INNOVATIVE COMMUNITY-BASED HOUSING FINANCE AND CREDIT SYSTEMS FOR LOW-INCOME HOUSEHOLDS - INDIA

BY

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COUNTRY PAPER PREPARED FOR
UNITED NATIONS-ESCAP, BANGKOK

SEPTEMBER 1989

Preface

This country report is prepared for the ESCAP as an input for preparation of guidelines for community-based Housing Finance and Credit Systems for Low Income Households.

The report is based on the outline provided by the ESCAP and the discussions of country experts of ESCAP region held at Bangkok in May, 1989.

In the preparation of this report we have benefited from interaction with a number of professionals and policy makers in the area (a list of their names is provided at the end). We wish to place on record our gratitude to them for sparing their valuable time. The views expressed in this report, however, are those of the authors.

We are immensely grateful to National Institute of Public Finance & Policy, New Delhi, Vinod Dixit Foundation, New Delhi, and the Housing Development Finance Corporation, Bombay for providing logistic and other support. Our thanks are also due to Dr. M. Rahmatullah and Shri E. Monnier of ESCAP. We would also wish to express our appreciation to the Ministry of Urban Development, Government of India for nominating us as country experts on the Project.

Our special gratitude to Dr. A. Bagchi, Director, National Institute of Public Finance and Policy for his support and guidance. We are also thankful to Miss V. Geeta for providing field and research support, and to Shri R. S. Tyagi for excellent secretarial and typing assistance.

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Abbreviations

AIDIS	All India Debt and Investment Survey, 1981-82.
ASTRA	Indian Institute of Science, Bangalore.
CPFC	Central Provident Fund Commissioner.
CRR	Credit Reserve Ratio.
DCHFS	Delhi Cooperative Housing Finance Society Ltd.
DDA	Delhi Development Authority.
DFC	Department of Financial Companies, Reserve Bank of India.
EPF	Employees Provident Fund.
EWS	Economically Weaker Sections.
FSS	Farmers' Service Society.
GIC	General Insurance Corporation.
GOI	Government of India.
GPF	General Provident Fund.
GRHC	Gujarat Rural Housing Corporation.
HDFC	Housing Development Finance Corporation.
HFI	Housing Finance Agencies.
HIG	High Income Group.
HLAS	Home Loan Account Scheme.
HUDCO	Housing and Urban Development Corporation Ltd.
ICICI	Industrial Credit and Investment Corporation of India.
IFCI	Industrial Finance Corporation of India.
LIC	Life Insurance Corporation.

Abbreviations (Contd.)

LIG	Low Income Group.
MIG	Middle Income Group.
MMDA	Madras Metropolitan Development Authority.
MOUD	Ministry of Urban Development.
NCHF	National Cooperative Housing Federation.
NCU	National Commission on Urbanisation.
NHB	National Housing Bank.
NHP	National Housing Policy.
NIBM	National Institute of Bank Management.
NIUA	National Institute of Urban Affairs.
NSS	National Sample Survey.
RBI	Reserve Bank of India.
RLEGP	Rural Landless Employment Generation Programme.
SC	Scheduled Castes
SEWA	Self-Employed Women s Association.
SLR	Statutory Luquidity Ratio.
ST	Scheduled Tribes.
ULCA	Urban Land Ceiling Act, 1976.
UTI	Unit Trust of India.

Measures and Conversions

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

Executive Summary

This country paper begins with indicating the main features of Indian economy emphasising its vastness and diversity. The analysis of income, savings and asset status of the target groups, namely, lower income households brings out clearly their vulnerable economic status and low affordability.

The paper then outlines some of the major recent initiatives of the government to promote housing in the country. These are (i) The National Commission on Urbanisation; (ii) The National Housing Policy Announcement (May, 1988) and (iii) The Establishment of National Housing Bank (1987). A scrutiny of these well intentioned initiatives however reveal that they are unlikely to meet the housing finance requirements of the lower income strata.

The paper provides a review of housing finance system in India. The review shows multiplication of formal housing finance institutions in last 4-5 years. Some of them have come up with new and innovative credit instruments. However, neither the proliferation of new institutions nor the new instruments are reaching out the lower income households. The vaccuum, it is argued, cannot be filled by conventional housing finance mechanisms. Also various efforts to finance the low income housing by voluntary agencies, although successful, have been rather highly localised and shown no keenness for extending their operations. However two experiments of SEWA and DCA have shown that a small community-based financial institution is capable of being viable. Punervaas is among the more recent experiments in community-based cooperative effort.

The paper also brings out that the cooperative housing sector in India which was so far confined to middle and upper income groups has recently started reaching the lower income households. This institutional framework offers scope for large scale financing of lower income groups provided some additional measures like involvement of NGO's and/or setting up of link institutions within the structure like Punervaas are taken. Finally, the paper brings out the need for devising new credit instruments which would not only give due attention to the circumstances but also the affordability, mortgage, collateral, collection and foreclosure issues for this segment of the society.

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INTRODUCTION

1. General Situation

India is a vast country with population of nearly 800 million living in an area of 32,87,263 square kilometres, being, fairly densely populated (a density of over 240 persons per square kilometre) with 15 per cent of world's population living in just 2.4 per cent of the land area. The average household size is 5.7 and has shown a rising tendency in recent years. India's urban area - broadly defined as settlements with a population of over 5000 and with 75 per cent of labour force engaged in non-agricultural activities - contains a population of over 200 million people. The urban population is growing at nearly 3.9 per cent annually, compared to national growth rate of 2.3 per cent a year. According to the 1981 Population Census, India's urban population lived in 3949 towns of which approximately 38 per cent of the population lived in cities larger than half a million population. In 1981 there were 12 cities with over 1 million population which accommodated over a quarter of India's urban population. At present there may be nearly 20 cities with over a million persons each. The four largest cities are Bombay (8.2 million in 1981), Calcutta (9.16 million), Delhi (5.8 million) and Madras (4.3 million), with Calcutta and Bombay now exceeding a population of over 10 million each.

The inhabitants of India belong to numerous faiths, but according to 1981 Census the largest number are Hindus (82.6 per cent) followed by Muslims (11.4 per cent) and Christians (2.4 per cent).

India's birth rate has been declining steadily and is close to 33 per 1000. Life expectancy has been increasing, and at birth it is estimated to be close to 56 years. Due to improvements effected in nutrition, and a reduction in waterborne and communicable diseases, the morbidity has shown a decline. Infant mortality has also fallen to around 90 per 1000. The crude death rate has also been falling and at present it is around 12 per 1000.

Indian economy over the long run has been characterised by low levels of national income and slow growth of GDP. This increased at an average annual rate of 3.8 per cent between 1951-1986. During 1980-1987 period, the growth rates averaged a little under 5 per cent a year. GNP in per capita terms was $270 (1985).

Most of India's growth in GDP has been neutralised by increase in India's population. Long term growth of GNP in per capita terms is around 1.7 per cent a year (1965-1985), although since 1980, it is close to 2.7 per cent a year. The share of agriculture and allied activities has been falling steadily since 1950 when it was 60 per cent and is now around 34 per cent. Secondary and tertiary sectors shares respectively are around 29 per cent and 37 per cent. Despite the fall in the share of agricultural sector from 60 per cent to 34 per cent, the agricultural workforce has remained a constant 70 per cent of the total. This is in sharp contrast to the experience of other countries where agricultural workforce has shown marked decline.

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

The propórtion of people living below the poverty line has been falling and at present nearly 37 per cent of India's population is estimated to live below the poverty line (Rs 700 per household per month at mid-1988 - prices). In urban areas the number of such poor is close to 50 million people. In the four largest cities of Delhi, Bombay, Calcutta and Madras, the number of persons below the poverty line could be between 50 per cent to 60 per cent. Many of these poor are people who have jobs, their poverty is largely on account of low productivity. Also a very large number of the poor work in the informal sector. At present almost half of total labour force in urban areas would belong to this sector. The informal sector is however a vibrant sector which provides a variety of goods and services.

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

2. Housing and Basic Infrastructure Situation

At present it is estimated that 29 million dwelling units are needed to wipe out the housing deficit (as understood in the normative sense) of which about a quarter are for urban households.[1] Among the major reasons for such deficit are high prices for land, infrastructure and housing construction. These result largely from various regulations and controls. Institutional Finance is another major constraint to development

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1. According to the 1981 Population Census the number of persons who do not have any dwelling unit is around a million. The large part of 29 million dwelling units need upgradation so as to follow the normative standards.

of housing sector. It is symptomatic that the share of housing investment in GDP has fallen from 5 per cent in the 1960's to around 3 per cent in the 1980's. Also the plan outlay on housing investment has fallen from 34 per cent in the First Plan to 10 per cent in the Seventh Plan. The net result is overcrowding, low and declining per capita floor space, and increase in slum/squatter population. It must however be mentioned that access to water and sanitation has generally improved.

So far as the growth rate of housing stock is concerned, in urban areas it was 51.4 per cent during 1971-1981 compared to 31.2 per cent in the previous decade. In rural areas, the growth in housing stock has been much lower - being 19.1 per cent in 1971-1981 compared to 14.3 per cent in 1961-1971. Qualitatively the trend is depressing. For example decennial growth rate of pucca houses in rural and urban areas came down to 32.4 per cent and 53.4 per cent respectively in 1971-1981 compared to 67 per cent and 81.5 per cent in 1961-1971. In terms of the share of pucca housing in the total housing stock, in 1981, 21.1 per cent of rural areas had pucca houses and the corresponding figure for urban areas was 64.6 per cent.

The supply and maintenance of certain infrastructure in India is grossly deficient, especially for water supply, sanitation and solid waste management. It is estimated that nearly one fourth of India's urban population has no tapped water supply of any kind, three quarters has no (waterborne) sanitation facilities, one third has no electricity. Furthermore 40 per cent of the urban water supply is polluted. This situation, however, varies from one State to another, and from one city to another. Further, compared to the standard of 200 litres per day per capita set by the government, the average consumption is 125 litres. It is estimated that about 35 per cent of water is lost in leakages. Power supply is also inadequate with nearly 37 per cent households without any electricity connection. So far as solid waste collection is concerned, the situation is dismal, although some resort to community arranged clean ups. Except large cities, sewage system is either non-existent or is in a rudimentary stage. The situation in rural areas is much worse. It should however be mentioned that, while the provision of public services still remain dismal over the period, access to these services have shown overall improvement, especially in larger cities. We should also mention special financial assistance being provided by the government to infrastructure development in intermediate and small towns.

3. Housing and Housing Related Policies

Over the period, in terms of planned investment, the importance of housing has declined from about 34 per cent in the First Plan to 7 per cent in the Sixth Plan. This decline in investment was perhaps the result of shelter being regarded as social sector contributing little to economic growth. But from Seventh Plan the Indian Government has declared its intention to combat housing in an effective manner. The budget proposals for 1987-88 asserted this by stating Housing is high on our list of priorities'. Since then Government has taken three major initiatives. These relate to formulating a comprehensive National Housing Policy (NHP), establishment of National Housing Bank (NHB) and the publication of the Report of the National Commission on Urbanisation (NCU).

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

It is now accepted that public sector cannot adequately play the role of builders of housing units and, instead, would act as promoters and facilitators so as to create an appropriate enabling environment so that other partners in the housing sector can successfully add to the national housing stock. The household and cooperative sectors are assumed to play a dominant role.

In the context of housing for the economically weaker groups mention may be made of NHP which seeks `to accord priority to promoting access to shelter for the houseless and the disadvantaged groups´. While many public sector institutions tend to favour housing programmes for the disadvantaged groups, it is difficult to say the extent to which this has really happened. One may however make a specific mention of the rent control legislation which is directed towards protecting the relatively not-so-well-off tenants.

4. Financial Situation and Policies

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

So far as credit directed to housing is concerned, a large part of it goes to housing finance institutions in the public and cooperative sectors, generally at below market rates of interest. Also such Housing Finance Agencies (HFI) which can compete for credit also get it on subsidised terms.

Further since private lenders raise a significant part of their lendable resources from various financial institutions, the interest rates policy of the RBI influences the cost of their liabilities as well as the return on their assets. Also for a variety of reasons, most private/joint sector HFIs follow the norms of HDFC.

It would be interesting to point out that the government regulates the distribution of capital to various sectors through directives to government financial institutions. For example, the government lays down the utilisation of resources by institutions such as the LIC, GIC, Commercial Banks, (most of whom are nationalised), etc.

The LIC which is the largest supplier of funds to the housing sector has its limitations since the government ties down 75 per cent of the annual accretions to Central Government debt instruments, State governments, etc., and only 25 per cent can be devoted to other uses, e.g., government guaranteed debentures such as those of HUDCO. GIC should be able to increase its contribution to Rs 100 crores per annum during the Eighth Plan period. Similarly, the lending target for Commercial Banks is fixed by the government and it is currently Rs 300 crore out of which at least 50 per cent is to be lent to EWS, SC & ST at 4.5 per cent interest.

PART I

HOUSING FINANCE : BOTTOM-UP APPROACH

5. Income and Savings Pattern of Households

Introduction

While housing in India has so far been left largely to private sector efforts, the shortage of housing has grown enormously over the years. The main reasons for this growing shortage is the lack of availability of developed land at reasonable costs and of housing finance at affordable terms. HUDCO was set up as a Central Government agency in 1971 and the State governments also set up their own Housing Boards/Corporations with the objective to provide housing to the urban middle and lower classes. Their impact has been marginal. HUDCO, however, did go into poorer section housing and experimented with new forms like mud architecture, but has touched only the tip of the iceberg. Until recently rural housing in India was not considered a matter of major concern though HUDCO did go in for it as the traditional mud housing was an accepted norm, and water and sanitation were not considered necessary. The cooperative sector which could provide both cheap housing and finance has remained largely confined to urban middle classes. This sector never tried on its own to mobilise funds which has remained its major weakness. Moreover its dependence upon LIC for funds still continues. The HDFC, which was set up in 1977 as a private company, has made great strides and within a period of a decade it has assets over Rs 600 crores and a network of offices covering almost the entire urban India. However, its impact on lower income groups is marginal though of late it has made some efforts to go into weaker section housing.

Prior to the issue of the Government Housing Policy in 1987 there has hardly been any urgency shown by the government for construction of houses. In fact, availability of housing finance has been extremely restricted. With the announcement of the housing policy, the government has declared its intention to provide housing for all within a target date of 2001. If the government is serious about it, a large amount of investible funds[2] will need to be diverted to this sector.

Income and Expenditure Structure

As already indicated India is a poor country with a large part of its population working in informal sector. In 1984-85, nearly 37 per cent of India's population lived below the poverty line. The incidence of poverty is generally greater in rural areas where nearly 40 per cent of the population is below poverty line. This percentage is 27.7 for urban areas. At 1984-85 prices, the poverty line for rural households was Rs 107 per capita per month (or Rs 6,400 per household per annum) and Rs 122 per capita per month for urban areas (or Rs 7,300 per household per annum). While the incidence of poverty has declined over the period, the per capita consumption has hardly shown any rise. For example, during 1977-78 and 1983-84 (both expressed in 1983-84 prices), the urban consumption expenditure rose from Rs 158 to Rs

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2. A recent estimate, to meet the backlog and provide full housing by 2000 as per norm would require an investment of Rs 1,80,000 crores over the next 10 years.

164, a mere 0.6 per cent rise a year. The situation would be no different in rural areas. A large part of the expenditure of the poor is devoted to food and related items, leaving very little for the non-food, including housing.

It is in order to point out that while the incidence of poverty is greater in rural areas, the nature of poverty in urban areas is somewhat different. In rural areas, at least in periods of agricultural prosperity, the situation is not all that depressing. In urban areas, however, a large part of population continue to live in abject poverty from one year to another. The situation is worse in large cities, especially the metropolitan ones where over one third of city's population is either pavement dwellers or living in slums and squatter settlements.[3] Their incomes are generally low [according to National Institute of Urban Affairs (NIUA) survey of slums, 1987-88, two thirds of slum households had incomes ranging from Rs 300 to Rs 900 with median income of Rs 721 per month], and are irregular and of uncertain nature. These people are generally unskilled labourers or semi-skilled workers and are mostly engaged in informal activities.[4] Their savings, if any, are low. One reason for low savings is also the non-availability of savings instruments appropriate to the nature of their earnings. Most people living in slums and squatter settlements are generally from rural or semi-rural areas,

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

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

and reflect upon on one hand the employment potential of such urban areas, and on the other the incidence of rural poverty.[5] Being migrants, and on the look out for cash earnings to be transferred to their home towns, these people are left with very little money. This however is not true of old migrants who are keen on having a permanent home in the new surroundings.

Apart from a highly skewed distribution of incomes, a significant feature of the Indian scene is the existence of a large Scheduled Castes and Scheduled Tribes population.[6] These people are generally poor and have a high incidence of illiteracy. Since they are generally discriminated against, the Indian Constitution has provided certain safeguards,[7] and the government policy has been to provide them with opportunities to level up with the rest of the society. In formulating various policies, with focus on economic-social upliftment of people, due attention is paid to devise special programmes for the poor and socially depressed classes. Apart from formulating special schemes for Scheduled Castes and Scheduled Tribes, the government also uses

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

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

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

the income criteria for being eligible for socially-oriented programmes. For this purpose the following HUDCO classification is used.

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

From the view point of shelter policy, it would be appropriate to give the distribution of households by expenditure class. The relevant data is provided in Table 5.1 based on National Sample Survey [NSS (1983)] expenditure data. From here we find that nearly 12-15 per cent of household expenditure is devoted to housing, including on rent. The rent for the owner occupied houses is also imputed. The maximum feasible rent is based on the assumptions as generally accepted by the Planning Commission to work out the affordability limits of house cost.

TABLE 5.1

Monthly expenditure class (Rs)	Urban areas		Rural areas		Approximately actuals on rent (Rs)	
	Percentage of households	Maximum feasible expenditure on housing (Rs)	Percentage of households	Maximum feasible expenditure on housing (Rs)	Urban	Rural
0 - 165	0.28	35	0.92	15 - 20	45	10
165 - 220	0.43	35	2.21	20 - 25	36	17
220 - 275	1.05	45	4.66	25 - 30	36	26
275 - 330	2.32	60	7.13	30 - 35	43	26
330 - 385	3.71	70	8.94	35 - 40	46	29
385 - 470	7.65	85	14.41	40 - 75	54	38
470 - 550	8.86	110	13.12	75 - 90	62	44
550 - 690	14.83	145	16.88	90 - 100	82	55
690 - 825	12.07	195	10.41	110 - 160	95	66
825 - 1100	16.89	290	10.83	160 - 240	130	99
1100 - 1375	10.34	400	4.74	240 - 360	169	137
1375 - 1650	6.80	575	2.27	360 - 450	217	165
1650	14.77	636	3.48	450	353	165
TOTAL	100.00		100.00			

Note: Based on 1983 NSS Data.

Assets and Savings Pattern

Nearly three fourth of India's households are residing in rural areas of which 76 per cent are cultivators. Further it is estimated that nearly one third of India's urban households belong to the self-employed category, the remaining are in the non-self-employed category. According to the All India Debt and Investment Survey, 1981-82, (hereinafter called AIDIS), as on 30.6.1981, the average value of all items of assets owned by a rural household was Rs 36,090 compared to Rs 40,573 of an urban household. Within the rural sector, the cultivator household held assets nearly five times that of a non-cultivator household (Rs 44,524 against Rs 8,974). In nominal terms, during 1971-1981, the compound growth rate in the average value of total assets of rural households is estimated at nearly 12.3 per cent per annum within the urban sector, the average asset of a self-employed household was higher compared to that of the non-self-employed (Rs 55,320 and Rs 33,457).

Another interesting feature of asset holding of rural and urban households is the concentration of over 70 per cent of the assets with top 25 per cent of the household in both rural and urban areas, the extent of distribution of assets being more unequal among the urban households. This is evident from Table 5.2.

Analysing the asset composition, we find land was the important asset constituting three fifth of total value of assets of rural households. Building is the next important item accounting for another one fifth. Among the urban households building is the most important asset with its share of 36 per cent in the total value. Land is a close second with a share of a little over 32 per cent of the total value of urban assets. Further, financial and consumer durable assets are also important in asset portfolio of urban households. The following categories taken for AIDIS 1981-82 gives a detailed break down.

TABLE 5.2

	Percentage share of assets owned by					Coefficient of concentration
	Lowest			Top		
	10 per cent	25 per cent	50 per cent	25 per cent	10 per cent	
Rural	0.4	1.7	9.1	72.3	49.5	0.6354
Urban	0.1	0.8	5.4	79.1	57.0	0.7040
Total	0.3	1.4	8.1	74.1	51.5	0.6542

Source: AIDIS, 1981-82.

So far as indebtedness is concerned, in per cent terms, more rural households were in debt when compared to the urban areas (19.97 per cent compared to 17.36 per cent). Also the average debt of indebted rural household is lower than the urban one (Rs 3,311 and Rs 5,930). Average total debt of a rural household is about two-third of the urban household (Rs 661 and Rs 1,030). Very little of this debt is in kind (Rs 8 for rural and Rs 6 for urban household). If we work out the aggregate debt-assets ratio, it is found that it is 1.8 for rural households (non-cultivators show a higher ratio of 2.3) and 2.5 for urban households (not much of a difference is observed between the self-employed and non-self-employed).

TABLE 5.3

Pattern of Assets of Households As on 30.6.1981
(Per Cent Terms)

	Item	Rural	Urban
1.	Productive assets of which	70.9	38.2
	a. Land	62.1	32.4
	b. Livestock and poultry	5.0	0.8
	c. Implements and machinery	3.8	5.0
2.	Building	20.7	35.7
3.	Consumer durables	7.1	15.1
4.	All financial assets	1.3	11.0
	TOTAL	100.0	100.0

It would be worthwhile to briefly analyse the cash debt outstanding according to credit agencies since it tells us of the extent of relative dependence of the households on institutional and non-institutional sources for their credit needs. Table 5.4 reproduced from AIDIS (1981-82) provides the percentage distribution of cash dues outstanding by credit agency. It shows that, except non-cultivator households in rural areas, nearly 60 per cent of the cash dues of households are from institutional sources with cooperatives and commercial banks as the two important institutions for both rural and urban households. Further more urban households relied on government for credit when compared to rural households (15 per cent and 4 per cent). It would be in order to point out that during the decade 1971-1981, the share of commercial bank credit rose from 2 per cent to 28 per cent mainly because of the rapid expansion of bank branches in rural areas.

TABLE 5.4

Percentage Distribution of Cash Dues Outstanding by Credit Agency

Type of household	Govern-ment	Cooper-ative society or co-opera-tive bank	Commer-cial bank in-cluding regional rural bank	Insu-rance	Provi-dent fund	All institu tional agencies	Land-lord	Agri-cultu rist money lender	Profes-sional money lender	Trader	Relative and friend	Other sources	Source not spe cified	All non-institu-tional agencies	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Rural-All households	4.0	28.6	28.0	0.3	0.3	61.2	4.0	8.6	8.3	3.4	9.0	4.9	0.6	38.8	100.0
Rural-Cultivators	3.9	29.8	28.8	0.4	0.3	63.2	3.7	8.3	7.8	3.1	8.7	4.5	0.7	36.8	100.0
Rural-Non-cultivators	4.5	13.9	17.3	-	1.0	36.7	8.4	11.4	13.4	5.8	14.4	9.4	0.5	63.3	100.0
Urban-All households	14.6	17.5	22.5	2.1	3.2	59.9	1.0	3.6	8.9	4.8	15.2	6.0	0.6	40.1	100.0
Urban-Self-employed	8.9	15.6	31.2	1.9	0.1	57.7	0.8	6.5	9.1	5.9	14.2	5.1	0.7	42.3	100.0
Urban-Non-self-employed	19.7	19.1	14.8	2.3	5.9	61.8	1.1	1.2	8.8	3.8	16.2	6.7	0.4	38.2	100.0
All households	7.4	25.0	26.2	0.8	1.2	60.6	3.0	6.9	8.5	3.9	11.1	5.3	0.7	39.4	100.0

It is therefore not surprising that during the same decade the dependence of rural households on non-institutional sources has reduced from 71 per cent to 37 per cent, and that of moneylenders from 37 per cent to 17 per cent. Another interesting fact revealed by AIDIS (1981-82) is that nearly 60 per cent of cash debt is for productive purposes.

To avail of the credit facilities, nearly 45 per cent of rural households mortgaged immovable property. This percentage was 27 per cent in 1971. Personal guarantee is becoming less important in rural areas as is evident for the fact that this percentage declined from 53 per cent in 1971 to 36 per cent in 1981. A large percentage of rural households relying on personal guarantee is the non-cultivator households (comprising mainly of artisans and agricultural labourers). Around 45 per cent of urban households provided personal guarantee and another 27 per cent mortgaged immovable property. Only about 3 to 4 per cent of the households offered bullion and ornament as security. Shares, securities and insurance policies are mainly offered as security by the urban households (3.2 per cent for urban and 0.3 per cent for rural households).

Summarising, we find that preference for productive assets is greater in the case of rural households when compared to the urban areas. While building is a preferred asset among the rural and urban households, its importance is greater in urban areas. Also as expected, urban households have a fair preference for consumer durables and financial assets in its asset portfolio.

It would now be interesting to analyse the magnitude and sources of savings of household, private corporate and public sectors. Table 5.5 gives an idea of the sources of net savings for two recent periods of time: 1980-81 and 1986-87. First, we observe that the net savings as share of net domestic product has declined from 13.5 per cent in 1980-81 to 12.7 per cent in 1986-87, despite the fact that during this period household savings have risen from 13.2 per cent to 14.5 per cent. The main reason for this appears to be the dismal performance of the public sector which is a net dissaver. The private corporate sector has performed no better in this regard. Within the household sector, we find the financial sector assuming somewhat greater importance, and physical assets declining from 46.4 per cent to 43.4 per cent. Savings in the form of currency and and deposits accounted for nearly 27.5 per cent of the net savings in 1980-81. Unfortunately, similar data is not available for 1986-87. Further while savings in the form of financial assets has almost trebled, savings in the form of physical assets has only doubled. Extension of bank branches in the rural areas, and attractive returns on investment especially in debentures might be responsible for this trend. Also containment of inflation may be yet another factor favouring savings in the form of financial assets.

6. Housing Finance Process

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

TABLE 5.5

Sources of Net Savings (New Series)

	Rs crore		Percentage to total		As percentage of GNP	
	1980-81	1986-87	1980-81	1986-87	1980-81	1986-87
1. Household Sector (a-b)	16343	37846	97.9	113.7	13.2	14.5
a. Financial assets (i-vi)	8597	23388	51.4	-	6.9	8.9
i. Currency	1625		9.7	-	1.3	
ii. Net deposit	2970		17.8	-	2.4	
iii. Investment in shares and debentures	445		2.7	-	0.3	
iv. Net claims on government sector	576		3.5	-	0.5	
v. L.I. Funds	859		5.1	-	0.7	
vi. Provident and Pension Funds	2122		12.7	-	1.7	
b. Physical assets	7746	14458	46.4	43.4	6.3	5.6
2. Private corporate sector	584	881	3.5	2.3	0.5	0.3
3. Public sector	-241	-5434	-1.4	-16.3	-0.2	-2.1
Net Domestic Savings (1+2+3)	16686	33293	100.0	100.0	13.5	12.7

Note: Unreliable Guess Estimates.

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

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

iii. Municipal Certification of Maps of the Building against which loan is proposed. This automatically excludes the so called unauthorised sector, even though the land may be properly owned.

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

The above are the general limitations to formal sector housing finance in India. However, there are variations within the sector specially between the private financial institutions and public sector institutions (like HUDCO and State Corporations) and the Cooperatives. The interest rates also vary. While HUDCO and HDFC offers internal cross subsidization of interest, based on income or quantum of loan criteria, cooperative structure offers only a fixed interest loan for all.

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

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

So far as access to loans from financial institutions are concerned, most people with regular incomes and in the organised sector are able to obtain loan from HFI's and Banks. But those in the informal sector, have to look for specific schemes of the government where these people are specifically permitted to procure loans on special terms. Loans for construction and repair of rural/farm houses are very few and difficult to obtain.

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

iv. Purchase of Land and Building Materials. One of the major constraints in the orderly growth of Indian cities has been the restrictive land policies. Government intervention in supply of developed land and housing has been a major bottleneck and a cause for the growth of squatters and unauthorised colonies. Three kinds of policies have been followed in this context and all have been counter-productive! The first type of policy is what has been practised in capital city of Delhi and is called a scheme of "Large Scale Acquisition, Development and Disposal of Land". The second major policy in India has been the imposition of "Urban Land Ceiling Act 1975" (ULCA). While both these policies have been designed for the benefit of the poor, the result has been the reverse. The third policy is that of Rent Control which has discouraged new construction for rental market and made the old construction dangerous by providing disincentives for repairs and maintenance.

Under the Large Scale Acquisition of Land Policy the Delhi Development Authority, the Urban Planning Authority for the growth of Delhi, acquired under the Land Acquisition Act large tracts of farm land at a nominal rate, develop it according to the Master Plan, auctioned some of the commercial and residential plots at a high profit and provide the rest of the residential plots to cooperative housing societies and its own HIG, MIG, and LIG housing schemes at a `pre-determined' rate. The idea was to cross-subsidise the development of urban infrastructure by auction at one end and providing land at reasonable rate to the middle and lower income groups. However, this policy suffered from two problems. Firstly, it was difficult for a public authority to develop land fast enough to keep up with the demand leading to heavy public pressure and growth of unauthorised colonies. Secondly, it was not able to develop a procedure for allocation of land based on equity as a result the access to land actually worsened for the poor. The time gap between acquisition and allotment was so long that the DDA was unable to keep a control over its land and unauthorised occupation took place on a large scale on it, perhaps also in connivance with its lower officials. No provision was kept for migrants or squatters.

The second major land policy is the imposition of Urban Land Ceiling Act in 1975. The purpose of this Act was to acquire all excess land over limits of permissible holdings. These varied according to city size, limit being 500 sq. metres in the largest cities. It was expected that the public sector would be able to acquire large tracts of land by this procedure, develop it and allot them to the poor at affordable prices. The Act, however, provided for exemption which was badly misused due to the escape clause for exemption, as a result of which hardly any land was actually acquired.

The National Commission on Urbanisation, in their interim report had commented very adversely upon the implementation of the Act and has stated categorically "that in matters of acquisition of surplus land, the Act has been ineffective".

TABLE 6.1

	Item	Hectares	Percentage
1.	Estimate of excess vacant land after scrutiny	166192	100
2.	Vacant land acquired and vested in government	14589	8.78 of (1)
3.	Excess vacant land of which physical possession has been obtained	3552	2.32 of (1)
4.	Land used by government for housing construction	621	0.37 of (1)

Table 6.1 shows that out of a total of 1,66,192 hectares of land estimated as access over the urban land ceiling, only 8.7 per cent has been acquired. Of this only 0.37 per cent was actually used by government for construction though 2.32 per cent of the excess land was taken possession of. While no specific correlation could be established, there has been a dramatic increase in land prices in urban areas after the UCL Act came into force. The Act has, on the other hand, certainly not prevented speculation or profiteering. The Commission has recommended that while the Act should be retained, it should be rationalised and

made easy to implement. Further, it has suggested some steps by which it could be made effective and land utilisation can be optimized. The recommendations of the National Urban Commission in respect of ULCA are many, but some of the important ones are as follows:

i. Surplus land must be identified, notified, acquired and released quickly for city development, particularly housing, with special emphasis on middle and lower income groups and the economically weaker sections.

ii. Owners of surplus land should be encouraged to go in for house construction under prescribed limits or transfer it to cooperatives.

iii. The most important recommendation is that surplus land should be subject to a cess/tax within the 5 year period permitted for utilisation and the entire amount of this cess/tax should go in for a "Shelter Fund" which would be utilised for land acquisition and development of sites and services for urban poor. According to the Commission, even on a conservative estimate, of the declared surplus vacant land of 1.23 lakhs hectares (after deducting 43,000 hectares for which exemption has been given) will net approximately Rs 600 crores per annum even at the modest rate of Rs 5 per sq. metres.

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

Lending Sources

As was pointed out earlier, informal housing finance is considerably more significant than formal housing finance system in India. This is especially true of the low and middle income households, as well as these households which are outside the organised employment sector. Most studies show that around 20 per cent of the cost of new housing is raised through formal borrowing. In a study by the NBO (1972-1974) of the households who financed house construction from borrowings, 53 per cent of these households borrowed from friends/relatives and money lenders and the remaining 47 per cent from established institutions like employers, cooperative banks/societies, commercial banks, etc. However so far the lower middle income group (less than Rs 350 and Rs 350-600) mainly depended on money lenders, the upper middle income groups (Rs 601-1500) on banks and higher income groups (above Rs 1500) on LIC. Money lenders charge as much as 2 per cent interest per month, compared to 9-11 per cent by cooperative societies and banks, and 6-7 per cent by the LIC, government and provident fund. The average period of repayment varied from 4 years to 21 years, this period being highest (17 to 21 years) in case of borrowings from government and housing associations/agencies, 9-12 years from employers, LIC and banks, and 20 years in case of cooperative societies, provident funds and money lenders.

The heavy dependence of low income group on money lenders is because these people are unable to offer any security or proof of regular income. Also the time taken and the paper work involved in securing loans from financial institutions are major deterrents. Besides the cost involved in title research and other legal expenses sometimes makes loans from financial institutions expensive. The delays in repayment on a regular basis involve penalties, and hence many households tend to keep away from obtaining housing loans from financial institutions.

7. Low and Middle Income Housing

While the efforts of the government at meeting the housing aspirations of the poorest of the poor have not been well perceived, with allotment of sites in rural areas and slum upgradation and sites and services in urban areas, the potentially explosure crisis of housing for low and middle income groups has been somewhat defused. The public sector has played a major role in low and middle income housing through setting up of State Level Housing Boards, City Housing Authorities. Practically every State has a Housing Board or a Housing Authority and major towns have one or more similar institutions. These institutions generally acquire land, at below market rate under the Government's Land Acquisition Act, develop it and then construct upon it identical, unimaginative, poor quality, unsatisfactory housing for low and middle income groups. The main attraction of the Housing Authorities is provision of well located land which would otherwise be beyond reach of the beneficiaries. Normally these authorities work on basis of "Self-Financing", i.e., payment is made in stages during the period of construction and the flat/house is handed over after full payment. In some cases they tie up a housing loan from the State government or HUDCO. Rarely do they go to a Bank/LIC or any other financing agencies. The individual concerned who go in for "Self-Financing" schemes usually tie up their finances with their Provident Fund or with HDFC or some Urban Cooperative Banks. Normally, the upper limits of these loans are less than 50 per cent of the cost of the flat and therefore the individuals have to meet the balance out of their own savings or borrow from funds from friends or sell some other asset. The terms of these loans are generally around 14 per cent with repayment over 15 years on Equated Monthly Instalment basis. There is generally no flexibility in repayment schedule either in the EMI or in the interest rates. (Of late HDFC has introduced some flexibility in the repayment schedule). Since the middle class is extremely keen to acquire the property, there are very few defaults in repayment. However, the output of flats/houses of these institutions on the average, is much below the demand. While there are sometimes long delays, there is a general lack of consumer satisfaction in the quality of construction.

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

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

Low and Middle Class Housing : Subsidy in Terms of Land

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

Specific Problems

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

8. Community-Based Initiatives

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

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

It may also be pointed out that the State of Madhya Pradesh is the only State in India which has granted secure land tenure to urban squatters by passing an Act popularly called the "Patta Act" in their State legislature. Along with this the State government has also undertaken to provide a single point electric connection to every unit in addition to water supply, latrines, paved roads, etc. The Patta Act entitles any landless person occupying upto 50 square metre of land for residential purpose on 10th April, 1984 to non-transferable leasehold rights (Patta) either over land occupied by him or any other land upto 50 square metre. Further, any person attempting to depossess a patta-holder of his property is liable for punishment with rigorous imprisonment of upto 3 months or fine. While Pattas have been allotted in a large scale there is no tie-up with any financing agency, nor have the local municipality cleared any maps. As a result, all construction on these Pattas is haphazard and unauthorised. Bhopal experience shows poor coordination and lack of foresight at the time of allotting pattas. Had municipal clearance procedure and housing loans been tied up, both of which were possible, things would have been much better.

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

PART II

HOUSING FINANCE : TOP-DOWN APPROACH

9. Housing Finance Situation and Framework

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

Among the public sector institutions in the housing sector mention may be made of LIC, GIC, HUDCO (including State Housing Boards, Development Authorities, and Slum Clearance Boards) and the Cooperatives. For example upto March 31, 1988, LIC's contribution to housing development by way of loans amounted to a little under Rs 2,500 crores.* Similarly, HUDCO made available by early 1988 Rs 2,700 crores for over 3 million housing units since its inception in 1970. 90 per cent of the dwellings financed by it were intended for the EWS. Similarly, the housing cooperatives

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* LIC is currently in the process of promoting a housing finance institution as its subsidiary.

with its two-tier structure has made a substantial contribution to housing especially for the middle and lower middle income households. For example at present there are nearly 40,000 housing cooperatives with nearly 3 million members with 59 per cent of the housing coming up in LIG/EWS sector.

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

Recently UTI is coming up with schemes to mobilise savings for housing. NHB has also launched a home loan savings plan which will provide a system of reimbursement for all small loans upto Rs 50,000 given under this scheme.

In addition to these two types of institutions, there is the third category of institutions whose basic function is not housing finance but they do so as a part of diversifying their investments. Some of these are leasing companies.

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

Formal sector financing: It is estimated that the formal sector, through government programmes and financial intermediaries, currently provide financing for about 2,75,000 units per year. Formal sector financing is generally only 50 per cent or less of the total cost. India's financial sector provides only 2 per cent of the formal financing for housing and the formal sector is providing only about one-fifth of the total housing investment or loan.

Lastly, it may also be added that the General Insurance Corporation of India (GIC) is also proposing to launch a Mortgage Insurance Scheme for housing loans sanctioned and by Various Housing Finance Agencies.

Diagram 9.1 gives an idea of about the major institutions involved in providing housing finance and the nature of institutional links. It also sets out the mechanism as to how the funds eventually reach the end users or beneficiaries (Diagram taken from HUDCO).

We may also point out here that so far as development of housing related infrastructure is concerned, the responsibility

**Structure for Formal Sector
Intermediation for Housing Finance in India**

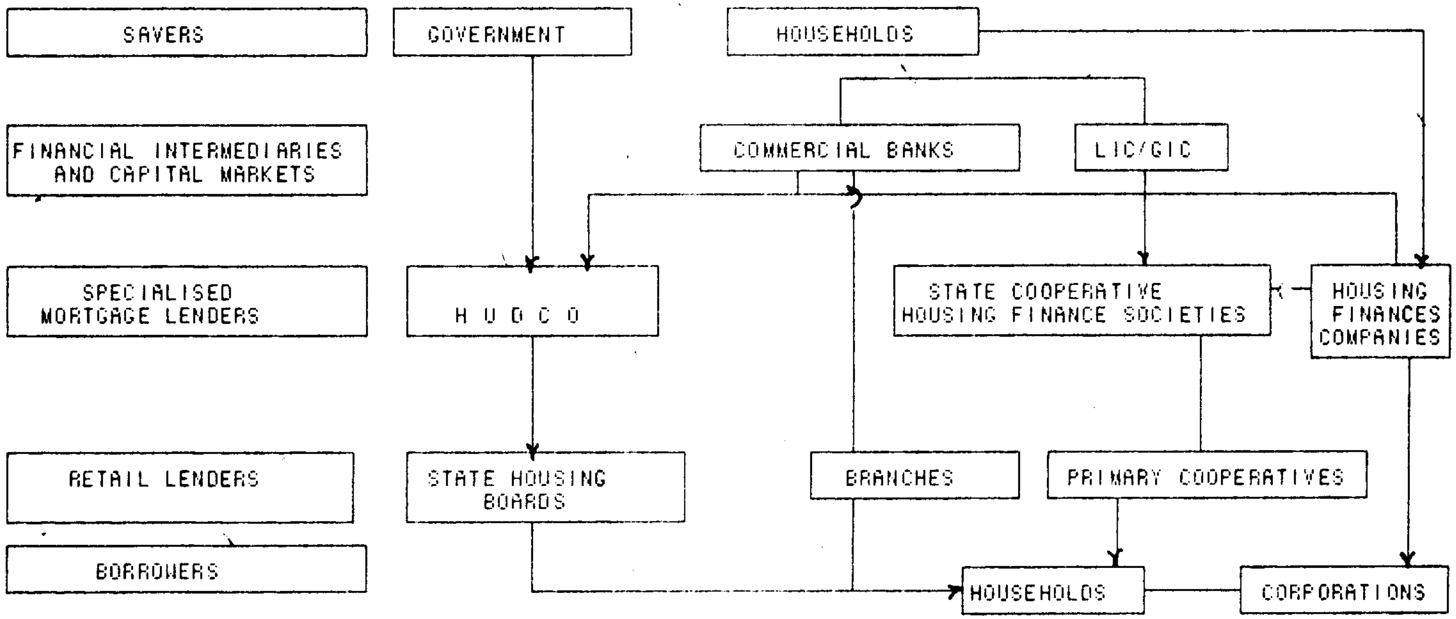

Diagram 9.1

generally rests with local governments and State Housing Boards, although recently some agencies like HUDCO, HDFC Developers and Ansal's have entered the area of infrastructure (including land) development. Apart from HUDCO, National Housing Bank is another agency which is proposing to enter into the area of providing funds for infrastructure development. Water supply and electricity are generally looked after by autonomous boards.

We would here like to make a mention of a recent development in the area of housing finance. This concerns the practice of providing bridge finance to developers and builders. HDFC is one housing finance institution which is providing such bridge loans.

Resources for Housing

HUDCO is the only government sponsored housing finance institution which raises funds with government guarantees from the capital markets.* So far HUDCO has raised over Rs 530 crores through this method, which has been subscribed largely by nationalised banks and LIC. HUDCO, which came into existence in 1971, has so far committed loans upto Rs 2,769 crores for construction of 3.04 million dwelling units. Of these 1.63 million units are in the rural areas. It is maintaining a ratio of 55:45 in overall fund allocation between EWS, LIG and MIG, HIG. HUDCO is a financially independent body which practices cross subsidisation of interest from within its own revolving funds. The interest rate ranges from 5 per cent to 13.5 per cent.

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

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

HDFC is a privately owned company for housing finance which has made remarkable progress since its inception in 1970 and has crossed a sanction of Rs 1,000 crores. So far HDFC has financed 0.25 million units in newly 1,400 towns. HDFC does not get government guarantee for its debentures/bonds and has to raise its resources from the market. The HDFC has also introduced a Home Savings Plan, but this has had limited success so far. HDFC has however, been successful in raising $90 million through US AID with back to back arrangements with an Indian Bank to absorb the exchange rate risk and has issued bonds worth Rs 20 crores. Although HDFC has not been given government guarantee for its bond issue, it has been given trustee status, which enables it to pick up money a little cheaper from trusts, etc. HDFC has also co-promoted four companies, namely:

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

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

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

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

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

Out of the total lending of HDFC, 77 per cent of the gross loans were for individual home ownerships while the balance 23 per cent of the loans were routed through corporate institutional and other sectors, of which households with family income below Rs 1,000 per month accounted for 45 per cent of the number of dwelling units financed during the year.* HDFC has been able to help the low income groups of the organised sector like employees of Electricity Boards and Road Transport Corporations in various parts of the country, small cocoa and arecanut growers in Karnataka and Kerala, Plantation Labourers in North East India, Police Constables in Maharashtra and Andhra Pradesh, Teachers and Staff Members of several Universities and Education Institutions.

LIC, GIC and nationalised banks are the other sources of housing finance in India. LIC has also been funding the Cooperative Housing Sector through Apex Housing Finance Cooperative to the tune of about Rs 150 crores per annum, apart from providing housing loan for the individuals under the Own Your Home Scheme. In addition LIC has also been funding municipalities and other infrastructure organisations which provide services to housing the total LIC investment in the housing and infrastructure sector comes. UTI and GIC have a smaller role to play, but have shown increasing interest and their role is likely to expand over the years. LIC along with ICICI, UTI, IFCI is starting a Housing Finance Corporation with Rs 25 crores paid-up capital. While this company shall get its initial capital from LIC and other institutions, it will also raise its own resources by deposit mobilisation.

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* HDFC Limited 11th Annual Report, 1987-88.

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

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

The existing annual inflow of funds into the housing sector through formal sector agencies is given in Table 9.1.

TABLE 9.1

Inter Institutional Flows : 1987-88

(Rs crore)

		Total	To institutions	To individuals
1.	Government			
	Central and State	591.20		
	Provident Funds	318.24**		318.24
	Total	909.44		318.24
2.	Financial Institutions			
	Scheduled Commercial Banks	194.43	170.55	23.88
	LIC	319.23	254.33	64.90
	GIC	55.00*	-	-
	Total	513.66	424.88	88.78
3.	Special Housing Finance Institutions			
	HUDCO	324.60	36.03	288.57
	Cooperative Housing Societies	325.00		25.00
	Housing Finance Companies	248.62		248.62
	Total	898.22	3603	862.19
4.	Total of 2 and 3	1411.88	460.91	950.97

Notes: * To State Governments excluded in total.

** This refers only to Employees Provident Fund. The PFs contribution will about be thrice if all other PF schemes are considered.

Source: National Housing Bank.

Thus about Rs 1,000 crs. of funds are flowing into the housing sector from formal institution. In addition to these there would be some substantial flow from Provident Funds. Actual disbursements are not easily available. However, as of now there would be about 14.3 million subscribers to EPF, 5.3 to Central Government Provident Fund and another 10 million of State governments bring the total member of PF subscribers to 29.6 million or say 30 million. The likely PF withdrawal for housing could very well come to nearly Rs 2,000 crores.

Relevance of Financial Policies

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

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

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

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

10. Credit Supplies and Clientele

Credit Institutions

Commercial banks have the maximum coverage in India. From 8,321 branches in 1969, there were 55,198 branches in June, 1988 of which 30,789 were in rural areas, 11,204 in semi-urban areas and 13,105 in urban areas. The following Table will give a break up of the current branch pattern of various types of banks.

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

While 1.63 lakhs branches of various banks appear an impressive number, not many of them are good enough to be used for purposes of base level housing finance institution. In 1970 the government decided to link up the cooperatives at the grass root level with the commercial banks mainly with the objective of supplementing the loanable resource of the former through

TABLE 10.1

	Type of Banks	Number of Branches
1.	Commercial Banks	56,282
2.	Primary (Urban Cooperative Banks)	1,371
3.	Regional Rural Banks	13,353
4.	Revised PACs (including Lamps & FSS) (Primary Agriculture Credit Coops.)	91,927
5.	Primary Cooperative Banks	1,009
	Total	1,63,942

additional channel of supply of funds*, the newly reorganised Primary Agriculture Credit Cooperatives (PACs) have had a mixed record of success. The cooperatives have become strong in some of the States namely, Gujarat, Maharashtra, Punjab and Tamil Nadu. The same, however, cannot be said of the other States. Further, it has been alleged that benefits from PACs do not trickle down to the rural poor. The loans advanced to the landless persons in 1975-76 accounted for only 4 per cent of the total amount of loan advances. Further, 40 per cent of PACs functioned in a loss and overdues as a proportion of loan outstanding by end June, 1976 was as high as 43 per cent. By June, 1975 RBI declared nearly 70 per

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

cent of PACs as `weak´ (Category C to E). Similarly, 45 per cent of non-agricultural credit societies were also considered weak. Farmer´s Service Societies (FSS) have also not fared much better and suffer from structural weakness. By June, 1977 only 233 FSS were operating in a few States, out of which only 69 were financed by cooperative banks. The Commercial Banks have also their own weakness as they have not been able to penetrate into the deep interior districts, although they have been more successful in mopping up deposits from the rural areas instead. The commercial banks have also been accused of neglecting the small borrowers.

The banking and cooperative structure in India needs to be studied in detail and thereafter fine tuned. In case we want to have a delivery system of loans, both housing as well as working credit loans, the delivery system has to be made more responsive so that it can meet the needs of the specific income groups. There is a general allegation against the commercial banks that their staff have an urban bias. Since recruitment of well educated young persons is done by the banks centrally, the urban bias can very well be expected. The Regional Rural Banks were expected to partially meet this problem by recruiting locally. However, even here, due to high level of literacy of the staff, the urban bias still remains. Although we have an elaborate delivery system of 1.62 lakhs outlets, we have to ensure as to how many are actually functioning efficiently and second, how many can serve the cause of the poor. In case we find that these institutions are unable to serve the low income groups we need to consider whether we should go in for another tier of delivery system at the field level and if so, what would be it its cost implications? While Bangladesh has experimented nine forms of delivery system, they have also found that the results were mixed. However, in the case of Grameen Bank of Bangladesh and

SEWA Cooperative Bank of Ahmedabad there were hardly any defaults. They tend to give credit for this to the banks and the project management. One of the main features of the Grameen Bank was that loans were given to the landless poor by organising them into groups for certain income generation activities and a greater emphasis was laid on loans to women.

Credit Instruments

Both government and market oriented agencies such as HUDCO, HDFC, Can Fin Homes, GROH, Dewan Housing Development Finance Ltd. (DHDF), etc. provide housing loans with varying interest rates and maturity periods, etc., to persons falling within their respective eligibility criteria. Tables 10.2 and 10.3 give an idea of these terms in respect of HUDCO and select HFIs.

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

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

TABLE 10.2

Revised Norms of HUDCO Financing for Various Housing Schemes

No.	Category	Ceiling cost (Rs)	Extent of financing (per cent)	Net interest rate (per cent) per annum	Repayment period (Years)
1.	Economically Weaker Sections (EWS) with a household income up to Rs 700				
	a. EWS- (Sites and Services)				
	i) Sites and Services (excluding raw land)	6,000	Full	5	22
	ii) Housing schemes in areas affected by natural calamities new scheme)	6,000	Full	5	22
	b. EWS-II (Urban)				
	Built Housing unit	15,000	90	7	22
	c. Slum Upgradation				
	Environment Improvement	2,000	50	6	20
	d. Loans for upgradation of slums as well as housing in inner city areas	3,000	Full	6	20
2.	Low Income Groups (LIG) with a household income between Rs 701 to Rs 1,500 p.m.				
	a. LIG-I	20,000	85	8.5	15
	b. LIG-II	30,000	85	9.0	15
3.	Middle Income Group (MIG) with a household income between Rs 1,501 to Rs 2,500 p.m.				
	a. MIG-I	60,000	75	11	15
	b. MIG-II	1,00,000	75	12.5	15

TABLE 10.2 (Contd.)

4.	Higher Income Group (HIG) with a household income above Rs 2,500 p.m.				
	HIG House/Flat	2,50,000	60	13.5	15
5.	Basic Sanitation (Sanitary dwellings) Individual or community all categories	-	50	8	12
6.	Rural Housing				
	a. For Landless Labourers				
	i) EWS-I (R)	6,000	50	6	11
	ii) EWS-II(R)	10,000	50	7	11
	b. Other categories	As per urban housing norms for different income groups			
7.	Utility and special infrastructure	-	50	10	12
8.	Other programmes				
	a. Rental housing	2,50,000	70	15	10
	b. Commercial schemes	-	Full	15	10
	c. Land Acquisition	HUDCO may provide finance to the extent of 50 per cent at 12 per cent interest (net) payable in 6 years. 15 per cent if the amount exceeds 50 per cent.			
	d. Construction loan	Construction loan may be given through a housing agency, cooperative society employer as per norms applicable to income group.			
	e. Repair and renewal scheme	As per norms applicable to each income group.			

Source: Housing and Urban Development Corporation.

TABLE 10.3

Summary of Loan Terms for Surveyed HFCs

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

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

Maximum loan-to-value ratios are estimated to fall in the range of 70 per cent to 80 per cent. The data for down payment is however not available.

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

So far as low income lending is concerned, the HFI's do attempt to reach households below the median income by lending in smaller urban areas and rural areas where housing costs are low. Most HFI's offer terms of at leasst 10 years and sometimes even 20 years. They have also introduced low-start mortgages, as well as reduced monthly burden.

Enlarging Credit Supply

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

Clearly, this proposed increase in flow of resources to the housing sector is likely to lead to constraints elsewhere. For argumenting the savings, we need to devise suitable instruments so that additional savings accrue in the economy.

Home Loan Account Scheme recently launched by NHB is one such step which will ensure `additionality' of savings.

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

It would be worthwhile also to indicate the proposed institutional credit for 1990-1995 (the period for Eighth Plan).

11. Public Housing at the Central and Local Level

Housing built by the public sector for general public (government employees housing excluded) is the responsibility of State governments as is clear from the Diagram 11.1. It is estimated that between 1961 and 1985, public sector was responsible for 6,30,000 urban dwellings, being about 4 per cent of the total supply over the same period.

The State governments carry out their shelter schemes through respective housing boards, urban improvement trusts, slum clearance boards, municipal bodies and public works departments. So far as HUDCO is concerned, it is not a builder, being a financing agency. A large part of capital finance of state level housing agencies comes from HUDCO which lays down norms for cost ceilings and physical standards for various schemes. In these schemes preferential treatment is given to lower income groups. So far as rental housing is concerned, it is almost non-existent. It must also be mentioned that while HUDCO

Public Sector Housing Delivery System

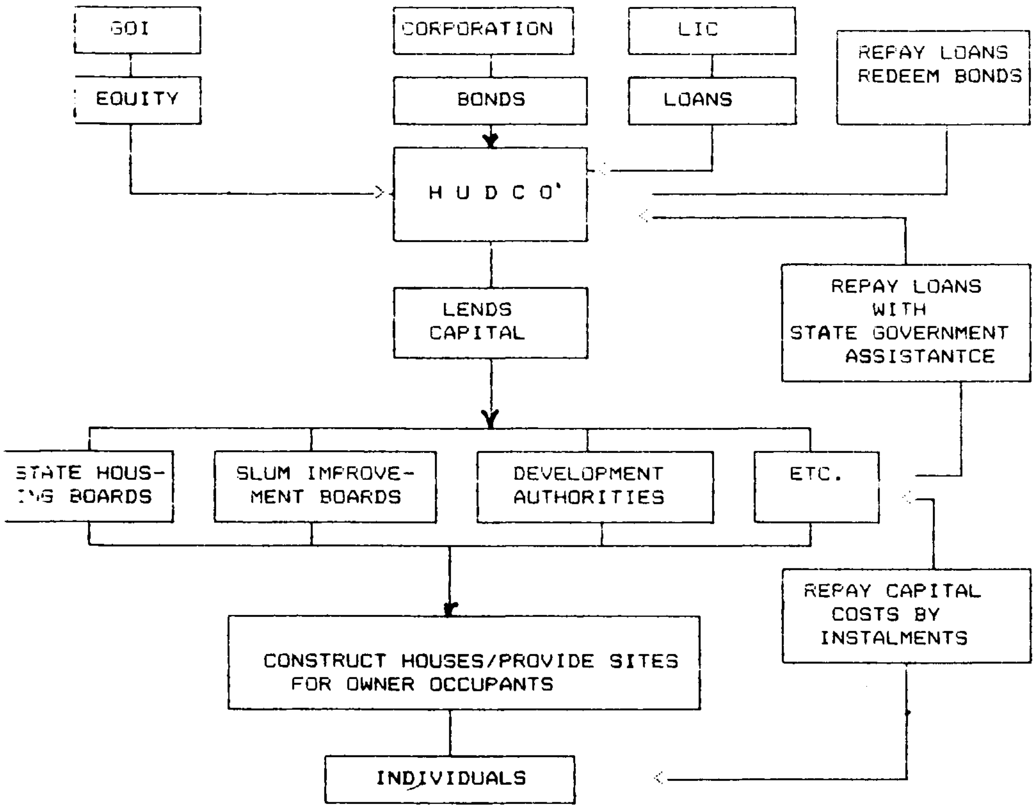

Diagram 11.1

specifies eligibility and other criteria, the responsibility for recoveries and other aspects of management rests with the local authorities. HUDCO gives loans under State government guarantee and therefore, has 100 per cent recovery.

TABLE 10.4

(Rs crore)

		Existing Pattern	Proposed Pattern
1.	Scheduled Commercial Banks	3010	3010
2.	LIC	3110	4450
3.	GIC	325	500
4.	Housing Finance Institutions	3060	3730
5.	Provident Funds (Debt Instruments)	-	975
6.	Home Loan Account	-	1000
	Sub-Total	9505	13665
7.	Provident Fund to Individuals	2925	2925
8.	Total	12430	16590
9.	Of which Private Sector (90%)	87435	87435
10.	Share of formal sector including PF in total investment	13%	19%

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

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

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

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

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

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

Allotment of House Sites and Construction Assistance

The scheme of the allotment of house-sites to the rural landless workers was initiated in 1971 with a view to ameliorate the lot of the rural poor in the country. Initially, the scheme was in Central Sector but later transferred to State Sector in 1974. It was also incorporated in 20 Point Programme in 1975. Subsequently, this scheme also became a part of the new 20 Point Programme in 1982 and also the 20 Point Programme - 1986.

Originally, the scheme was intended to benefit the landless workers but later the scope of the scheme was enlarged to cover all the artisans which included SC and ST in the rural areas.

This scheme also envisages provision of construction assistance to those provided with house-sites. During the current Seventh Five Year Plan the financial norms of this scheme are Rs 500 for infrastructural development and Rs 2,000 for construction assistance.

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

Indira Awaas Yojana

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

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

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

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

HUDCO and Rural Housing

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

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

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

	EWS I (Landless labour)	EWS II (Other than landless)
Cost ceilings including land cost	Rs 6,000.00	Rs 10,000.00
Loan component (per cent of project cost)	50 per cent	59 per cent
Net rate of interest Minimum repayment period	6 per cent 11 years	7 per cent 11 years
Monthly instalments on Rs 1,000 loan (Approximately)	Rs 10.37	Rs 10.88

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

Other Rural Housing Programmes

Besides the above mentioned major housing programmes, the State governments are implementing other Housing programmes in the rural areas. The Ministry of Urban Development had attempted to collect the information regarding the multiplicity of the housing programmes prevalent in different States. These scheme are being implemented by the State governments/UT Administrations either out of their plan funds or through their non-plan resources and institutional funding including that of HUDCO. The following statement based on available information indicating the housing schemes of State level other than the national level is as follows. This also indicates the pattern of funding of various State governments.

Housing schemes as implemented in the various States/UTs., other than 20 Point Programme are given in Table 11.1.

Urban Housing

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

Housing for the EWS

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

TABLE 11.1

Housing Scheme		Ceiling cost (Rs)	Subsidy (Rs)	Benefi- ciary's construction (Rs)	Loan amount (Rs)
Punjab					
Village housing project					5000
Low income group housing scheme					12500
Middle income group housing scheme					25000
Karnataka					
People's housing scheme		6000	2500	500	3000
Experimental low cost housing scheme		2000	2000	-	-
Tribal sub-plan		6000	2500	500	3000
Andhra Pradesh					
Semi-permanent rural houses		4000	3900	100	-
Rural permanent houses	(a)	8000	3750	250	4000
	(b)	9000	4750	250	4000
Urban permanent houses		12000	1000	300	10700
Weavers housing cum work sheds		9000	6000	-	3000
Orissa					
Village housing projects		6000	-	1000	5000
Goa					
Village housing scheme cum construction assistance		-	3000	-	-
Tamil Nadu					
Cooperative housing scheme		-	-	1500 -1875	6000 -7500
Village panchayat		-	-	-	10000 -20000
TAHUDCO'S Adi Dravidar housing scheme		-	6000	750	900

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

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

12. Attempts of Linkage with Informal Sector

Community Based Financial Institutions (CBDT) are the prime need of the majority of the have nots of Indian society, both for housing finance and small business loans. Mobilisation of funds at the other end also becomes equally necessary. While efforts at mobilisation of small savings have borne fruit and potential additional savings exist in the informal sector as per studies of the Society for Developing Societies and the Report of "All India Savings and Deposits Trends and Patterns" by the National Institute of Bank Management, it is yet to be seen as to which is the most efficient and cheaper way of mobilisation of resources. Capital markets represent one end of the sophisticated monetary sector. Informal savings instruments like Chit Funds and petty loans from friends, relatives and money lender represent the other end. In an economy like India where capital markets are generally tight and regulated, mobilisation of vast sums of monies for low income housing may not as yet appear a very viable proposition. However, the banking sector, which is regulated by Reserve Bank of India directives, ensures that about 38 per cent of the commercial bank deposits are kept by them under RBI directive of Statutory Liquidity Ratio (SLR). With bank deposits currently nearing Rs 1.5 lakh crores 38 per cent of this amount would be Rs 57,000 crores which would compulsorily go in for low interest government bonds/debentures under RBI directives. The government and the public sector uses this as a source of its own funding. Government guaranteed debentures could also be permitted for the housing sector. HUDCO, which is the main arm of the government for low income housing finance and has committed to finance construction of 3 million units so far, has raised Rs 530.89 crores through government guaranteed debentures. HDFC and the cooperative sector have hardly utilised this source. With the coming of NHB, it is felt that tapping this source could perhaps become easier.

Recently NHB has launched a new financing scheme for mobilising savings and providing loans called the Home Loan Account Scheme (HLAS). Given its structure, it is hoped that the scheme will be able to integrate the poor and the informal sector with formal sector financing.

The main features of the Home Loan Account Scheme is that it is a contractual savings scheme for a minimum period of 5 years with no age bar, operable at any scheduled commercial bank in India with an interest rate of 10 per cent, payable quarterly, half-yearly or in annual instalments with Rs 90, Rs 180 or Rs 360 as minimum respectively. The investments made in scheme would qualify under Section 80C of the Income Tax Act and would therefore be tax deductible. Under Section 5 of the Wealth Tax, the accumulated savings with interest will be exempt, subject to the overall ceiling of Rs 5 lakhs. There are many finer details of the scheme which need not be elaborated. However, it may be stated that the scheme offers a different interest rate policy for loans upto Rs 50,000, Rs 50,000 to Rs 1 lakh, Rs 1 lakh to Rs 2 lakhs and Rs 2 lakhs to Rs 3 lakhs (maximum) subject to the following:

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

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

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

The HLAS offers a contractual savings for 5 years with income tax exemption. Table 12.1 shows the monthly savings required to get a loan after 5 years and the total loan plus savings that would be available.

It would be seen from the table above that for the higher income group, where the size of land is in C category, the loan availability is low. This would either induce the higher income groups to locate loans elsewhere or go in for smaller housing. Since, they are unlikely to go in for smaller housing, they may not find this scheme all that attractive.

This may be compared with the public sector banks scheme as in the Table 12.2.

It may be seen that while mobilisation of savings by NHB is attractive it tends to encourage smaller size of housing (built up accommodation). However, there has been no attempt at simplifying rules regarding grant of loans. The linkage with the informal sector at the time of loan disbursement remains a weak link.

TABLE 12.1

HLAS Savings Scheme Monthly Instalments

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

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

TABLE 12.2

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

PART III

CASE STUDIES

In this part we deal with some of the principal experiences with shelter programmes having bearing on housing finance for the poor. To begin with, it will be in order to point out that there is hardly any systematic study, as yet, available on the working of informal housing in India. There are however a number of scattered studies relating to small pockets. Also hardly any evaluation of these studies exists. Moreover, their focus is on how the poor finance their housing - whether new construction or upgradation. Besides such studies, when undertaken, would be beset with some difficult conceptual problems. One such difficulty is imputing the value of building materials which are not paid for. These building materials are either collected from the sites where construction is under way or mud and stones lying around. Also a large part of labour input in this task is own labour where market price is difficult to impute. Further, even financial input is difficult to estimate - as own current earnings also constitute an important component of housing finance - part of it is of course being used in paying up short term bridge loans from friends and relatives. Also it is difficult to identify programmes which have aimed at financing the housing of the poor through the formal financial system in the country. There are however schemes initiated by the government for providing housing loans to the poor and other economically and socially disadvantaged groups largely as constitutional obligation and to bring about some equity in the provision of housing. These schemes are operated either through the State housing boards or through the commercial banks. Many of these schemes are of suspect success. Outside the government, there are certain voluntary agencies which have tried to cater to housing needs of small groups of people. It is difficult to say much about the replicability of these experiments - besides these experiments have not grown. However an idea of the working of these programmes do provide us an insight into the problems which housing finance agencies would be confronted with in providing finances to the poor. Briefly, these concern not merely the small incomes of these people, but also their uncertain nature both in terms of the magnitude of earnings, as well as their time. Providing collateral security is yet another problem. Many a times, it is difficult to ascertain the correct addresses of the likely beneficiaries. Therefore to overcome these problems, ways have been devised to deal with these problems. One solution has been to deal with these through the cooperatives. SEWA experiment in this context needs a mention. This has been discussed in detail. Also where the NGO's have already been working in slums/squatter settlements, it has been possible to sort out these problems to an extent, although no financial institution is willing to advance loans to poor individually, and the NGO's are not in a position to furnish any financial guarantees. It would be interesting to describe here the financing of housing of the low income groups by the Delhi Catholic Archdiocese (DCA). Chit Funds, Nidhis and Vishis are the other institutions through which housing operations are financed, but these are generally confined to persons who have regular incomes, and who would deposit or participate regularly in deposit mobilisation operations. For example, a mere 10 per cent of the funds of the Nidhis were used for housing loans.

We first describe in detail how a large housing development agency like the HUDCO is financing the housing of the economically weaker sections of the society through the Apex Housing Finance Cooperatives/State Housing Boards and the primary cooperatives. Then we describe the work of the SEWA, DCA and Nidhis. At the end, a brief description of some non-formal financing institutions is provided. Also in conclusion, a description of the strategy being adopted by a newly launched programme called Punervaas is provided to demonstrate the likely strength of a multi-purpose cooperative in contributing to shelter finance for the low and middle income groups.

CASE A

INNOVATIVE CREDIT SYSTEM FOR LOW INCOME HOUSING

(Financial System Linking Apex Cooperative with Primary Cooperatives and with Financing Institutions Like, LIC, HUDCO, HDFC

As has already been mentioned earlier the existing formal housing finance system in India provides barely 25 per cent of the finances required for housing. While the State Housing Authorities have made some effort at providing low income housing, specially with the helps of HUDCO loans, the efforts have not been very extensive nor has the result been very good from the consumer satisfaction point of view. The capacity of organised private sector builders for mass housing for middle and low income groups has not been tested. This is more because since profit is their main motive, they find it more profitable to go up-market.

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

The cooperative housing credit movement is a three tier structure with Financing Agencies at the top and primary societies at the bottom (See Diagram A).

CASE A

FINANCIAL STRUCTURE FOR HOUSING COOPERATIVES

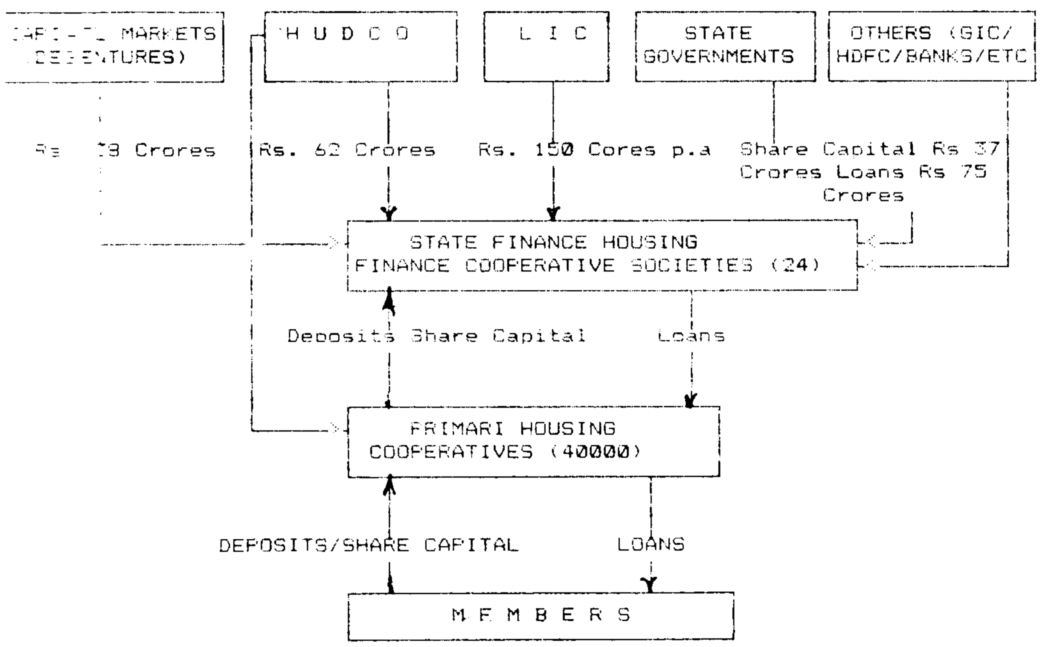

Diagram A

The State level Apex Housing Finance Cooperatives are not only full fledged Financial Institutions but are also cooperatives owned by their primary housing cooperatives. While they seek funds from National Level Financial Institutions, some of them are also raising the funds directly from the market by raising debentures or by deposit mobilisation from its members.

The National Cooperative Housing Federation is a federation of the State Level Apex Societies and is a watch dog, but does not participate in the actual funding process.

All States of India have their own Cooperative Societies Act. Most of the Acts are similar in nature with minor modifications. The main features of the acts are that about 10 persons can together form a housing cooperative which then becomes a legal person and is able to purchase, mortgage assets and take loans. The Registrar Cooperative Societies is all powerful regulatory person considered to be friend, philosopher and guide to the movement. The Registrar registers the society, can issue directives, can supercede the management and in case of failure, has the power to liquidate the society also. Another aspect of the cooperative structure is regarding the recovery and foreclosure. The cooperative Act provides its own legal process of Arbitration, recovery and foreclosure. The powers of arrest are also provided to the recovery officers. Therefore, the cooperative structure can bypass the tardy legal proccess being followed in India at the Courts.

This three tier structure has many advantages over any other housing finance system. At the top level, the financing agencies deal only with the State level institutions and are therefore, not dealing directly at retail level. In so far as their funds are concerned, the problem of recovery is only with the State level institution. So far there has been full recovery by the Financial Institutions. The Financial Institutions, which finance the cooperative housing sector only as a marginal activity, are not in a position to finance the primaries directly. (However, in many case financial institutions have and continue to finance directly the primary cooperatives). This entails the liability of recovery also directly from the primary society. It is, therefore, generally felt, specially by the LIC, that direct lending to primaries would not be to the best interest of the Financial Institutions. The more important fact is that since the State Apex is also a cooperative, it can go in for legal proceedings under the Cooperative Act where recovery and foreclosure is quicker and simpler. In case of Institutions financing directly, the problems of recovery and foreclosure becomes more difficult as recourse to Courts has to be undertaken where there are long delays. HUDCO initially funded the primary cooperatives directly but soon realised the likely legal problems in dealing directly with primaries. As a result it started financing though the Apex. As on 30th June, 1988 out of nearly 200 cooperatives which HUDCO has financed (including some in rural areas), it has disbursed Rs 62 crores out of Rs 120 crores though the State Level Housing Finance Cooperative.

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

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

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

	Cooperative	**H U D C O**	**H D F C**
LIG & EWS	59 per cent	89 per cent	45 per cent of dwelling limits financed below Rs 2,000 per month family income
MIG	38 per cent))	11 per cent	
HIG	3 per cent)		
Total dwelling limits construction	0.7 million	3.04 million	0.25 million 55,15 per cent comes 1987-88

One of the important features of the cooperative structure is its ability to reach lower income groups and is also able to recover loans more efficiently through group effort. While HDFC finances lower income group only when they have an established regular flow of income (generally through their employer), HUDCO finances all but only under a Government or Bank Guarantee which it frequently enforces. The cooperative structure finances without the above two conditions and is therefore able to reach the informal sector better. The group responsibility which it can build up to recover loans has a wider coverage in the Indian context.

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

CASE B

COMMUNITY-BASED HOUSING FINANCE

Case B-1: SEWA Bank

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

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

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

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

The Objective of SEWA Bank are:

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

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

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

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

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

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

From 1974-75 to 1987-88 the number of shareholders have gone up from 6,000 to 11,000, and depositors from 6,000 to 23,000. The deposits have grown from Rs 2.43 lakhs to Rs 112.33 lakhs and profits from Rs 30,000 to Rs 3.7 lakhs. SEWA Bank has an office staff of 22 besides field staff which helps mobilising savings and open new accounts. It has started a unique system of identification card which has a photograph of the member with account number written and not the signature as is usual in the banking system. Initially loans were made by SEWA after taking money from nationalised banks. However, since 1976 SEWA has been able to build up its own corpus of deposits and is now able to meet the loan obligations out of its deposits. Loans are generally advanced at 12 per cent to 16.5 per cent per annum with repayment in 36 monthly instalments. There is close supervision with field staff visiting borrowers regularly to remind them of their repayment obligations.

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

Housing

SEWA Bank has so far lent about Rs 75 lakhs for housing related purpose to about 1,085 beneficiaries in 1987-88. This was almost 41 per cent of the total loan disbursements by the bank. Of the loans for housing about 50 per cent are for upgradation while the rest go for purchases (Table B-1.1 and Table B-1.2). The upgradation relates to changes in the structure, addition of rooms, addition of services and rooms for house based production. House purchase loans are given for both outright purchase as well as bridge capital. An interesting feature worth mentioning is that the loans are also given to pay back private debts on housing.

Mortgage

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

TABLE B-1.1

Housing Assistance by SEWA

Year	Beneficiaries	Total amount disbursed (Rs million)	Average amount per beneficiary (Rupees)	Loans for housing to total disbursements
1984-85	181	1.142	6309	N.A.
1985-86	189	1.392	7365	N.A.
1986-87	328	2.025	6174	N.A.
1987-88	387	2.966	7664	N.A.
TOTAL	1085	7.525	6935	N.A.

Source: SEWA Cooperative Bank.

TABLE B-1.2

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

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

Source: SEWA Cooperative Bank.

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

The major differences from conventional finance and especially housing finance institutions relate to the rapport that the staff has with the low income groups. The bank also provides additional support services to make the credit viable. This includes assistance in filling the forms, obtaining the required documents, support in hiring professional services if and when necessary as well as help to assess the right amount. Importantly, the costs of these services are covered in the interest charges and are not subsidized at all which keeps the entire operation economically viable and profitable. Table B-1.3 brings out an interesting comparison of the public sector banks with SEWA Bank. This clearly demonstrates the superior performance of SEWA Bank not only at user level but also in terms of various ratios like profit to deposit, profit to loan, etc. It also shows how a cooperative bank for the poor only can run even more efficiently than a normal schedule bank with all its infrastructure and institutional support.

It is interesting to note that this institution has come up initially as a lending institution for small works and not for housing loans. It had thus tested the credit-worthiness of its members. This however raises the question whether we should go in for direct housing loans or in the first instance go in for loans for economic activity as the latter creates the capacity for repayment. SEWA Bank has done away with red-tape and form fillings. The procedural simplifications has made the scheme more accessible to the poor and illeterate.

TABLE B-1.3

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

No.	Particulars	Public Sector Banks December 1986 Crores Rs	Public Sector Banks December 1987 Crores Rs	SEWA Bank June 1986-87 Lakhs Rs	SEWA Bank June 1987-88 Lakhs Rs
1.	Deposits	1,11,581	1,28,389	108	112
2.	Loans	64,321	73,114	62	72
3.	Profit	192	261	3	4
4.	Reserves and Reserve Fund	1,095	1,503	8	11
	Ratio				
1.	Profit/Deposits	0.17	0.20	2.77	3.57
2.	Profit/Loans	0.29	0.35	4.83	5.55
3.	Reserves/Deposits	0.98	1.17	7.40	9.82
4.	Reserves/Loans	1.70	2.05	12.90	15.27

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

SEWA experiment does point out the advantages of a thrift and credit movement as an important input into the housing movement for the poor. The habit of regular savings on a daily/weekly basis should be encouraged as indeed the target group that we have in mind are not only small earners but also have irregular earnings; and it is easier for them to save regularly in small amounts. Such a step will also help in building up a collection system. Another useful lesson for emulation is the use of photographs of the beneficiaries.

Case B-2: Role of NGO´S in Housing Finance of Low Income People (A Case Study of Delhi Catholic Archidiocesce)

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

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

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

Funding for the second phase of housing, which includes both Jahangirpuri and Nandnagri is mostly through the repayment of loans taken earlier. In 1986, foreign contribution to the extent of Rs 1,84,000 was received. As on 31.7.1989 under the second phase 126 applicants have been provided with loans with the total investment amounting to Rs 11.28 lakhs. Table B-2.1 gives the necessary details about the number of loans and amount disbursed.

TABLE B-2.1

Year	Number of applicants loans disbursed	Per cent of the	Amount disbursed	Per cent of the total
1982	2	1.59	10,000	0.89
1983	36	28.57	2,93,000	25.97
1984	25	19.84	2,27,000	20.12
1985	16	12.70	1,60,000	14.18
1986	22	17.46	1,95,000	17.29
1987	11	8.73	1,10,000	9.76
1988	6	4.76	55,000	4.87
1989	8	6.35	78,000	6.92
TOTAL	126	100.00	11,28,000	100.00

The applicants before getting the loan must satisfy the eligibility conditions. An applicant is eligible only if his/her (a) Per capita income is less than Rs 300-500 (earlier it was Rs 200 but revised the figure in 1987-88). Table B-2.2 gives a clear picture of the applicants per capita income range; (b) He or she does not own a house anywhere else (excluding a Jhuggi/Jhopadi);

TABLE B-2.2

Per Capita Range of the Applicants

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

and (c) He/she owns legally (plot papers necessary) a plot of land. Condition (c) is not necessary if the applicant wants to purchase a house and not construct it. If the applicant has migrated from other parts of India (especially from home towns) where he is a part owner a owns an ancestral house, even then he is eligible for loan. As is evident from Table 1.5, nearly 4 of the applicants belong to the monthly per capita range of Rs 175-200, closely followed by Rs 125-150 (24 applicants) and Rs 150-175 (21 applicants). The range of Rs 325-350 caters to the later applicants, by which time the per capita income level in the eligibility condition had been raised to Rs 350. In other words, Table 1.5 implies that more than 50 per cent of the applicants have a monthly per capita income of Rs 125 or more (less than Rs 350).

Once an applicant satisfies the eligibility criteria, he/she is given an application form to be completed and submitted to the DJP office. The details of the form are verbally verified with the applicant and if satisfied, a Field Officer is deputed to carry out physical verification. This includes verifying the number of family members, meeting the neighbours and generally enquiring about the applicant's status, income, reliability, plot papers (in case of constructing the house) and getting a general understanding of the applicant's background. After the verifications are over, depending upon the individual case, loans are given upto a maximum of Rs 12,000 (revised in 1983 from Rs 5,000 in 1982, and to Rs 10,000 and again in 1989 to Rs 12,000) though the amount differs in each case. The amount of loan depends upon the individual's repaying capacity, his earlier savings and whether he already has some building materials on hand (in case of construction of the house). A necessary qualification is that neither the construction nor the purchase should exceed Rs 35,000 (initially stipulated at Rs 25,000). The remaining amount of money, i.e., if the cost is more than the DJP loan, then the rest is to be met through other sources.

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

Initially the loans were made in one bulk instalment of either Rs 5,000, Rs 7,500 or Rs 10,000 as the case may be. But this proved to be an undoing since some loans were wasted (not utilised in housing scheme) and some were not utilised completely. From 1984 the loans are given in two equal instalments for house construction and in lump sum for purchase of house. Before releasing the loan, the loanee is asked to open a Bank Account (if he does not already have one) and the amount of instalment is paid by cheque. In some extreme cases, however, when a loanee cannot open an account, the loan amount is paid through a bearer cheque. However, before giving the loan, the plot papers of the loanee are kept in the custody of DJP till the loan amount is paid back. In the case of house purchase, it is the ownership documents which are kept in custody.

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

Defaultors in housing scheme are not primarily repayment defaultors. In actual practice the stage is set much earlier, commencing with the allotment of loan. In the initial stages, i.e., in 1982, when the project had just started and DJP was still in teething stage loans were given for housing but some of the loanees did not concerned construct any house and instead utilised it for other purposes, and the loaners continued to live in rented houses. Interestingly, they are repaying the loans. Two such cases were recorded by the field worker. For example, a person took a loan of Rs 10,000 in October, 1983 for construction purposes but still lives in a rented house. He still owns Rs 7,084 + interest, defaulted from May to October, 1986 and is an irregular payee. There are other similar cases. Further some of the loanees have constructed the house, but have sold it to other persons, despite the fact that documents of ownership (original) are still with the DJP. Four such cases have been recorded. The most interesting is of a person who took a loan of Rs 10,000 in August, 1985, made no repayment (not even a single instalment) and owes DJP Rs 12,326.45 + interest as on 1.1.1988. This persons is alleged to have sold the house five times. The final act, was that the person disappeared.

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

Except in a few cases where a lenient view is taken, defaults in repayment are taken seriously. If a loanee does not pay consequently for two - three months, a reminder is sent. In case of non-compliance for another two - three months, another reminder with stern language is sent. Before sending a legal notice, a final letter of warning is sent. Table B-2.3 gives an indication of the number of loanees who were sent such reminders. This table is however misleading in the sense that it does not give a complete picture of the defaulters. There are cases where no reminders have been sent because the DJP officials felt that either the physical or the financial condition of the loanees was such that no useful purpose could be served. We may cite the instance of a defaulter loanee who contracted tuberculous against whom no legal action was taken. Similarly, there are instances where DJP was convinced of the weak financial position of the loanees, and despite continued defaults, no legal was taken against them. Interestingly, there are cases where defaulter loanees were taken to Court, and despite the verdict in favour of DJP, no action was taken against them, mainly because the DJP later got convinced of the financial crisis these loanees were in.

TABLE B-2.3

Loanees Against Whom Action was Taken

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

Of the 126 loanees, only 12 loanees have so far repaid the loan, closed the accounts and taken back their ownership documents (See Table B-2.4).

TABLE B-2.4

Account Completed and Ownership Documents Taken Back

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

To understand the housing scheme of DJP it is essential to have some knowledge and background of the kind of people to whom these loans are given. Coming from lower income group with per capita income of less than Rs 200 per month, these loanees are monthly rickshaw pullers, peons, maid servants, tea shop owners, factory workers, casual labourers, drivers, cooks, gardeners, carpenters, sweepers, mechanics and the like with only a few having permanent jobs. These are either typists, junior clerks, fitters, electricians, i.e., having a skill or some kind of vocational training. Similarly only a handful, have a permanent source of income. To top it, most of the loanees have more than 2 children.

Apart from children, most of the loanees have either parents or brothers and sisters staying with them. With large families to maintain and no source of regular income, it is difficult for them to save every month and repay with unfailing regularity. Moreover, the majority of them are migrants from other States and the places of their origin reads like a national integration chart. Of the 126 loanees, 31 hail from Delhi itself which the rest 91 a re migrants hailing from different States like Bihar, Karnataka, Andhra Pradesh, West Bengal, Uttar Pradesh, Haryana, Punjab, Kerala, Himachal Pradesh, Madhya Pradesh, Tamil Nadu and Maharashtra. Moreover, many of the migrants are from Uttar Pradesh, Karnataka , West Bengal and Kerala. Having come to Delhi in search of a job, they are more like nomads shifting from one place to another in search of livelihood. With no proper base or assets to speak of and living in Jhuggis/Jhopadis, giving loans and expecting a regular repayment pattern would have been disastrous, without proper understanding of their system and needs.

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

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

C. Other Examples

In this concluding section we cite some interesting experiences of non-formal housing finance institutions. These examples are borrowed from unpublished studies by Dr. (Mrs.) Meera Mehta and Professor Dinesh Mehta.

A NOTE ON NON-FORMAL HOUSING FINANCE INSTITUTION

"VISHIS" of Ahmedabad

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

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

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

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

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

Loans for Housing

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

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

Registered Credit Societies

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

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

A Credit Society in a Textile Mill

The credit society has about 1,000 members, all of whom are employed by the textile mill. Each member pays Rs 40 per month towards membership of the credit society. Once a member accumulates Rs 1,500 in deposit he is entitled to draw upon a maximum loan of Rs 4,500. A loan applicant needs two guarantors who must also be members of the same society. The loan has be repaid in 18 instalments along with an interest of 12 per cent per annum on outstanding loans. The member must continue to pay the monthly subscription of Rs 40 during the loan period.

The interests on deposits, (about 6 per cent per annum) and the income from interest on loans, is shared amongst the member each year, in proportion of the next deposits with the credit society.

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

A Cooperative Housing Society Involved in Housing Finance

In Ahmedabad, a housing society of lower middle income group households was organised through genuine efforts of a few individuals. It was not promoted by any builder/developer.

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

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

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

Post Script

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

Summing Up

A careful perusal of results of some of the case studies described above reveals certain interesting problems which are likely to be encountered in the area of providing housing finance for the low and middle income households especially the ones which do not have stable income flows. Before outlining these problems, it is in order to state that it is not only the financial institutions which have difficulties in providing housing loans to these category of households, but these households themselves have major problems in dealing with the housing finance institutions in negotiating and repayment of loans.

From the view point of target end-users, there are problems connected with the formalities involved in obtaining housing loan. Thesé relate to providing guarantees usually in the form of collaterals. Clearly given their low incomes as well the nature of their occupation it is difficult for them even to find guarantors who would agree to stand as personal sureties Further given the erratic nature of income flows, it is difficult for most households to repay the loan instalments as per the terms of the lending institutions, unless these repayment terms are made flexible enough. Indeed one or two episodes such as disease or marriage or long periods of unemployment are sufficient to cripple the family not only physically but also financially. This calls for devising more flexible terms of repayment. Also, occupations like agriculture where incomes are of a seasonal nature, bulk repayment schedule to match with the income stream is to be devised. Also since these households seldom have bank accounts, the repayment of loan amount at a distant place in cash sometimes becomes difficult, and hence door to door collection at regular intervals coinciding with their income flows would immensely help these households to repay their loans in time. There is yet another problem which is related to tenure. Most financial institutions insist upon providing housing loans only when the households are able to give proof of ownership of land on which construction is proposed. Therefore some innovative approach in providing loans against low quality tenure such as occupancy rights, etc., should be adopted.

From the view point of financial institutions, there are some inherent problems which they have to overcome before they can effectively participate in financing shelter for the poor. Most financers are by their set-up conservative in providing loans without first ensuring that the loans would be fully recovered. The first requirement is the credit worthiness of the borrowers. In this case, most target households lack credit worthiness. Also insistence upon providing collateral would keep most poor households out of the formal financial system. These institutions also need to ensure the repayment capacity of borrowers. This as we saw is not always an easy task, and as already mentioned that any major episode in the family can adversely affect the repayment capacity. In case financial institutions do wish to provide housing loans, they may have to accpet moveable property like jewellery, or occupancy rights as collateral instead of the conventional mortgatge based loans. They will also have to devise a more flexible schedule and arrangement for repayment. Further they should attempt a sensitive matching of repayment capacity with the nature and costs of upgradation needed. Finally, since most loans are of small magnitude, the costs of recollecting the loan instalments works out to be substantial, and hence ways should be devised so that the burden of loan recovery is not with the individual but with the community so that individual loan defaults are cushioned. Also if the financial institution is to deal with the community representative, it is easy to put pressure on the defaulting households.

In order to overcome these limitations connected with the poor, an experiment is being tried out in Delhi by an informal group of officials, academics and NGOs so that a model can be provided for upgradation of not only habitat but incomes also of the slum clusters and others. This group has given itself the name of `Punervaas´ and has kept the objective of building up small community based financial institutions to supplement incomes and improve the habitat. The Modus Operandi is to locate a slum cluster, find a good and willing NGO who may have worked in the same area, and then get the Slum Department of the Delhi Development Authority to make a list of the permanent residents of the slum with the help of NGO after deleting the names landlords / of or absentee owners. Once the list of residents is finalised by the NGO and the Slum Department, the households of the cluster are organised by the NGO with assistance from the Registrar of Cooperative Societies, into a multi-purpose cooperative society. This gives the cluster a legal status to take up issues with government and other bodies as well as take loans. In the formation of the cooperative two special features are kept in view. First, it is proposed to make woman of the household as the member of the cooperative followed by her husband as a joint member. This is so because it was felt that women are better at repayment of loans and retention of property (in many earlier cases men have sold off their property). Second, the model bye-laws so framed by Punervaas provide for nomination of four members out of seven by the Registrar including the President. It is proposed that the President would be nominated by the Registrar along a representative each of the Slum Wing and Registrar Cooperatives. One more person could be nominated by the Registrar.

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

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

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

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

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

CONCLUSIONS: Possible Development of Housing Finance and Credit Systems in India

Prospects of Institutions

The importance of housing finance as an important component of housing delivery system was recognised in the 1970's with the setting up of HUDCO and HDFC. It was, however, only around the launching of the Seventh Five Year Plan (1985-1990) that the need for developing a responsive housing finance system was felt. The Plan document also emphasised tapping of household savings rather than relying on budget allocations for supply of housing funds. It was felt that for the development of a housing finance system, a national level apex housing finance institution, having functions of coordination and regulation of the industry, would be an essential pre-requisite. The RBI indeed appointed a committee which examined the institutional framework for housing finance and supported the idea of an apex housing finance and supported the idea of an apex housing bank. It also recommended the setting up of new institutions of HDFC type to mobilise household savings and provide house loans. In December, 1987 NHB was created as a subsidiary of the RBI. NHB is authorised to make or guarantee loans, to undertake research and training and to provide guidelines and technical assistance to housing finance companies.

Over the last five years or so, a number of market-oriented housing finance companies have been set up, some with the support of HDFC and some with the support of scheduled commercial banks and financial institutions. The newest of the company "LIC Housing Finance Limited" promoted by LIC along with UTI, ICICI and IFCI is being launched shortly. It will have an authorised share capital of Rs 100 crores.

A major constraint faced by HFI´s in extending their operations is the shortage of lonable funds. The situation has worsened by a new directive which prohibits housing finance institutions from borrowing short. The minimum period for deposits has now been raised to 25 months. This is bound to adversely affect the mobilisation of savings from the household sector. However, the NHB is offering limited refinancing facilities to HFIs, and this is likely to overcome to some extent the problem of funds.

A dialogue has also been initiated in regard to identifying the pros and cons of developing a secondary mortgage market with a view to increase the flow of funds for housing from the formal sector. However even if we are able to establish a well-developed housing financce system in India, it is doubtful that the needs of all households will be adequately met. Indeed as the past experience of the working of several HFI´s shows, a large part of housing funds are given only to those households which are well above the median incomes. The exception being the HUDCO which has made substantial contribution to the housing of low income households.[8]

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

As we saw a major constraint of conventional housing finance system in the context of low income households is the restrictive nature of the prescribed criteria and terms for the grant of housing loans. Moreover, since the HFI's would like to safeguard the interests of the depositors as well as its own interests, and justifiably so, it would prevent these institutions to modify terms to suit the paying capacity of low income households.

As is well known a basic principle of housing finance policy is the method employed to determine the eligibility of loan applicants. These generally consist of minimum level of income, assured flow of income (and hence stable, dependable employment and regular savings) and provision of adequate collateral. Given India's income distribution and the dominance of self-employed in tiny trades and businesses, a large majority of the households is clearly barred from access to housing finance at the start. Also since most HFI's insist upon satisfactory collateral for the loans such as ownership of property and easily marketable assets including securities most low income households are unable to meet this criterion as they have no capital. What these households have are assets in other forms such as store inventory, basic tools of their respective crafts and trades, and sometimes even jewellery, etc. These items which are portable are usually easily marketable and valuable, and indeed acceptable as pledges for loans from private money lenders. These items are however not acceptable as collateral to housing finance institutions. Sometimes HFI's may provide loans against personal guarantees, but as we saw that it is not easy for the low income households to locate persons with regular and stable incomes who whould be willing to act as guarantors and acceptable to HFIs, except in rare cases. For instance in the case of small and marginal farmers in rural areas, recovery should be linked with harvest-earnings. For self-employed in small trades/businesses, the repayment schedule is to be monitored almost on a weekly (if not daily) basis.

Another major gap in most existing credit instruments is the inbuilt rigidities in repayment schedule. Clearly any credit instrument addressed to the lower income households will have to take into account the irregular and uncertain income flows, and will have to be tailor-made suiting the specific requirements of various earning groups. Therefore to extend the access of low income groups to housing credit, apropriate steps will have to be taken to hedge the risks faced by HFI's, or alternatively create new institutions with different mandates and priorities.

So far as the conventional housing financing institutions are concerned they are bound to be conservative in their lending operations with emphasis on commercial viability. Therefore one alternative is to create new institutions which would overcome some of the limitations inherent in conventional financing mechanisms. Sometimes, in this context the role of cooperatives has been emphasised, especially for lower income households 'group loans' is favoured. Indeed, SEWA experiment is one example of having achieved good results. It is, however, difficult to assert whether their experiment can be successfully replicated in other parts of the country.

Current Debates and Assessment of Existing Recommendations to Government

In the last couple of years there has been a major change in the attitude of the government towards the problem of housing and housing finance. Three major steps have taken place namely, setting up of a National Commission on Urbanisation, announcement of National Housing Policy, and establishment of National Housing Bank. The NCU has submitted a detailed all embracing report on all aspects of urbanisation including issues of poverty, slums and slum development. The report, however, is still under consideration and has not been fully accepted. One of the major proposals concerning the urban poor is the `New Deal for Poor´ - a detailed strategy has been proposed.[9]

Second major development is the announcement of a National Housing Policy in the Parliament. This policy has quantified the housing shortage, proposed minimum norms and fixed a target date for liquidating housing shortage by 2001. The policy has also elaborated on issues relating to informal sector housing and slums. Further, the policy had proposed setting up of a National Housing Bank. The policy has, however, not touched upon the special needs of the poor, their inability to provide mortgage or collateral required by formal sector financial institutions nor has it touched upon the issues of affordability or recovery mechanism.[10]

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

10. Dealing with housing finance, the NHP has only the following to say about housing for the LIG. "The role of HUDCO will be strengthened for dealing comprehensively with weaker section and low income programmes in both rural and urban areas". The NHP further states "Housing Programmes based on subsidy imply an uneconomic use of scarce resources. They also lead to inequities among

The third major development is the setting up of the NHB. The NHB has already announced a scheme for contractual savings for 5 years for being eligible for a housing loan as well as a Refinance scheme. The NHB has adopted "Poor Man First" as its slogan. However, NHB has also not announced any programme for the people living in informal sector/slums and has kept itself restricted strictly to the formal sector.[11]

One of lthe critical areas of the housing problem in urban India is the growth of slums and squatters. Both NHP and the NHB have very little to offer in this respect. No innovative scheme has been drawn up to bring about an interface between the informal sector housing and formal financial institutions. Also no solution has been offered to deal with the problem of growing slums. In fact looking into the structural change in the economy since the First Five Year Plan, there has been a steep reduction in the contribution of agriculture sector to GDP from 65 per cent to 35 per cent, while the rural population has declined only by a little over 5 per cent. In view of the drastic sectoral change in GDP drift to urban areas of the growing population of landless poor in search of jobs is likely to further increase. However, the government has made no serious attempt for receiving the

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the poor, and have an adverse effect on loaning programmes. These programmes will therefore be progressively substituted by suitable loan-cum-subsidy programmes devised to optimise the use of scarce resources on an equitable basis".

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

migrant poor in the cities. This can result in a fast growth of slums in future unless due attention is paid to spatial planning. It is for the first time that the Seventh Five Year Plan has made a conscious attempt to address urban poverty issue directly. The Plan has taken note of the growing incidence of poverty in urban areas, and that persistent migration from rural and semi-urban areas has lèd to rapid growth of slums in many cities. Accordingly, it has laid emphasis on improving the living conditions of slum dwellers and has given a thrust towards employment generation and creation of productive jobs. The Ninth Finance Commission (1989-90) in the first report has also made a special mention of the growing decay of the National cities of Bombay and Calcutta and has recommended a grant of Rs 50 crores for each city for slum clearance and environmental improvement of slums and provision of basic a menities. They have recommended the release of the grant subject to a matching grant by the State governments concerned.

The financial structure in the country has also responded to the growing awareness of the housing problem. The NHB has announced a savings scheme, a refinance scheme and a land development scheme. The other financial institutions like LIC, GIC, Commercial Banks, UTI have already floated or are proposing to float subsidiary housing finance companies. None of these have any plans to offer any innovative financing package to meet the housing requirements of the low income households. It may, however be pointed out that besides HUDCO and the Cooperatives, HDFC has also floated a company called Gujarat Rural Housing Corporation which is providing housing finance for low income groups in Gujarat. This is the first conscious attempt of the private sector to move towards low income financing. However, even here no innovative mortgage/surety issues have been adopted, except, of course, linking loan repayment schedule to agricultural seasons.

The prospects for the housing finance institutions to meet the demand for housing finance are certainly brighter with the coming in of new institutions backed by major financial institutions. However, as already mentioned, none of them will be able to cross the line where formal sector institutions enter the realm of informal sector financing. The National Urban Commission has mentioned, very aptly, that `down-stream´ financial institutions need to be set up but without elaborating on the same. It is these nasecnt `down-stream institutions´ which could provide the `missing link´ in our housing finance system suited to the requirements of lower income households.

The link institution, to provide a proper interface with the financial institution of the formal sector at one end and the low income households at the other, should be a community based financial institution. This is so because such an institution to be viable has to have very low overheads, close supervision of loans, a collection system which is sensitive to the earnings-pattern and an atmosphere which is acceptable and not intimidating to the poor, illiterate members of the society. Such a link institution, also needs technical expertise and guidance. It is, therefore, felt that a large number of such community based cooperative institutions be set up with the help of NGOs. These institutions can mobilise savings, implement urban basic services programme, provide Home Improvement Loans and service them properly.

Besides various government initiatives as outlined above there is a popular movement which is also gathering some momentum.

This is the National Campaign for Housing Rights. This campaign has produced a draft `Bill of Rights´ for Housing and has started a campaign for Housing Struggle in India. This organisation is a quasi-political organisation which is taking up the issue of housing as a legislative and a legal issue. It considers the Directive Principles of Fundamental Rights provided in the Indian Constitution as the starting point. Its ultimate goal is to ensure that Housing is declared as Fundamental Right under the Indian Constitution.

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

If we are really interested in addressing ourselves to lower income households, we will have to look elsewhere since HFI´s of necessity will continue to follow `conservative´ lending policies. We will also have to change our perceptions about the consumption and savings behaviour of low income households, as some of the recent studies indicate that it is possible to restructure the consumption of these households to step up their savings provided, of course, they are convinced that such a restructuring would serve their long-term interest.

Despite what has been said above, it is our considered judgement that HFI's would be able to participate in some manner in financing of lower income households provided the risks are hedged. The `link institution' in our scheme of thinking would be able to provide the necessary cushion as we envisage this institution to have close rapport and understanding of the psyche and economic and social background to be able to assess affordability and repaying capacity of these households. Also, as already indicated, in the context of recovery of loans, it is convenient to provide group loans. This underlines the importance of organising housing finance through the community or the cooperatives with the NGO's providing the necessary support. Indeed, an action research which is being currently experimented in Delhi is Punervaas. Punervaas is a catalyst in setting up community based financial institutions in slum/squatter clusters through the institution of multi-purpose cooperative society. Promotional and extension work including its operations in the initial period is being carried out by NGOs of proven track record. These societies are being provided with Model Bye Laws. These By Laws have three distinctive features. First it assigns a pivotal role to women as primary members followed by their husbands as joint members. This is done to ensure better repayment of loans as well as reduce the risks of property changing hands. Second feature concerns the active involvement of NGO's in day to day functioning of the cooperatives by nominating its representatives on the Managing Committees. The third feature is the multi-purpose nature of these cooperatives so that they are not merely concerned with housing-related issues but would also undertake such other functions/activities which would enhance their incomes, look after personal health and social hygiene. These cooperatives will also build up the habit of thrift among its members through a compulsory deposit scheme. The cooperatives will also set up consumer stores which would not only serve the needs of the members but would also provide financial stability to the cooperatives.

BOX 1

Factual Indicator

Physical and Demographic Features: (for 1987)

Land area	32,87,263 sq. kilometre
Maximum length	3,214 km. from North to South and 933 km. from East to West
Population (1987)	798 million (Estimated)
Average density	240 persons sq. kilometre
Main Ethinic groups (List first 3)	Hindus 82.6 per cent Muslims 11.4 per cent Christians 2.4 per cent
Urban Population share	26.1 per cent
Urban Population share by Year 2000	33.5 per cent
Total Population Growth rate	2.2 per cent per annum
Urban Population Growth rate	4.2 per cent per annum
Average Household size	5.6 persons
Life expectancy at Birth	56 years
Literacy Rate (Participation Rates to Primary School)	36 per cent

Biggest Metropolis	Delhi	Calcutta	Bombay	Madras
Land Area (sq. km.)	1483	187.33	603	170
Population (Lakhs)	62.20	41.25	82.43	32.77

BOX 1 (Contd.)

Density (Persons/sq.km.)	4194	22058	13670	19274	

Economic Development

GDP per capita		Rs 2094.8 (1980-81 prices) at factor cost	
		Annual compound growth rate at (per cent)	
		1980-81 prices	Current prices
	1974-79	5.2	10.2
	1979-80	-4.7	9.7
	1981-85	5.1	13.9
GDP Growth Rate 1988		3.6 per cent (1980-81 prices)	
Projected Growth Rate 1989		9 per cent	
Value Added (Contribution to GDP) in 1988 or last year available		(1985-86) at 1980-81 prices (per cent)	
- Agriculture		33.8 per cent	
- Manufacturing		20.4 per cent	
- Construction		4.2 per cent	
Unemployment Rate in 1987		8.2 per cent (1977-78)	
Average Annual Income (per capita per year)		About Rs 2000 median urban income	
Construction workers		2.2 million (1981)	
Corporations of more than 10 Employees		172974 Number (Working factories)	

BOX 1 (Contd.)

Share of housing investment in GDP	2.85 per cent)	(1987-88)
Share of housing investment in GFCF	11.90 per cent)	

Institutional and Administrative Context: (for 1987)

Share of Public Sector Jobs in the total formal sector	71 per cent
Fields Controlled by Public Enterprises or Agencies (electricity, cement, etc.)	Electricity, Railways, Communications, oil exploration, etc.
Share of Local Budget in the Public Budget	N.A.
Formal Jobs in Total Jobs	1.9 per cent (1980-81)
Number of States, regions, provinces and local authorities	25 States with 428 districts 1774 Municipal Corporations (3 lakhs +) and Municipal Councils (20,000 population) 839 town area/notified area committees (1986). There are also a few Union Territories governed by the Centre.

BOX 2

Factual Indicator

Housing Stock land Existing Infrastructure	
Durable Dwellings (formal sector)	
Urban	89.9 per cent (Pucca + Semi-Pucca in 1981)
Rural	58.7 per cent (Pucca + Semi-Pucca in 1981)
Apartment in more than 2 - storey buildings share in total housing stock	N. A.
Households in slums or unauthorised settlements	35 million (urban) in 1987-88
Homeless Persons (1981)	23,17,000
Average floor space per household (Urban)	32.64 sq. m. (1973-74)
Number of persons per dwelling	About 6 (1981)
Land developed and under development	11,200 sq. km. developed urban land (1971) (10.3 hectares per 1000 population)
Urban housing units supplied with electricity	53.48 per cent (1973-74)
Urban housing units supplied with tap-water	79.2 per eent (piped water (1986-87)
Housing Units to be upgraded	About 30 million in rural and urban areas (estimated)

BOX 2 (Contd.)

In Urban area, share of:

Owner occupants	53.1 per cent
Public Sector renters	N. A.
Formal private sector renters	N. A.
Informal sector renters	N. A.

Housing Market

Annual increase of housing demand	3.1-3.9 million units per annum
Actual estimated quality housing shortage (based on NBO)	23.3 million (7.0 Urban; 16.3 Rural)
Annual increase of slum units	N. A.
Households which can afford a housing unit (estimated)	60 per cent
Annual formal housing production (Urban areas)	3,11,000 number
Public	68.4 per cent
Private developers (including cooperatives)	31.6 per cent
Others (legal individuals, NGOs, etc.)	Per cent
Annual informal housing production (Urban)	4,74,000
Typical range of housing costs (Urban)	Rs 50,000 (current prices) About Rs 20,220 in 1980-81 prices
At 1981-82 Prices	One room unit Rs 11,850 2 room units Rs 16,530 3 room units Rs 28,860 4 room units Rs 69,500

BOX 3

Factual Indicator

Housing Policy

Priorities for the Current National Plan (1985-1990)	i. Shelter only next in importance to food and clothing.
- Major institutions involved in Policy Making	i. Ministry of Urban Development
	ii. Reserve Bank of India
	iii. Planning Commission
- Implementation	i. National Housing Bank
	ii. Ministry of Urban Development
	iii. State Governments
Budget for housing in Government Budget: average (1986-87)	5.6 per cent (1986)
(1988-89)	Rs 156.88 crores
Budget for housing in municipal or local authority budget in the biggest metropolis (estimated average) 1988	2.9 per cent (in 1979-80)

Housing Related Policy

Central Government Expenditure as per cent of GDP	16.4 per cent (1986)
(Centre, States and Union Territories)	(33.8 per cent)
Budget for Public Health in National Budget (1988)	2.1 per cent

BOX 3 (Contd.)

Budget for Infrastructure and urban development (1988)	4 per cent
Budget for Public Health, infrastructure and urban development in municipal or local authority; Budget	Public Health 22.4 per cent (1979-80) Public works 15.1) per cent, Water) supply 14.7 per) 38.8 cent and Street) per light and fire) cent brigade 9 per cent)
<u>Other Factual Information of Importance</u>	
Land and property taxations	Home/Property Tax 28.3 per cent of total tax revenue (All India Average) in 1979-80.

BOX 4

Factual Indicator

Financial Market

Total pool of currency and deposits	Rs 26,512 crores
Total poor of currency and deposits in financial institutions	(1986-87) Banking Sector Rs 21706 crores, Other Financial Institutions Rs 645 crores Total Rs 22351 crores.
Ratio of total currency and deposits in financial institutions:	
- Domestic (Rs 22351 crores)	84.31 per cent
- Foreign (Rs 208 crores)	0.78 per cent
Gross Savings Rates - Average 1986-87	21 per cent
1988	21 per cent
estimated 1989	23.7 per cent
Inflation Rates - Average 1980-86	7.8 per cent
1987-88	10.6 per cent
estimated 1989	N. A.
Inflation Rates for Construction	Between 10-12 per cent per annum (estimated)
Prime lending rate	10 per cent (in 1988)
Government Bond Yield:	
- Short Term	6.5/9.5 per cent
- Long Term	11 per cent (5-15 years)

Interest Rate

Interest rate for industrial credit	Banks lending rate 16.5 per cent (1987-88)

BOX 4 (Contd.)

	Financial Institution lending rate 14 per cent (1987-88)
Interest rate of private bank for housing	15-18 per cent
Lowest interest rate for housing loans	7 per cent (HUDCO) and 4 per cent(Banks for SC/ST)
Interest rate for housing developers and enterprises	15 per cent (HUDCO)
Interest rate for infrastructure financing by local authorities	12-15 per cent (HUDCO, LIC)
Interest rate of the mortgage market	11.5-16.5 per cent (HDFC)
Other Factual Information of Importance	
Degree of public control of financial market	Fairly tight control
Bank Office per 1000 inhabitants	[(.0769 per cent) or 13000 persons per branch]
Difference between urban and rural area	N. A.

BOX 5

Factual Indicator

Income Distribution (For Urban Households Population)

Bottom 40 per cent	
Proportion of total population	N.A.
Ceiling line of the bottom 40 per cent	Rs 1200
Average income	N.A.
Share of income received by bottom 40 per cent of households	16 per cent
Top 20 per cent	
Proportion of total population	N.A.
Bottom line of the income top 20 per cent	Rs 2500
Average income	N.A.
Share of the income received by top 20 per cent households	49 per cent
Low and Middle Income Household Available for All Households	
Saving in financial institutions [(for all households) 1986-87]	70 per cent
	Savings of Household Sector in Financial Assets as Per Cent of Financial Assets
Currency	10.1 per cent
Bank deposits	43 per cent

BOX 5 (Contd.)

Non-Bank deposits	3.7 per cent
LIC	6.5 per cent
PF and Pension Funds	15 per cent
Claims on Government	13.7 per cent
Shares and Debentures	6.7 per cent
Units in UTI	2.3 per cent
Non-Government financial and Cooperative Credit and non-credit societies	4.4 per cent
Trade Debt net	1.3 per cent
Households Savings in Physical Assets (1986-87)	43 per cent
Savings as Proportion of the Income	
Rural	10.3 per cent
Urban	N.A.
Effort Rate - Housing expenses as proportion of the Income	
Rural	10-15 per cent
Urban	6-30 per cent
Urban Renter	6-30 per cent

BOX 6

Factual Indicator

Credit Access

- Share of households with housing loan from a financial institution	25 per cent
- Share of housing financed through loan from a financial institution	
in the public sector	50 per cent
in the private sector (developers and legal individuals)	N. A.
Total	40-60 per cent

Housing Lending Sources for Low and Middle Income Households	Percentage of total loan amount (Source V.D. Lall, 1984)
- Housing and savings financial institutions	1.9
- Other banks or institutions	17.9
- Commercial Banks	8.9
- Cooperatives	5.5
- Relatives	28.6
- Employers	14.6
- Friends	10.7
- Others	11.9

BOX 6 (Contd.)

Credit Instruments of the Formal Sector Applied by Low and Middle Income

		Income Savings limit	Lending period	Interest Rate
1.	HUDCO			
	- EWS	Upto Rs 700		7 per cent
	- LIG	Rs 701-1500	15-22 years	8.5-9 per cent
	- MIG	Rs 1501-2500		11-12.5 per cent
2.	HDFC	Stable Employment	12-20 years	12.5-14.5 per cent
3.	Commercial Banks	For laons above Rs 5000	7-10 years	13.5-15 per cent
		For loans below Rs 5000 for SC/ST	7-10 years	4 per cent

BOX 9

Factual Indicator

Central Government allocation for housing and basic insfrastructure (1985-1990)	Centre	Rs 458	crores	) 2.3% of the
	States	Rs 3281	crores	) total
	U.T.	Rs 520	crores	) sectoral
				) allocation

Provident Fund institutions (agency names)	
Employees Provident Fund Commission	Rs 2,002 crores
Their Resources lent for Housing (Share of the total budget)	N. A.
Per cent Amount lent for housing	16 per cent
International loans for housing	N. A.
share of household financial savings directed to housing	75 per cent
Total public and private financial resources directed to housing	Rs 8000 crores per annum
Loans for housing compared to total	N. A.
Loans for housing compared to capital formation in houses	N. A.
Loans for housing compared to total value of houses in the formal sector	20 per cent

BOX 10

Factual Indicator

The Major Public Sector Banks

Name	Nationalised Scheduled Commercial Banks
Retail Cash Flow	
Main Resources:	
Total demand and time liabilities	92.6 per cent
Borrowing from RBI	1.2 per cent
Other resources (i.e., Refinance from IDBI and ARDC/NABARD, etc.)	6.2 per cent
Savings and deposit from households	N.A.
Housing finance outstanding	Rs 686 crores (1986)
Staff size	N.A.
Branches	55198 (June, 1988)
Individual borrowers for housing	N. A.
Average incomes of individual borrowers	N. A.
Loan recollection rates	Reported unsatisfactory
Arrears	N.A.

The Major Public Mortgage Institutions

Name	HDFC (1986-87)
Retail Cash Flow	Rs 227.11 crores

BOX 10 (Contd.)

Main Resources:

Net increase in deposits	31.47 per cent
Net increase in term loan	25.35 per cent
Repayment of Principal on housing loan	18.98 per cent
Housing finance outstanding	Rs 484.169 crores
Staff size	575 (1986-87)
Branches	18
Individual borrowers housing	28074 (1986-87)
Average incomes of individual borrowers	N. A.
Loan recollection rates	13.77 per cent
Arrears	N. A.

Major Credit Instruments

	Income or savings limit	Lending period	Interest rate
1. LIC own your Home Scheme	Own life cover policy	Maximum 25 years (or till retirement date)	12-15 per cent
2. HDFC Home Savings Plan	Regular savings for two years (must be able to save at least 40% of the same in 7 years)	12 years	8.5 per cent (Savings carry an interest of 6 per cent)
3. HDFC Telescopic Loan Plan	Lower Income Category for young individuals	Upto 30 years with step up repayment facility	-

BOX 10 (Contd.)

4.	HDFC: Individual housing loans and time of credit	Regular income and stable employment (paying capacity ascertained)	15 years	12.5-14.5 per cent
5.	HUDCO: Housing Loan through State Housing Boards	Maximum Rs 700 Rs 701-1500 Rs 1501-2500 Above Rs 2500	7 years-22 years	 7 per cent 9 per cent 12.5 per cent 13.5 per cent
6.	Commercial Banks individual housing loans	(i) SC/ST (ii) Others & above Rs 5000	7-10 years 7-10 years	4 per cent 13.5-15 per cent

BOX 11

Factual Indicator

Major Public Housing Programme

Name	EWS/LIG
Lead Agency Name	HUDCO
Staff size	N.A.
Budget	N.A.
Type of public subsidies (Credit/product or cash)	Interest subsidy (internal cross-subsidisation) Land (sites & services)
Amount of subsidy	N.A.
Average income of beneficiaries	N.A.
Cost recovery rate	Almost 100 per cent as all loans are guaranteed

Major Infrastructure Programme

Name	Integrated Development of Small and Medium Towns
Lead Agency Name	Ministry of Urban Development and Town and Country Planning Organisation
Staff size	N.A.
Budget	N.A.
Type of public subsidies (Credit/Product or cash)	Direct grants

BOX 11 (Contd.)

Amount of subsidy	N.A.
Average Income of beneficiaries	N.A.
Cost recovery rate	N.A.
Other Major Housing Related Programme (Same Terms)	Indira Awaas Yojana

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Source Notes and Limitations

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

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

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

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

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

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