	655.93	811.99	9180.58	11060.61	617.40	706.98	12384.99	17714.30	814.80	831.01	19359.91	11085.72	297.61	482.44	11865.77

Note: Figures within the parentheses are percentages to total subsidies.
Source: Computed from data supplied by the State government, Andhra Pradesh State Housing Corporation Limited and Andhra Pradesh Urban Development, and Housing Corporation.

Table 6.5

Subsidy in Housing Schemes in Andhra Pradesh (Beneficiary Level): Relative Levels

(Rs. Lakh)

Years	Subsidy in Housing Schemes	Expenditure on housing*	Per Cent Columns (2 ÷ 3)	Total Expenditure on Social Services	Per Cent Columns (2 ÷ 5)	States' Total Expenditure	Per Cent Columns (2 ÷ 7)	SDP at Current Prices	Per Cent Columns (2 ÷ 9)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1990-91	6625.83	3606.42	183.72	225279.2	2.94	637378.63	1.04	3116500	0.21
1991-92	9180.58	4249.16	216.06	255693.5	3.59	752018.57	1.22	3716500	0.25
1992-93	12384.99	4494.99	275.53	293260.3	4.22	872673.31	1.42	3970400	0.31
1993-94	19359.91	4342.61	445.81	315254.4	6.14	945846.73	2.05	4481390	0.43
1994-95	11865.77	4963.26	239.07	371481.4	3.19	1056556.40	1.12	5058145	0.23

Notes: For expenditures, figures are Revised Estimates and Budget Estimates respectively for 1993-94 and 1994-95.
SDP figures are Provisional for 1991-92, Quick Estimates for 1992-93 and Estimates for 1993-94 and 1994-95.

*   Expenditure under the Budgetary major head "Housing".

Source: Budget documents for figures on expenditures.

Notes

1. Refer to NIPFP (1994).

2. Refer to *op. cit.*, 1994.

3. For 1994-95 information on a number of items could not be obtained, consequently we do not discuss subsidy estimates for this year as these are under estimates.

Chapter 7

CONCLUSIONS AND SUGGESTIONS

In this study an attempt has been made to estimate the volume and composition of housing subsidies flowing from the Central and the State governments in Tamil Nadu and Andhra Pradesh. In the case of Central government, the estimates are based on annual flows of transfers, loans and investment, government supported borrowings by Housing and Urban Development Corporation and National Housing Bank for the years 1991-92 to 1994-95. Also, estimates of revenue loss due to tax concessions and subsidy to government employees in General Pool Accommodation (GPA) are made. Estimates of housing subsidy in the States are based on annual flows of transfers and loans for housing through State budgets for the corresponding years. Further, estimates of subsidy at the beneficiary level through various housing programmes in Tamil Nadu and Andhra Pradesh are also made. The main conclusions that emerge from the analysis of the subsidy estimates are listed below.

Housing subsidy from the Central government budget has almost doubled from Rs. 224.86 crores in 1991-92 to Rs. 432.27 crores in 1994-95. This is in spite of the fact that subsidy figures for 1994-95 are an under estimate due to paucity of data in respect of General Pool Accommodation and Central Government Employees Housing Organisation. Total subsidy from Central government was Rs. 259 and Rs. 432.27 crores respectively during the corresponding years. Considering the fact that subsidy estimates are based on annual flows and also that these do not include subsidy due to tax concessions to housing and expenditure on construction of GPA, the volume of subsidy appears to be substantial.

151

On considering subsidy due to tax concessions and GPA (based on the concept of economic rent), the volume of subsidy in 1992-93 works out to Rs. 520.83 crores. Of which 32 and 11 per cent was accounted for Central government employees housing and tax concessions to housing, respectively. However, the balance 57 per cent was shared among other schemes meant for Economically Weaker Sections and Low Income Group households. Among these, Indira Awas Yojana, implemented for the rural poor, accounted for bulk of the subsidy.

In terms of share in total subsidy the urban sector has benefited more *vis-a-vis* the rural sector in the years 1991-92 and 1992-93. However, in 1993-94, this has been reversed with the share of rural housing rising to about 72 per cent. Subsidy through GPA, House Building Advance and tax concessions is inequitably distributed. This is the picture which comes through when we look at the distribution of these between the low income households and relatively better off households.

Subsidy in a number of housing schemes of the Central government flows through Housing and Urban Development Corporation (HUDCO) and the State level housing agencies. There is absence of transparency with respect to actual investment flows into housing for the target group. The accounting system of HUDCO and State level housing agencies do not permit calculation of the amounts that have been released for different categories of housing. It is, therefore, not possible to find out as to what amounts of subsidy have actually been received and passed on for the housing programmes of the poor. Estimates show that during 1987-88 to 1992-93 subsidies which were retained by HUDCO accounted for about 40 per cent of the subsidies received by HUDCO.

Various norms and ceilings especially for Economically Weaker Sections housing are unrealistically low and are widely ignored to the disadvantage of the poor. There is evidence to suggest that these norms have resulted in reclassification of HUDCO financed Economically Weaker Sections houses into Low Income Group housing and thus leakage in subsidy to better off sections.

In the case of Tamil Nadu Housing Board, General Pool Accommodation and housing for railway employees, it is observed that expenditure on maintenance and repair of rental housing is far in excess of the rent realised for the years 1990-91 to 1992-93. Consequently, the rate of return realised is negative during these years. Using the concept of economic rent and also allowing for adjustments of foregone house rent allowance by allottees of General Pool Accommodation the subsidy amounts to a little over Rs. 146 crores, in the year 1992-93, which is 82 per cent of the average basic salary of the allottees. The distribution of subsidy is found to be biased in favour of allottees falling in higher income range.

In the case of staff housing for railway employees and government employees housing in Tamil Nadu, the volume of subsidy is about Rs. 723 crores and Rs. 42.54 crores in the years 1993-94 and 1992-93, respectively.

The effective rates of interest on House Building Advance to public sector employees are substantially lower than the statutory rates of interest charged by these institutions. This has resulted in substantial amounts of subsidy. The present value of subsidy on a House Building Advance of rupees one hundred by the Central government *vis-a-vis* non-priority sector loan by a commercial bank is computed to

be Rs. 58.12 for the years 1990-91 and 1991-92 at 10 per cent nominal discount rate. Distribution of subsidy is skewed towards those in higher income range. This is due to their entitlement to higher amounts of House Building Advance as compared to those in lower income range.

Since allottees of government housing are also entitled to House Building Advance, and all house owners are allowed various tax concessions in respect of one house, total housing subsidy to some individuals would add up to huge amounts resulting in both horizontal and vertical inequity.

There are substantial subsidies on account of tax concessions to housing. Tax subsidies are biased in favour of investment in housing for self-occupation *vis-a-vis* for rental purpose. Section 24(2) reduces the progressivity of the system by giving more generous concessions to house owners in higher tax brackets than taxpayers in low income brackets. Under certain assumptions, noted in Chapter 4, 30 per cent income bracket investors save an amount equivalent to about 20 per cent of the mortgage loan due to Sections 23(2), 24(2) and 88. Tax savings are higher at about 36 per cent of mortgage loan for those house owners who have participated in the Home Loan Account scheme of the National Housing Bank.

Tax saving due to Section 36(1)(viii) was Rs. 43.7 crores in 1992-93 or about 12 per cent of the total subsidy through the Central government budget. Estimates of tax saving, based on income tax returns data, show significant growth during the period 1987-88 to 1988-89.

States' dominance in provision of housing is highlighted by the fact that the total budgetary subsidy in Andhra Pradesh alone formed about 102, 80 and 66 per cent of the total housing subsidy from the Central government in the years 1991-92, 1992-93 and 1993-94 respectively. Comparable figures for Tamil Nadu are 26, 18.6 and 17.93 per cent respectively, during the corresponding years.

Budgetary subsidy in Andhra Pradesh has increased from Rs. 215.22 crores in 1990-91 to Rs. 243.76 crores in 1993-94. As proportion to State Domestic Product, it has ranged between 0.54 and 0.70 per cent during the above period. This appears to be substantial considering that the subsidy estimates are based on the annual flows.

The estimates show that distribution of subsidy is in the favour of rural housing in Andhra Pradesh. However, taking into account the subsidy in rental housing for government employees, share of rural population and per capita income of rural population, the above inference may not hold. The rate of recovery in rural housing schemes is low as compared to the rate of recovery in urban housing schemes. This has not only affected the flow of funds in rural housing but has also adversely effected the recovery performance in urban housing schemes.

Budgetary subsidies in Tamil Nadu grew at a rate of 25 per cent during the period 1990-91 to 1993-94. In terms of the share in total subsidies, rural housing schemes seem to have gained *vis-a-vis* urban housing schemes, over the years. Housing subsidy both in obsolute terms and as proportion of State Domestic Product has been low in Tamil Nadu when compared with the volume of housing subsidy in Andhra Pradesh.

In both the States the capital subsidy has accounted for bulk of the subsidy and has also increased steadily. It may appear that a preference for capital subsidy over interest subsidy is implied here. However, if account is taken of the support that the housing agencies received for purposes of redeeming their loans the above inference does not hold. In the case of the APUDHC and APSHC, for instance, the non-recovered part of loans was over 90 per cent of the total loans, and was met by the State government.

Subsidies to target groups accrue in various forms: (a) house sites free of cost, (b) housing units at below the market rates, (c) cash grant, and (d) low interest loans. However, the indirect form of subsidy as represented by the non-recovery of loans and interest is extremely high and threatens the sustenance of social housing schemes of public agencies.

Housing schemes within a sector and even for the same income group have different level and mix of subsidy. Indirect evidence suggests that this has resulted in dissatisfaction among the beneficiaries and, in turn, has adversely affected the recovery. Another important reason for poor recovery is traced to lack of any serious efforts for recovery on the part of agencies implementing the housing schemes.

Suggestions

To correct the prevalent subsidy structure and make it less distortionary and more transparent and egalitarian the following suggestions are presented.

For subsidy flows to be transparent and measurable it is necessary to improve the existing information system of agencies participating in implementation and financing of subsidised housing programmes.

Further, the method of providing funds for social housing should be direct and measurable. It is suggested that the Housing and Urban Development Corporation be provided direct support which is equal to the difference in the interest rate at which funds are mobilised and at which funds are made available for social housing. All indirect methods of providing support to HUDCO may be withdrawn. If adequate funds under this scenario do not flow to social housing, then there is a case for special - purpose corporation at the Centre, which is dedicated wholly to social housing.

It is necessary to contain the variation in ceiling costs and the mix and level of subsidy in housing programme for the same income group.

The present anarchy of rents in relation to cost of staff housing both in public and private sector should be removed and replaced by a more rational structure in which rents would be set at a realistic level with housing subsidy given only through income related allowance which would be more transparent and would also bring equity across salaried people. Also, there is a strong case for taxing the benefits accrued on account of House Building Advance.

Due to the fact that tax subsidy is skewed towards the higher end of the income distribution it is necessarily biased against the lower end of the income distribution. Therefore, tax subsidy may not be an appropriate policy to improve

house ownership opportunity for most households in India. An alternative approach may be interest subsidy rather than tax subsidy. This suggestion must, however, be treated with caution in a situation where access to housing loan from formal sector housing institutions is highly restrictive in general and especially more restrictive for non-taxpayers. Further, one possible objection to this suggestion is that such reform would greatly disturb existing plans of assessees and inference with current arrangements in housing markets. This argument has some merit, therefore an alternative proposal is given.

i.   Tax benefits to the HLA scheme of the NHB are unduly liberal and may be reduced without any adverse impact. This can be done by limiting the rebate under Section 88 only to contributions to HLA rather than to both contributions and interest earned on contributions.

ii.   Interest deductibility under Section 24(2) which has created a situation of negative income tax for owner occupiers may be withdrawn. Withdrawal of Section 24(2) besides lowering the burden on budgetary resources would help in reducing the bias against rental housing and would also reduce the bias in favour of financing out of borrowed funds.

iii.   To the extent reliance on tax concessions is considered desirable, concession should be given in the form of a tax credit instead of in the form of a deduction or exemption. It is suggested that Section 23(2) may be modified and a tax credit on imputed income be given instead

of full exemption.

There is no apparent reason for relatively heavy taxation of rental housing *vis-a-vis* self-occupied housing especially when the supply of rental housing needs to be enhanced in view of the considerable financial barriers to entry for most potential home-owners. To redress the bias against rental housing, the following is suggested for further consideration.

Owners of rental housing be allowed to claim depreciation even in the case of individual owners. This should be at the rate allowed to residential houses owned by industrial undertakings (5 per cent). A more generous depreciation allowance may be considered on Low Income Group housing parallel to higher rate of depreciation (20 per cent) allowed to industrial undertakings on buildings having dwelling units with plinth area upto 80 square meters.

Housing finance institutions may be required to reserve the savings accrued on account of provisions of Section 36(1)(viii), for social housing.

Non-recovery of loan interest/rent is an important factor, adversely affecting the sustenance of public housing programmes. The principle of full loan recovery should be applied uniformly to all activities irrespective of the differentiation of activities by income groups.

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