# Learning From Cross Country Experiences In Housing: A Micro Finance Approach For Inclusive Housing In India

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## Introduction

Housing is one of the primary human needs. It is second only to the need for food and clothing. From a macro perspective, housing is an industry that can prove itself to be a growth engine for a nation, particularly a developing nation like India. Housing has been one of the top priorities for the various governments in India since the seventies. The need for housing has been increasing at a phenomenal pace in India and so also the need for housing finance. Since the growth in supply of housing could not keep pace with the growth in its demand, housing shortage has been on the rise over the years. Housing finance industry which was relatively dormant till the early nineties underwent sweeping changes ever since the initiation of financial sector deregulation measures. Financial deregulation measures brought about several changes in this industry, the first and foremost being the fast growth rate in the industry coupled with cutthroat competition among the industry players. This trend has been quite prominent since the entry of commercial banks into this arena. Accordingly, there has been a surge in the growth of retail (personal) loans segment, particularly in respect of housing loans. This is evident from the fact that housing loans disbursed by banks as a percentage of their total loans has increased from just 2.79% as of end-March 1997 to as high as 12.52% as of end-March 2007. Thus, there has been an unprecedented

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growth rate in the disbursement of housing loans by banks, and as of 31 March 2007 the outstanding balance of housing loans by all banks in India stands at Rs.230689 Crore, as against just Rs.7946 Crore as of 31 March 1997, the growth rate being 35.82 %CAGR (for the eleven years' period, FY 1997-'2007). However, in spite of the impressive growth in housing finance over the years, there are growing apprehensions regarding its inclusiveness, i.e. accessibility to the common man, the underprivileged sections of the society to housing finance etc. Of late, it is widely recognized that formal housing finance system, particularly the commercial banks (CBs) – most dominant among the players – is fast becoming exclusive in operations, with nearly 90% of the total housing credit going to the rich and upper middle income group, primarily the salaried class. The case of housing finance companies (HFCs) is quite similar in this regard. The poor and other marginalized sections are often deprived of adequate credit facilities for housing purpose. Studies have revealed that urban housing poverty is much more acute than the rural probably because of the very fast process of urbanization coupled with constant rural to urban migration.

## Analytical Significance

Three facts are important. Firstly, housing development is of utmost significance to a developing nation like India with a growing gap between housing demand and supply. Secondly, there is an urgent need for a balanced and inclusive housing finance system for fast economic development of the nation, in view of the extreme diversities in the socio-economic profile of its population, majority of the population being outside the reach of the formal housing finance system. Thirdly, alternative models for housing finance and development are essential for solving the problem of housing poverty in India, particularly the urban housing poverty which is becoming more acute day by day. In this context that an exploratory study to identify the most appropriate model for solving housing problem in India assumes significance.

## Objectives of the Study

(i) To make a brief overview of the housing situation in India from an international perspective, including the major national and global trends in housing.
(ii) To make a detailed analysis housing finance scenario in India, its changing landscape over the years with focus on the post reforms (second phase) era of FY 1997-2007.
(iii) To study the major international experiences in housing the poor particularly the proven and time-tested models (like, micro finance) that can be replicated in the Indian scenario.
(iv) To make pragmatic suggestions for effective implementation of home micro finance as a model for solving the problem of housing poverty (particularly urban) in India based on international experiences as well as national realities and peculiarities.

**Part I**

***Overview of the Housing Situation in India from an International Perspective***

### 1.1. Indian Housing Finance System: Growing Fast but with Declining Inclusiveness.

Housing, as a financial service is comparatively new in India, the earliest mortgages being provided in 1978. There was no well established and effective housing finance system even afterwards, though some housing finance companies (HFCs) – mostly those promoted by a few major CBs – and a number of co-operative housing societies functioning under a few apex co-operative housing federations (ACHFs) could meet the ever growing housing finance needs to a limited extent. The major source of housing finance was the house building advance (HBA) provided by the employers, which in turn was available only to salaried people of certain organized sectors. In fact the real impetus for the emergence of a dynamic housing finance system has been the financial sector deregulation measures in the early nineties, more prominently in the second phase of such reforms in the late nineties. As a result the CBs have entered into this market aggressively, greatly increasing the number of players thus resulting in fierce competition in the market. Since then the organized housing finance sector in India comprises of three major institutional groups viz. CBs, HFCs and ACHFs. The aggressive entry of CBs has resulted in their market share growing at very fast rates over the years, eventually overtaking the share of HFCs in 2002-'03. The trend continues thereafter. Though HFCs have also been growing fast, their relative share in the total market has been gradually declining, the same being eaten away by the CBs, since the latter group has been growing much faster. Another noteworthy trend is the gradual disappearance of the ACHFs from the market. Its share has come down fast, both in absolute and in relative terms, to become negligibly small year after year. (Table 1).

Table 1. Housing Loan Disbursements by various Institutional Agencies.

(Rupees in Crores)

| Name of the Agency Group | FY: 2001 | FY: 2002 | FY: 2003 | FY: 2004 | FY: 2005 |
|---|---|---|---|---|---|
| Commercial Banks (CBs) | 5553.11 | 8566.41 | 23553.70 | 32816.39 | 50398.00 |
| Housing Finance Companies (HFCs) | 12637.85 | 14614.44 | 17832.01 | 20862.23 | 26000.00 |
| Co-operative Housing Federations | 867.72 | 677.58 | 641.48 | 623.08 | 421.10 |
| TOTAL | 19058.68 | 23858.43 | 42026.86 | 54301.70 | 76819.10 |
| Overall Growth Rate (Year to Year) | -- | 25.18 % | 76.15 % | 29.21 % | 41.47 % |

(Source: *Report on Trend & Progress of Housing in India* for 2001-2005, NHB, New Delhi.)

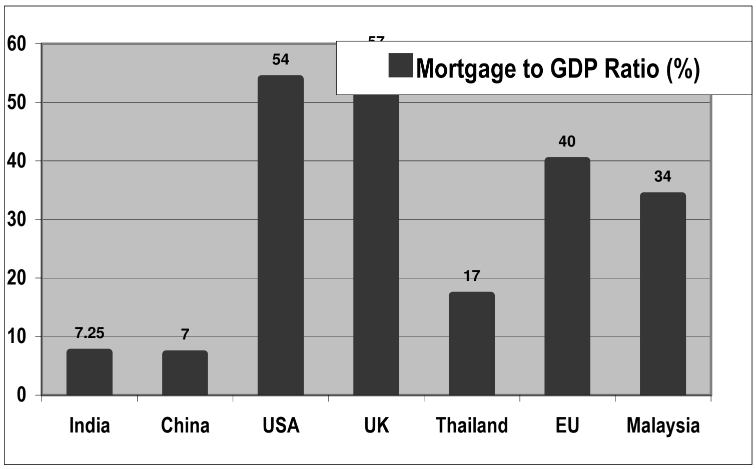
As is clear from Table 2 above, the problem of housing shortage is still acute in India, in spite of the significant growth in housing finance disbursements over the last so many years (43% CAGR for the five years ended FY 2006). In fact the housing shortage grew almost 4 times during the period 1991 – 2007. It is noteworthy that the mortgage to GDP ratio in India as of 2005 stood at an abysmal level of 7.25% as against 7% in China, 54% in USA, 57% in UK, 17% in Thailand, 40% in European Union and 40% in Malaysia. Though India's position has significantly improved from 3.4% (2001) to 7.25% (2005), it is observed that it quite low compared with other nations of the world (Table 3, Figure 1).

**Table 2. Housing Stock and Shortage, 1991-2007 (Million Nos.)**

| Year | Housing Stock (Nos in Million) | | | | |
|---|---|---|---|---|---|
| | Pucca | Semi-Pucca | Kutcha | Total | Housing Shortage |
| 1991 | 29.80 | 06.20 | 03.20 | 40.70 | 08.23 |
| 1997 | 40.07 | 06.64 | 03.35 | 50.08 | 07.57 |
| 1998 | 42.13 | 06.72 | 03.37 | 51.85 | 07.36 |
| 1999 | 44.28 | 06.80 | 03.40 | 53.67 | 07.18 |
| 2000 | 46.55 | 06.83 | 03.42 | 55.56 | 06.93 |
| 2002 | 41.17 | 08.08 | 02.74 | 55.80 | 10.56 |
| 2007 | 47.49 | 09.16 | 02.18 | 66.30 | 24.71 |

(Source: Compiled from: *Annual Report 2006-'07*, Ministry of Housing & Urban Poverty Alleviation, Govt. of India; in *The Economic Times dt. 13 Aug. 2007,* Chennai Ed.)

**Figure 1. Mortgage to GDP Ratio in various countries.**




(Source: *Report on Trend& Progress of Housing in India 2005*; NHB, Govt. of India, p. 07)

**Table 3. Mortgage to GDP Ratio in various countries (as of FY 2005).**

(in Percentages)

| Country | India | China | USA | UK | Thailand | EU | Malaysia |
|---|---|---|---|---|---|---|---|
| Mortgage to GDP Ratio | 7.25* | 7.0 | 54.0 | 57.0 | 17.0 | 40 | 34 |

(Source: *Report on Trend & Progress of Housing in India 2005*; NHB, Govt. of India, p. 07)

[* Note: As of FY 2006, the estimated Mortgage to GDP ratio of India is 08.5%, and further as of FY 2007 the same is a the level of 09%. Reference as above, page 11.]

Another dimension of the housing situation in India is the gradually growing interest rates on housing loans as well as indications of gradual slowing down of the housing finance system resulting in a consolidation of the incremental growth rates in housing disbursements. This trend is similar to the global trend in this regard which is discussed in the next paragraph.

## 1.2. Overview of the Global Trends in Housing: Apprehensions regarding Sustainability.

It is observed that trends in Indian housing are broadly following the global trend in this regard. There are apprehensions regarding the formation of housing bubble (real estate bubble, in a broader sense). It is believed that the property values, which have registered huge increase during the period till 2005, may fall by at least 10 to 20 percent in the near future. In some parts of the country, the property values have skyrocketed and have become more than double during the said period. Since a downward trend is inevitable for any cyclical movement and also since India has almost reached the peak level in respect of property values at least in certain pockets of the country, there is the likelihood for the burst of the housing bubble. The global trend in respect of housing prices is eventually that of downward. As per the statistics of 'The Economist' (quarterly report on housing), the annual rate of house price inflation has slowed down since the last quarter of 2005 in top 10 out of the 20 countries. (Table 4)

**Table 4. House Price Indicators of 'The Economist' – Top Twenty Countries.**

| Country | Latest | 2004-'05 on a year earlier | %Change (1997-2006) | Country | Latest | 2004-'05 on a year earlier | % Change (1997-2006) |
|---|---|---|---|---|---|---|---|
| Denmark | 23.3 | 22.8 | 115 | New Zealand | 08.8 | 15.8 | 105 |
| South Africa | 14.7 | 17.8 | 351 | Australia | 08.3 | 02.3 | 135 |
| Belgium | 11.8 | 20.8 | 118 | Italy | 06.2 | 07.3 | 92 |
| France | 11.1 | 14.8 | 137 | Netherlands | 06.2 | 05.5 | 97 |
| Canada | 10.8 | 05.2 | 69 | United States | 05.9 | 13.2 | 102 |
| Spain | 10.8 | 12.8 | 173 | China | 05.6 | 06.2 | NA |
| Ireland | 10.6 | 08.2 | 253 | Hong Kong | 03.0 | 08.0 | -43 |
| Sweden | 10.5 | 10.5 | 124 | Switzerland | 01.8 | 01.3 | 17 |
| Britain | 10.2 | 02.9 | 196 | Germany | 00.7 | 04.8 | NA |
| Singapore | 10.2 | 03.9 | NA | Japan | -02.7 | -04.7 | -32 |

[Source: “Banking Scene: Global’, *Indian Banker*, Vol. II, No.4, April 2007, pp.39-40.]

In view of the above, it is clear that Indian housing situation is passing through a transition stage, and is largely following the global trend in this regard. Regarding housing finance disbursements, there are clear indications of slowing down in the growth rates thus resulting in a consolidation at the current level or slightly lower level. (This aspect is discussed in greater detail in the next section). In respect of property values also the system has almost reached the peak broadly in line with the developments in majority of the other countries. As already discussed Indian system has the chronic problem of fast growing housing shortage particularly in the urban case and it requires special alternative schemes to tackle the problem. Similar problem exists in many of the recently deregulated developing and emerging economies in more or less similar manner. One of the root causes being the rapid pace of urbanization along with fast migration from rural to urban areas.

## ***Part II***

### ***Changing Landscape of Institutional Housing Finance Market in India***

The housing finance market in India has undergone radical changes over the last three decades. Accordingly, clear changes are observed in the structure of the market, types of institutional intermediaries and industry growth rates. Broadly, there have been three distinct phases. In the initial phase starting from the late seventies and ending in late nineties the market was characterized by specialized housing finance institutions like HFCs. In the second phase, starting from late nineties (1998) and ending in 2003, commercial banks have entered into this arena aggressively resulting in fast growth rate and fierce competition. The third phase has started from 2003 and is continuing currently. The market has more stabilized with an oligopolistic character and currently the largest four players (viz. ICICI Bank, SBI, HDFC and LICHFL). That is, the largest two banks in India (ICICI in the private sector and SBI in the public sector) along with the largest two HFCs (HDFC in the private sector and LICHFL in the public sector) currently account for more than 80% of the incremental market share. (Table 5).

**Table 5. Radical Changes in Indian Housing Finance Market: Three Distinct Phases**

| Phase – I (Upto Late 1990s) | Phase – II (1998 – 2003) | Phase – III (2003 Onwards) |
|---|---|---|
| ❖ Specialized Lenders (HFCs), HFCs sponsored by CBs, Insurance companies, Builders and other companies. | ❖ Aggressive entry of CBs<br>❖ HFCs lose market share<br>❖ Irrational competition and rapid disbursements<br>❖ Credit quality concerns | ❖ Oligipolistic market<br>❖ Top 3-4 players share over 80% of the market<br>❖ Sustained growth (+25%)<br>❖ More rational market. |

### 2.1. Role of Co-operative Sector in Housing Finance: Constantly Declining Trend.

Co-operatives as an institutional mechanism for satisfying various needs of the people emerged from the principles of 'self-help' and 'co-operative effort'. Historically co-operative credit institutions have been playing a vital role in extending credit to the agricultural and rural sectors. In was in the early 20$^{th}$ century that the co-operative housing movement evolved in India with the objective of fulfilling the desire of a 'common man' of owning a home. The role played by housing co-operatives over the years in financing the housing needs of their members has been remarkable. The co-operative sector is expected to play a lead role particularly in land acquisition, allotment of land and housing sites to encourage group housing and development of amenities. As of FY 2005, it is estimated that there are more than 92,000 primary housing co-operatives at the grass-root level with a membership of over 6.5 million represented by 26 Apex Co-operative Housing Federations (ACHFs) at the state / union territory level. The National Co-operative Housing Federation of India (NCHF) has been promoting, guiding and coordinating the activities of housing co-operatives at the national level since its inception in 1969. In addition, NCHF also helps the member Federations in improving their financial, organizational and technical capabilities. Table 6 given below shows the sanctions and disbursements of housing loans by ACHFs during the period of five financial years, 2000-'01 to 2004-'05. The Table clearly shows a constant declining trend in sanctions and disbursements of housing loans by ACHFs throughout the period. As ACHFs are declining in their performance over the years, so does the inclusiveness of the housing finance in the country as they are essentially the agencies intended for catering to the needs of the poor.

**Table 6. Lending Operations of ACHFs – Constantly Declining Trend.**

| Particulars | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 |
|---|---|---|---|---|---|
| Loan Sanctioned | 842.81 | 730.12 | 672.99 | 595.45 | 432.10 |
| Loan Disbursed | 867.72 | 677.58 | 641.58 | 623.08 | 421.10 |
| Growth Rate (Disbursals) | --- | -21.91 % | -05.33 % | -02.87 % | -02.88 % |

(Source: National Co-operative Housing Federation of India, cited in *Trend & Progress of Housing in India - 2005*, National Housing Bank, Govt. of India, New Delhi, p. 26.)

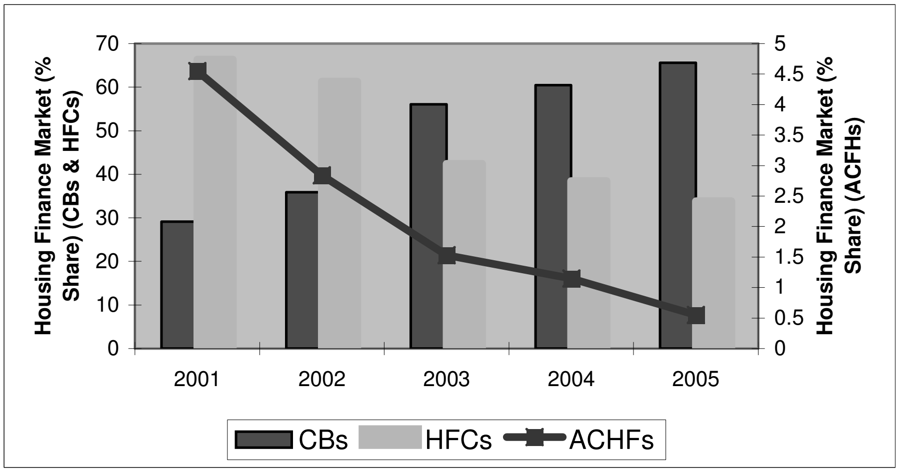
### 2.2. Changing Profile of the Housing Finance Industry in India: Growing Presence of CBs, Declining Share of HFCs and Gradual Disappearance of ACHFs.

As already noted, during the second phase of the financial sector reforms, there has been active participation of CBs in the retail credit market, particularly the housing finance segment. Table 7 and Figure 3 given below show the relative share of the total housing loan advances by the different institutional intermediaries in the Indian housing finance market, over a period of five years ended FY 2004-'05. Table 8 and Figure 4 show the trend in respect of the growth rates (year to year) of the above agencies in housing loan disbursals over the period of four years ended FY 2004-'05.

**Table 7. Relative Share of Different Players in the Organized Housing Finance Industry. (in Percentages)**

| Particulars | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 |
|---|---|---|---|---|---|
| Commercial Banks | 29.14 | 35.91 | 56.04 | 60.43 | 65.61 |
| Housing Finance Companies | 66.31 | 61.25 | 42.43 | 38.42 | 33.84 |
| Co-operative Sector | 04.55 | 02.84 | 01.53 | 01.15 | 00.55 |
| TOTAL | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Figure 3: Changing Landscape of the Housing Finance Industry in India

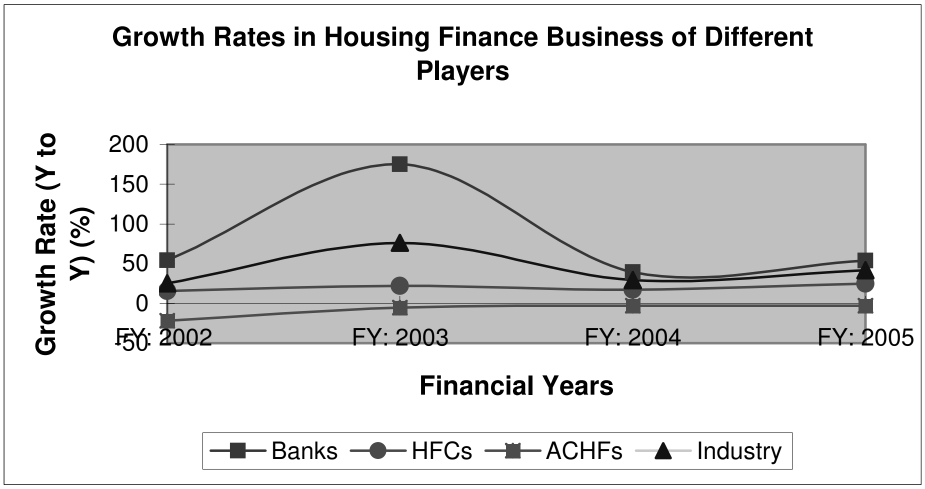



(Source: Computed from *Report on Trend& Progress of Housing in India,* 2001-2005; NHB.)

**Table 8. Growth Rates (Y to Y) of the Major Players in the Housing Finance Industry (in Percentages)**

| **Particulars** | **2001-2002** | **2002-2003** | **2003-2004** | **2004-2005** |
|---|---|---|---|---|
| Commercial Banks | 54.26 | 174.95 | 39.33 | 53.58 |
| Housing Finance Companies | 15.64 | 22.02 | 16.99 | 24.63 |
| ACHFs | -21.91 | -05.33 | -02.87 | -02.88 |
| Industry (Overall) | 25.18 | 76.15 | 29.21 | 41.47 |

**Figure 4: Growth Rates (Y to Y) of the Major Players in the Housing Finance Industry.**




(Source:Computed from *Report on Trend & Progress of Housing in India*; for 2001 to 2005.)

From the Tables 7 & 8 and Figures 3 & 4 shown above, some broad conclusions may be drawn regarding the trend and progress of housing finance industry in India. (Exhibit 1)

- CBs are fast becoming the major players in the housing finance market and their relative share is growing year after year.
- Though HFCs have been growing significantly over the years in absolute terms, their share in the total industry is fast coming down.
- The share of co-operative sector in housing finance (ACHFs) has been drastically coming down every year both in absolute and relative terms and as per the latest position their stake is negligibly small or, rather virtually nil.

**Exhibit 1: Housing Finance Industry in India: Changing Landscape.**

***Part III***

**Growing Housing Finance Market but Losing Inclusiveness**

While on the one hand there is significant growth in housing finance disbursals over the years, thus resulting in a reasonably high mortgage to GDP ratio of about 9% (estimated) as of FY 2007, an equally important and probably more important fact is

the gradually declining reach of the system to the socially and economically backward sections of the population. This necessitates an urgent need for making the system more inclusive in view of the fact that vast majority of the population is unserved or under served by the current system. In fact, this fact has been specifically pointed out by the industry regulator (NHB) itself in its latest report viz. Trend & Progress of Housing in India: 2005. Further, the fact of losing inclusiveness of the system is reflected in the pattern of the growth rates of the major players (viz. CBs, HFCs and ACHFs) as discussed in the foregoing section whereby it has been observed that the co-operative sector institutions (ACHFs) – the financial intermediaries which are the most inclusive of all (Exhibit 2) – have almost disappeared. Thus, it appears that unless the major players viz. CBs and HFCs are made more inclusive through appropriate policy initiatives the situation is very likely to become worse in the future. Accordingly, it follows that providing shelter to those in the middle income, low income as well as socially backward and marginalized sections of the society is the need of the hour. This in turn necessitates modification of the strict income-based credit dispensation as followed by the CBs and HFIs. Being the most dominant player in the market, increasingly so in the future, CBs probably have a more important role to play in this regard. (Exhibit 2)
There has been a pro-rich orientation in respect of housing loans disbursed by both the major types of housing finance intermediaries viz. CBs and HFCs. Table 9 shows this trend in respect of housing finance exposures by the CBs in India (FY 2000-'01 to 2004-'05). Table 10 shows the trend in respect of a typical HFC (viz. LIC Housing Finance Ltd.) for the period (FY 2000-'01to 2006-'07).

**Exhibit 2. General Profile of the Customers in Housing Finance: Agency-wise Details.**

(Percentage)

| **ACHFs** | | **CBs and HFCs** |
|---|---|---|
| Types of Customers | % Share | ❑ Mostly to middle to high income group, and that too salaried class, high level of urban concentration also. (Nearly 90%)<br>❑ Majority of the population is un-served / under-served [the low income group (LIG), the self-employed, rural populace etc.] |
| Economically Weaker Section (EWS) and Low Income (LIG) | 75 | |
| Middle Income (MIG) | 18 | |
| High Income (HIG) | 07 | |
| TOTAL | 100 | |

[Ref: (1) *Trend & Progress of Housing in India 2004*, NHB, Govt. of India. p.113,
(2) *Trend & Progress of Housing in India 2005*, NHB, Govt. of India. p.54.]

**Table 9. Average Size of Housing Loan Sanctions (Incremental) (All Commercial Banks)**

| Financial Year | 2000-'01 | 2001-'02 | 2002-'03 | 2003-'04 | 2004-'05 |
|---|---|---|---|---|---|
| Av. Loan Amount | 01.02 | 01.81 | 02.00 | 02.81 | 03.45 |

[Ref: *Trend & Progress of Housing in India 2004*, NHB, Govt. of India, New Delhi. p.113.]

**Table 10. Average Size of Housing Loan Sanctioned by a Typical HFC (LICHFL)**

(Rupees in Lacs)

| Financial Year | FY:2001 | FY:2002 | FY:2003 | FY:2004 | FY:2005 | FY:2006 | FY:2007 |
|---|---|---|---|---|---|---|---|
| Av.Loan Amount | 03.13 | 03.31 | 03.83 | 04.26 | 05.07 | 05.92 | 08.27 |

[Ref: *Annual Report of LICHFL, 2006-'07*, LICHFL. p.33.]

[Note: In fact, LICHFL is having 97% of its total housing portfolio under the individual residential housing category. Information in respect of the entire HFC segment or that of other major players is not available.]

As is evident from Tables 7 to 10, the housing finance exposures by CBs and HFCs are increasingly becoming pro-rich, pro-salaried class and exclusive of the poor. They assess credit-worthiness of the customers based on income criterion wherein the income from salary, business, or profession is taken into account. Because of better stability of income, they always prefer the salaried class. It is estimated that more than 90 percent of the individual housing finance exposures of CBs and HFCs goes to the salaried class and the balance goes to the business or professional class, the share of agriculturists and other rural populace being quite small. In the case of project financing (i.e. financing housing societies, builders, developers etc.) it is obvious that the ultimate beneficiaries are always the rich. Though the government earmarks specific amounts to be disbursed to the poor through various schemes like Golden Jubilee Rural Housing Finance (GJRHF) scheme, the same is only a meager portion of the total housing finance portfolio of these agencies. Moreover, here also these loans are available only to those who fulfil the income-based eligibility criteria stipulated by these agencies. Often, the assessment criteria are more or less similar to those of general schemes, except for slight changes as stipulated by the regulatory or refinancing agencies. According to the latest estimates (2007) of National Sample Survey Organization (NSSO), the housing problem in urban India is more acute in urban India than in rural India. Further, it has been pointed out that one out of every seven Indian urban households live in slums. In fact, urban housing shortage has increased by 134% in the last six years (2001-2007). Moreover, there exits a huge disparity between the number of dwelling units targeted and the number of units constructed, in respect of both of the two special housing schemes for the poor viz. (i) housing for economically weaker section, (ii) housing for low income group. Table 11 is self-explanatory in this regard.

**Table 11. Housing for the Poor: Wide Gap between the Targets and Achievements**

| Name of the Housing Scheme | Target for 2006-'07 (Units) (Nos) | Achievement (Units) (Nos) till Aug. 2007 & Growth % |
|---|---|---|
| Housing for Economically Weaker Section | 1,14,000 | 22,960 (20.14%) |
| Housing for Low Income Group | 24,003 | 2,251 (09.38%) |

[Source: NSSO Estimates (2007) cited in *The Economic Times,* Chennai Ed. dt.13 Aug. 2007]

In short, in respect of specialized schemes also, the really deserving sections of the society do not have access to the system, rather a handful of rich and affluent among such sections alone are benefited out of such schemes. As such, one of the worst challenges to Indian housing finance system at present is that of making it more inclusive and hence equitable. This has got special significance in respect of the urban areas. Another need is that of integrating the housing finance market – an integral part of the financial markets – with the entire financial system by ensuring its active participation in the secondary market as well.

***Part IV***

## Housing the Urban Poor: an Overview of the Cross-Country Experiences

In this section let us examine the cross-country experiences in respect of housing the urban poor. As already noted, fast growing pace of urbanization is the main reason behind the alarming growth in urban housing poverty and in most of the developing countries that have gone for economic deregulation in the recent past, the problem persists. However, some of the economies have been successful in tackling the housing problem reasonably well.

### 4.1 Urbanization, Slum Formation and Remedies for the Urban Housing Problem.

Worldwide, because of the rapid pace of urbanization, slum formation is an ever growing problem. Table 12 shows the fast pace of urbanization that is going on the world over. By 2030 about 60 percent of the global population is expected to be in urban areas.

**Table 12. Global Trend in Urbanization: 1970 – 2030**

| Particulars | 1970 | 2000 | 2030 |
|---|---|---|---|
| Urban Population (%) | 37 % | 47 % | 60 % |
| Rural Population (%) | 63 % | 53 % | 40 % |
| Total Population (%) | 100 % | 100 % | 100 % |

[Source: UN – Habitat, *Global Urban Observatory 2005*]

The worst part of urbanization is the formation of slums – places where people have to live in a highly congested and unhealthy surroundings devoid of the basic amenities of life like clean water, sanitation facilities etc. Slums adversely affect the personal and socio-economic wellbeing of the dwellers and also hinder the economic development of the nation as a whole. Globally, nearly 1 billion people live in slums. Further, it is estimated that nearly 60 percent of the urban population typically live in the slums whereas the remaining live in non-slum areas. However, just 05 percent of the urban land is occupied by the urban slum-dwellers while the remaining 95 percent goes to the privileged rest who accounts for 40 percent of the population. Table 13 shows the global trends in slum formation and urban growth.

**Table 13. Global Trend in Slum Formation and Urban Growth.**

| Particulars | Regions | Urban Growth Rate | Slum Growth Rate |
|---|---|---|---|
| Urban Growth Significantly higher than Slum Growth | Latin America and the Caribbean | 02.21 | 01.28 |
| | Northern Africa | 02.48 | -00.15 |
| | Eastern Asia | 03.39 | 02.28 |
| | South-Eastern Asia | 03.82 | 01.34 |
| Urban and Slum Growth Similar | Western Asia | 02.96 | 02.71 |
| | Southern Asia | 02.89 | 02.20 |
| | Sub-Saharan Africa | 04.58 | 04.53 |
| Developed World | | 00.75 | 00.72 |
| World | | 02.24 | 02.22 |

[Source: UN–Habitat, *Global Urban Observatory 2005*]

It may be observed from Table 13 above that, in general, slum formation takes place almost at the same pace as the urbanization. For the world as a whole as well as for the developed nations this is the trend. For certain regions urban growth is faster than that of slum formation. The UN-Habitat estimates that in order to ensure that the shelter-less people do not end up in slums, at the global level we need a new city of with one million population every week for the next 20 years. Further, in India, with a huge housing gap of nearly 25 million units, it is estimated that it requires 5,00,000 units every year for the next 20 years. Moreover, it is well recognized that markets will not meet the housing needs of the poor people. Regulatory regimes for housing for the poor, like the Urban Land Ceiling Regulation Act (ULCRA) in India have also been found to be not effective because of poor governance. However, housing schemes through subsidy and incentives for the private sector have been seen to be effective in many countries. Some of these experiences are given in next section.

### 4.2 Affordable Housing for the Poor: Some Cross Country Experiences.

In China, the housing market was liberalized only during the late nineties. For people living in sub-standard living conditions (slums), a ‘one-time’ equity grants based on the market value of their existing housing are given to enable them to access mortgage instruments. Land leases are auctioned to developers to supply housing on a home ownership basis. Developers are provided incentives in the form of tax reductions or tax exemptions. Accordingly, China could develop more than 20 million housing units during the last five years.

Chile has pioneered in the up-front capital subsidy programme in 1977. This programme has eliminated all slums from Chilean cities. Here, on the supply side, social housing is built by the private sector. On the demand side, subsidies are given to poor families to increase effective demand for the private ‘social’ housing. Chile has set aside 05.8 % of its national budget for providing such subsidies.

In South Africa (along with Singapore, Cuba and Sweden) has got one of the best success stories in providing housing for the poor called social housing. Here minimum standards for housing and services have been laid out by the Government. A viable market for low-cost housing has been established through subsidy programme. This has been made possible through establishing partnership with housing institutions, communities, the private sector and NGOs. Accordingly, 1.4 million houses with secure tenure have been constructed in the last ten years for the poorest of the poor.

In Thailand, “The Baan Mankong” ( meaning “Secure housing” in Thai) Program has channeled government funds through the Community Organizations Development Institute. Thai Government has earmarked a budget of about US$ 470 million for the infrastructure subsidy and housing loan interest subsidy. This works out to US$ 1650 per family. Accordingly, Thailand puts its existing slum communities (and their community networks) at the center of a process of developing long-term, comprehensive solutions to problems of land and housing.

Apart from the four global success stories (viz. China, Chile, Thailand and South Africa) in respect of urban housing poverty alleviation as discussed above, other glaring examples (that followed more or less similar pattern of participatory or partnership form of development) include Brazil, Egypt, Mexico, and Tunisia. In all these countries, the respective central government has been in the ‘driving seat’ in the implementation of inclusive policies for housing, land reforms and regularization. Some low-income or middle-income countries like Colombia, El Salvador, Philippines, Indonesia, Myanmar and Sri Lanka, have managed to prevent slum formation by anticipating and planning for growing urban populations by investing in low-cost and affordable housing.

In view of the above success stories, it appears that slums are a reflection not of market failure but of societal failure. The poor must have access to housing in homes they can afford. Since market forces will never provide housing that the poor can afford, and further market forces will never have the ability to do so until these masses cease being poor, it is up to government to take the initiative. The government can stimulate the creation of sustainable and affordable housing for the poor through the involvement of private sector. Reform measures in (i) the land (grant of land security to poor, reduced government interventions in land market), (ii) finance (down marketing housing finance, fiscal incentives to the private sector developers, micro-finance institutions), (iii) capital subsidies targeted subsidies in various forms (like, up-front subsidies to the poor, or through savings institutions, or to the developers). One of the key requisites for such initiatives to be successful is that of ensuring a governance system that is open, transparent and is able to implement the 'rule of the law' in its true letter and spirit.

### 4.3 Housing in the Developing Nations: a Progressive (not a Product) Approach

In most of the developing nations (including India) investment in housing and its development take place in a progressive (i.e. phased, or step by step) manner whereas in the advanced industrialized countries 'housing' has become a 'product' (i.e. commodity) delivered complete to families by a sophisticated network of lenders, developers, title companies, and other organizations. It is estimated that in developing countries, 70% of housing investment occurs progressively—that is, households acquire land through purchase or invasion, and gradually improve the structure and legal tenure, and lobby for basic services. Because of this progressive nature of housing, developing counties need to chalk out a well thought out, pragmatic approach towards housing development in order to meet their ever-growing problem of housing poverty. Experiences in various countries suggest that such an approach should preferably (i) offer a wider range of low-cost solutions, (ii) involve small loans at market rates (rather than long-term traditional mortgages), with family savings, and—sometimes—a small subsidy; and (iii) have Government as the chief facilitator who would set the rules of the game and the private-sector directly produce and finance housing.

Considering the international experiences and also the special situation in developing countries as discussed above, the most advisable approach for housing for most of the developing nations appear to be that of home micro finance of public private partnership (PPP) type. Further, in the particular case of India, as rather strong micro-credit movement is already existing, the above approach seems to be the most appropriate one for providing affordable housing to the poor, particularly the urban poor. Though the micro finance institutions (MFIs) in India are yet to enter in home micro finance in a big way, once the conducive regulatory and legal system as given in the model suggested below are put in place, MFIs might readily come forward and take up such affordable housing projects for the benefit of its members. The experience of Peru in home micro finance has been quite good and this should be an eye-opener for countries like India. In fact, after one year of introducing a new home microfinance product (Mibanco) Peru could recover not only its operational costs but also capital costs, thus achieving full financial sustainability.

***Part V***

**Urban Housing Poverty in India: Home Micro finance as a Alternative Model**

In view of the foregoing discussions, as already noted home micro finance appears to be the most pragmatic model for alleviation of urban housing poverty in the Indian scenario. Though the success stories of other nations may not be adaptable or replicable as such, the following model seems to be quite logical and pragmatic in India. (Figure 5).

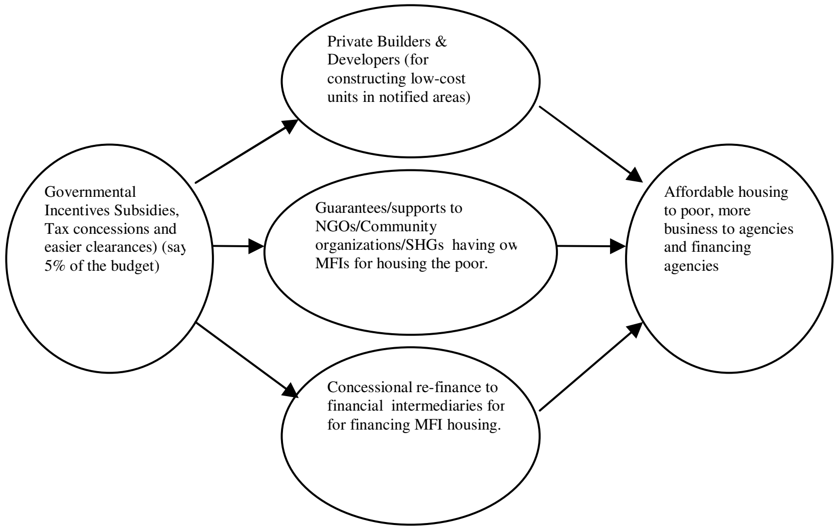



**Figure 5: Model for Affordable Housing through Home Micro finance (PPP) Approach.**

As per this model, the central government has to take the lead role – the role of an enabler or facilitator. The government provides fiscal concessions (tax rebates, exemptions, tax holidays etc.) for builders and developers for constructing low cost houses in notified urban areas with clear specifications regarding the minimum quality, size etc. as well as the maximum cost of constructions. Apart from fiscal concessions as above, easier clearance of necessary permissions and sanctions (like, transfer of title, building permits etc.) may also be offered to them so that it is practically possible to construct such houses. Besides, NGOs, community organizations, Self Help Groups (SHGs) and such other organizations having adequate track record in social service that come forward to set up micro finance institutions (MFIs) for housing purpose be supported by the government both (i) through financial assistance, and (ii) by providing guarantee for the housing loans that members such MFIs take from financial intermediaries. Further, financing agencies (like, banks and HFCs) be given refinance at concessional rates for financing such projects. Also, financial intermediaries be provided refinance at concessional rates for onward lending (as housing loans) to poor people belonging to some government-recognized MFI.

Thus, the builders are getting incentives from both the government and financing agencies so that they will find it feasible to undertake such projects. Secondly, the financing agencies are getting finance at concessional rates for lending both (i) to individuals (belonging to recognized MFIs), and (ii) to projects taken up by builders and developers that is recognized by the government or satisfy the requisite norms stipulated by the government. Thirdly, the poor people who belong to MFIs with adequate track record and recognized by the government are getting affordable housing through easier finance, and also guarantee support from the government through the respective MFI. The government may encourage financing income generating activities of MFIs also, so that repayment of loans become easier for the members.

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