

A Sustainable Finance Strategy for Low Cost Housing in Urban India

—towards a Pro-Poor Housing Finance System



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Basic General Data on India

Geography and Administration

India is the seventh largest nation of the world located in Southern Asia, bordering the Arabian Sea and the Bay of Bengal, between Burma and Pakistan. Out of total area of 3,287,590 sq km land area is 2,973,190 sq km and water area is 314,400 sq km with land boundary of 14,103 km and coastline of 7,000 km. Within geo-climatic regions, climate varies from tropical monsoon in south to temperate in north. Terrain varies from upland plain (Deccan Plateau) in south, flat to rolling plain along the Ganges, deserts in west, Himalayas in north. India has a strong federal structure. For the administrative convenience, India is divided into 28 States and 7 Union Territories.

Demography and Health

India is the second most populous nation in the world after China with a population of 1027 million [*Census 2001*]. Every sixth person in the world is an Indian. The annual population growth is 1.6%. The life expectancy is 63 years. India has a relatively high infant mortality rate (IMR) of 65 per 1000 births.

Economy

India is a developing nation. India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a

multitude of services. Services are the major source of economic growth, accounting for more than half of India's output with less than one third of its labor force. About three-fifths of the work force is in agriculture, leading the Central Government to articulate an economic reform program that includes developing basic infrastructure to improve the lives of the urban and rural poor and boost economic performance. Post 1991 the Government has reduced controls on foreign trade and investment. India's GDP (2006) is \$922 billion which makes her the 10th largest economy of the world. However, GDP per head is only \$ 842 and GDP per head (PPP) is \$ 3942. The economy has posted an average growth rate of more than 7% in the decade since 1996, reducing poverty by about 10 percentage points. India has achieved over nine percent GDP growth during 2007.

Urbanisation

Urban in India is defined as a human settlement with a minimum population of 5000 persons with 75% of the male working population engaged in non agricultural activities and a population density of at least 400 persons per sq km.

India's urban population in 2001 was 286.1 million which was 27.8% of the total population. Over the previous five decades, annual rates of growth of urban population ranged between 2.7 to 3.8%. During the last decade of 1991 – 2001, urban population of India increased at an annual growth rate of 2.7% which was 0.4% lower than that registered during the preceding decade. It is forecasted that India's urban population will be 50% of the total population in 2041.

Shelter Situation in India

Access to Shelter

In post independence era while population of India has grown three times, the urban population has grown five times. At current rate of growth, urban population in India will reach a staggering total of 575 million persons by 2030 AD. As per 2001 estimates, the slum population is estimated to be 61.8 million. More than 23% of the urban population resides in slum. However, a much higher proportion of the urban population of metropolitan cities lives in slums. For example, it is estimated that 55% of the population of Mumbai lives in slums. The ever increasing number of slum dwellers causes tremendous pressure on urban basic services and infrastructure. The

supply of land in housing have failed to keep pace with increase in urban population resulting in large number of households without access to basic services, poor housing and proliferation of slums and widespread poverty.

The Census of India 2001 provides certain data relating to housing as shown in Tables 1. It shows that more than 20% of the urban population do not have pucca houses. The Housing shortage and requirements as per the Technical Group on Housing Shortage constituted by National Building Organisation is also given.

Table 1: Urban Housing Scenario: Census 2001

Urban Population, 2001	286.1 Million
Total No. of Urban Households, 2001	55.8 Million
Total Housing Stock, Urban, All India, 2001	52.0 Million
Pucca (Permanent) Houses	79.16 %
Semi Pucca (Semi-Permanent) Houses	15.58 %
Kutcha (Temporary) Houses	5.27 %
Households by Tenure Status, All India, Urban, 2001	
Owned	66.8 %
Rented	28.5 %
Others	4.7 %
Housing Shortage, Urban, All India, 2007	24.71 Million*
Housing Requirement during 11 th Plan, (2007-12), Urban, All India	26.53 Million*

* Estimated by Technical Group on Housing Shortage constituted by National Building Organisation (NBO) chaired by Prof. Amitabh Kundu, Professor, Jawaharlal Nehru University

India is confronted with housing problem of a very high magnitude. Housing deficit in urban areas is particularly much more severe for economically weaker sections of population. The serious deprivation in the provision of basic services to large segments of urban population is today's ground reality.

Table 2: Estimated distribution of housing shortage as on 2007

Category	Housing shortage as on 2007 (Mn)
Economical Weaker Section (EWS)	21.78 (88.1%)
Lower Income Group (LIG)	2.89 (11.7%)
Middle Income Group (MIG)	
Higher Income Group (HIG)	0.04 (0.2%)
Total	24.71 (100%)

Source: XI Plan Working Group on Urban Housing

It is clear that, taking the business as usual scenario, the total shortage of dwelling unit at the beginning of the 11th Plan period i.e. 2007 will be 24.71 million. The housing shortage during the plan period (2007-2012) including the backlog can then be computed as 26.53 million. Over 99 percent of housing shortage pertains to urban poor [Table 2].

As per data provided by NSS in its 58th Round (July-Dec.2002) (Report No.488), only 20% of dwelling units in urban slum areas had a plinth area of more than 50 sq.m. On an average, an urban household occupied 37 sq.m. of floor area. The poorest segment, i.e., households in the lowest monthly per capita consumption expenditure (MPCE) class in the urban areas got 29 sq.m. Per capita floor area available was lowest in the urban slums (4.6 sq.m.) while it was 8.4 sq.m in other urban areas.

Role of Housing in Development

Housing, besides being a very basic requirement for the urban settlers, also holds the key to accelerate the pace of development. Investments in housing like any other industry, has a multiplier effect on income and employment. It is estimated that overall employment generation in the economy due to additional investment in the housing/construction is eight times the direct employment [IIM-Ahmedabad Study, 2000]. The construction sector provides employment to 16% of the work force (absolute number 14.6 million-1997). It is growing at the rate of 7%. Out of this, the housing sector alone accounts for 8.55 million workers. However nearly 55% of them are in the unskilled category. Skill upgradation would result in higher income for the workers Housing provides employment to a cross-section of people which importantly include poor. Housing also provide opportunities for home-based economic activities. At the same time, adequate housing also decides the health status of occupants. Therefore, on account of health and income considerations, housing is a very important tool to alleviate poverty and generate employment..

Access to and Cost of Basic Services/Infrastructure

As per Census 2001 only 65 percent of urban households had access to water supply within premises while 30 percent had no bath room within the house. The picture is far more gloomy in slums and settlements of the urban poor.

Access to good quality water supply and sanitation facilities among the urban poor is very poor; about half of urban poor households do not receive water supply and about two-thirds do not have a toilet.

As per data provided by NSS in its 58th Round [*Report No.488*], with respect to the availability of drinking water, electricity for lighting, and latrine, about 15% dwelling units in urban slums had all the three facilities within their premises. At the other extreme, none of these facilities were available in about 11% of dwelling units in the slums and squatter settlements and 4% of units in other urban areas.

National Housing Policy

Housing sector has been receiving attention of the Government for quite sometime now and has also got a substantial boost over the years with focus on housing development all over the country but majority of the poor are still largely accommodated in slums and informal settlements. Housing affordability, viewed as a mismatch between household's ability/willingness to pay, is a major constraint for market based approach to housing. The government's role as facilitator includes ensuring that all segments are covered over time and those segments which are unlikely to be covered by non-governmental sector, have to be provided housing by the government in its role as a provider. The new National Urban Housing and Habitat Policy 2007 seek to promote various types of public-private partnerships for realising the goal of affordable housing for all.

Actors in Shelter Delivery and their Roles

The Central Ministry of Housing & Urban Poverty Alleviation is the apex policy-making body for urban housing activities. It overviews the state-level programmes, lays down policy perspectives and builds up data systems for the entire country, besides launching projects for the benefit of certain targeted sections of population. The Central Government has taken upon itself a small share of the direct responsibility in the housing sector. Through its Public Works Department, it undertakes housing schemes for its employees. Other Central Ministries and Establishments construct houses or create housing estates for their employees in different cities, towns and villages.

Public-sector housing is basically the responsibility of the State Governments. Each of the State Governments has created a state-level Housing Board for this

purpose besides other state-level agency, which has the development responsibility for new towns and industrial estates, and has housing projects as one of its major activities. Special agencies, like Slum Clearance Boards, have been set up in several States for the purpose of rehabilitating slum dwellers. In some larger cities, the slum wings within the development authorities undertake this responsibility, while in many other cities, the municipal corporations have slum wings that take up construction of shelter for the poor.

Housing in India is primarily the responsibility of individuals or households. Small-scale private development is the dominant mode of house construction even in the formal residential colonies, except in a few large cities. The rich build houses using hired labourers, engineers and contractors. The responsibility for purchasing land, arranging labour and finance, and management in all these cases rests on the individual or household. The poor, on the other hand, resort to various informal methods for acquiring shelter, particularly in the large cities. The houses built by them are generally sub-standard and unhygienic. Of late, even the middle-income households are being pushed into these units due to the scarcity of land and increasing rentals of formal houses.

Other actors/stakeholders in shelter delivery include Banks, Cooperative Organisations, Housing and Urban Development Corporation (HUDCO), National Housing Bank (NHB), real estate developers, private builders, micro financial institutions, NGOs and CBOs.

Ministry of Housing and Urban Poverty Alleviation

The Ministry of Housing & Urban Poverty Alleviation is the apex authority of Government of India at the national level for formulation of housing policy and programme, review of the implementation of the plan scheme, collection and dissemination of data on housing, building materials/techniques and for adopting general measures for reduction of building costs. In addition, it is entrusted with implementation of the specific programmes of urban employment and urban poverty alleviation. In the federal structure of the Indian polity, the matters pertaining to the housing and urban development have been assigned by the Constitution of India to the State Governments. The Constitutional 74th Amendment Act have further delegated many of these functions to the urban local bodies. Although these are

essentially State subjects but the Government of India plays a coordinating and monitoring role and also supports these programmes through Centrally sponsored schemes.

The Ministry is headed by *Kumari Selja*, Hon'ble Minister of State (Independent Charge). She is also the chairperson of the 21st Governing Council of UN HABITAT. *Dr Harjit S Anand* is the Secretary of the Ministry. He is assisted by two Joint Secretaries. There are six Directors/ Deputy Secretaries assisting the Joint Secretaries.

At present I am working as Director in Housing Division with Mr S K Singh as my Joint Secretary. In the Ministry I have been assigned specific works like policy matters on Housing and Habitat, administrative and financial matters concerning HUDCO, matters relating to UN HABITAT, international cooperation on housing & habitat and issues relating to Low Cost Sanitation Scheme.

The Ministry also plays a nodal role in addressing various issues of urban employment and poverty alleviation and housing sector by formulating policies, providing legislative guidance and through sectoral programmes. The National Policy issues are decided by this Ministry which allocates resources to the State Governments through various Centrally sponsored schemes. In addition, this Ministry is also supporting various external assistance programmes for housing, urban employment and poverty alleviation in the country as a whole.

The Government has extended substantial support (subsidies) for special national housing programmes for providing "Housing for All" under various schemes like Valmiki Ambedkar Awas Yojana (VAMBAY), National Slum Development Programme (NSDP), Co-operative Housing and Night Shelter for footpath dwellers.

Conscious of the issues of slums and poverty, the Government in India has committed itself to a comprehensive approach of urban renewal with emphasis on social housing, inclusive city growth and slum upgradation and development. Government of India has launched the ***Jawaharlal Nehru National Urban Renewal Mission (JNNURM)*** in the year 2005 to address the problems of slums and civic amenities to the poor in an integrated manner. The Mission comprises of two Sub-



Missions. These are (1) The main thrust of Sub-Mission for Urban Infrastructure and Governance is on infrastructure projects relating to water supply and sanitation, sewerage, solid waste management, road network, urban transport and redevelopment of old city areas with a view to upgrading infrastructure therein, shifting industrial and commercial establishments to conforming areas, etc. (2) The main thrust of Sub-Mission for Basic Services to the Urban Poor being administered by the Ministry of Housing and Urban Poverty Alleviation is on integrated development of slums through projects for providing shelter, basic services and other related civic amenities with a view to providing utilities to the urban poor.

National Building Organisation

The National Building Organisation (NBO) was established in 1954 as an attached office under the control of the Ministry in 1954. NBO is responsible for developing an authentic and reliable database on housing and building statistics. The statistics collected and disseminated by NBO is used in policy formulation and also used by various research organizations in the field of housing.

Housing and Urban Development Corporation Ltd (HUDCO)

HUDCO is the premier national techno – financing institution in the field of housing and urban development established by the Government of India in 1970. HUDCO's housing operations have a major social orientation with HUDCO having a clear-cut social mandate to provide financial support for affordable shelter to the poor.

National Housing Bank (NHB)

The National Housing Bank was established in July 1988 under an Act of Parliament to function as a principal housing finance institutions and to provide financial and other support to such institutions. NHB has a window for direct lending to public agencies such as State Level Housing Boards and Area Development Authorities for large scale housing projects, slum redevelopment projects and other special projects such as housing for earthquake and cyclone victims.

Building Materials and Technology Promotion Council (BMTPC)

The Building Material and Technology Promotion Council (BMTPC) was established as central inter-ministerial organisation to operationalise an integrated

system for technology transfer and delivery in the housing and building sector. It improves access to low cost building materials based on local raw material resources.

Housing Fund Requirement

The total investment requirement for meeting the housing shortage of 24.71 million houses is estimated around \$ 37 billion. The requirement for new additional urban housing alone during the 11th Five Year Plan (2007-2012) will be \$ 53 billion. Therefore the total fund requirement by 2012 will be \$ 90 billion. This will require a huge investment in the housing sector.

It may be mentioned here that the combined wealth of the 10 richest Indians is over \$200 b [*Forbes Magazine, 2008*]. Reliance Power Initial Public Offer (IPO) in January 2008 oversubscribed 73 times and garnered astronomical \$190 b. It is understood that India is likely to spend \$30b on purchase of new defence equipments in the next five years. Therefore, we may say that India has the financial strength but the issue would be how to channelize the funds towards housing the urban poor.

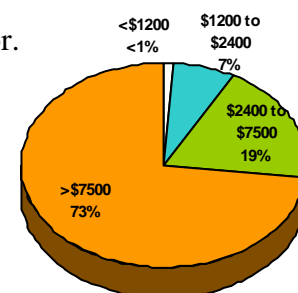
Sources of Housing Finance

Housing finance sources in India can be classified into four categories. These are formal financial institutions, informal financial institutions, Government subsidies and individuals own resources.

Formal Financial System

The first includes financial institutions like commercial banks, Housing finance Companies , cooperative sectors institutions. However these institutions provide loans mainly to middle and higher income groups at the market interest. Though India has fourth largest bank network in the world but still 94 percent of village do not have a single branch of any bank [*India Today, Feb.2008*]. Despite better coverage of banks in urban areas few slum dwellers have access to formal sector loans. These formal sector institutions usually avoid providing credit to urban poor because they lack proper land title, documents, collaterals and stable income. The existing financial system has failed to reach the urban poor.

As per the annual returns submitted by 20 major housing finance companies (HFCs) in India [*Source:*



Housing Credit by HFCs

National Housing Bank, 2007] less than 1% of housing loans extended by HFCs are of value less than \$ 1,200 and about 7% of housing loans is of value between \$ 1,200 and \$ 2,400. More than 73% of housing loans extended by HFCs is of value exceeding \$ 7,500. This highlights the need to evolve a system or schemes for financing housing loans on a large scale for the lower income groups whose affordability for housing loans fall in the range below \$ 1,200.

The Group/Cooperative Housing Movement in India has received support over consecutive Five Year Plans and a strong institutional framework has evolved within the Cooperarative Movement. However, the housing units generated through Housing Cooperatives mostly cater to the needs of middle and high income groups in cities.

Informal Financial System

This include credit from moneylenders and traders. Compared to the formal lenders, most of the informal lenders charge a much higher interest on loans and do little to increase the income of the borrowers. Informal sources of finance continue to be very very expensive and exploitive especially for the urban poor.

Subsidies

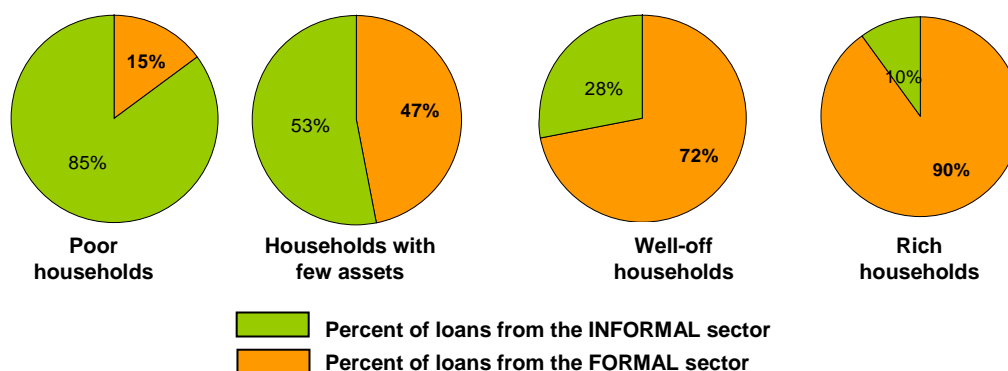
The third category of housing finance is through budgetary support for social housing schemes (Central and State Plan and Non Plan allocation) which is in form of subsidies. Though the public investment in housing under each plan period has increased in absolute terms, its share in overall public investment has been around 1% over last 10 to 15 years. Looking into the total fund requirement this is quite meagre. In the past, these programmes have also been hampered by leakage of funds or due to failure to take into account the socio-economic conditions within which the poor operate. Under the public housing model Government of India is targeting to cover 1.5 m urban poor in next 5 years. Government provides two rooms flat (ground plus three floors) of size not less than 25 sqm to the beneficiary. The size of capital subsidy vary from 50 percent to upto 80 percent (\$2500). Government builds houses and hands them over to poor . Community is not involved during construction. It is estimated that Centre and State Governments through subsidies can at best contribute \$10 billion in next 5 years. Therefore, there would be a shortfall of \$80 billion which has to be met from other sources. We need resources to meet this shortfall.

Individual's own funds

The fourth category of housing finance is through individuals own resources and through borrowings from friends and relatives. This further include the self help housing process. Unlike in countries like Bolivia, Costa Rica or Tunisia, in India there are hardly any organised self help housing projects.

Inadequate Housing Finance Mechanism for Urban Poor

Studies [NSSO 2003] have shown that 85 percent of the credit taken by poor households in the urban areas are from informal sources. For rich urban households only 10 percent credit are from informal sources while 90 percent are from formal sources.



The rich households are availing cheap credit from formal lenders whereas the poor households have to pay a heavy price for borrowing. It is important that the formal credit is distributed equally so that both poor and rich benefit from it. The upcoming challenge is to make credit for housing accessible and affordable to unserved and underserved segments of urban population. It is important to create conditions that encourage financial institutions to give credit to urban poor. There is a need for flexible and easily accessible credit and appropriate institutional mechanisms that respond to the needs and conditions of urban poor such as irregular income and low cash surpluses. Emerging successes of community based finance

mechanisms provide reasons for optimism. What are the global models for financing low cost housing? In this paper we will discuss few of these successful models.

SIDA's Central America Model for Financing Low Cost Housing

SIDA has financed housing programmes in Central America since 1988. The programme has helped more than 80,000 low income families or about 400,000 people to improve their habitat conditions [*Alfredo Stein and Luís Castillo 2003*]. The resources from SIDA have been channelised through different institutions and programmes. The Housing Promotion Foundation (FUPROVI) in Costa Rica, the Local Development Program (PRODEL) in Nicaragua, the Salvadoran Integral Assistance Foundation (FUSAI) in El Salvador, the Urban and Rural Social Housing Development Foundation (FUNDEVI) in Honduras and the Local Development Trust (FDLG) in Guatemala. The basic features of these programmes are :

1. Credits are given to low income families to improve or to expand their existing house or to build a new house.
2. Credits are given directly by the institution or through organizations that have specialized as financial intermediary institutions that give medium term and long term loans.
3. Credits are sometimes combined with subsidies from Government and complemented with the family's own resources, self help and labour efforts.
4. Credits are usually given with some interest charged, but not necessarily at market rates.
5. In some programmes, line of credits or matching funds are given to municipalities to provide basic services.
6. These intermediary institutions also provide technical, social and legal assistance to help the target family get secure land tenure, basic services and appropriate designs to improve and expand their houses.
7. All the programmes use an incremental housing process, according to participant families' capacity to save, to repay loans and advances and to contribute money and labour.
8. Once the credits are recovered, the resources are reinvested into new loans to families of nearly same income strata. The money is reinvested in the same target population.

PRODEL housing extension and improvement programme targets very low income families with some capacity to pay. It ensures that a higher number of families are reached in sustained manner. The availability of resources is maximised and the involvement of private sector in attending the housing needs of poor is facilitated years. 15 micro finance credit institutions are working with PRODEL. The average housing loan is \$ 730 and average loan term is two and half years [FDL 2008]. Credits of upto \$ 1,000 need only fiduciary guarantee. Most loans are accompanied by technical assistance from PRODEL.

SIDA's experience has shown that small and micro lending programmes have the potential to become important instruments to support the housing policies.

Incremental housing has now emerged as key element of urban poverty reduction in these countries [Alfredo Stein and Luis Castillo 2003]. This coupled with small scale organised self help housing on a project basis could be an efficient and flexible method of producing houses [Mario Rodrigues and Johnny Astrand, 1996].

Grameen Bank of Bangladesh

This is one of the biggest success stories in reaching the poor to meet credit needs at reasonable rates. Grameen Bank started in 1970s as a small project in Jobra village in Chittagang district. It now has over 6m borrowers. Almost all borrowers are women and they belong to poorest sections of the society. The entire Grameen Bank system is based on the principle that people should not visit banks but the bank should go to the people. For Grameen' credit' means trust. There is no legal instrument between the lender and the borrower. Bank keeps regular checks through weekly and monthly visits at the borrowers house to make certain that her economic health is good and that she can repay the loan and that the whole family is benefiting. The main focus of Grameen is to provide enterprise credit to finance small businesses and consumption credit to cover family needs such as festivals, illnesses and school fees . Credit for low cost housing is relatively a new phenomenon . However , till date Grameen has disbursed over 450,000 (credit of \$150m) housing loans [Muhammad Yunus and Alan Jolis 1998].

**“It’s not people who
aren’t credit-worthy.
It’s banks that aren’t
people-worthy”.**

*Professor Muhammad Yunus
The founder of Grameen Bank And
recipient of 2006 Nobel Prize for Peace*

Repayment mechanism is very simple. Loans are usually for one year duration. They are repaid in equal weekly instalments. Repayment starts one week after the loan and interest rate is 20 percent. Recovery is well over 99 percent.

It will be worthwhile here to mention about the growth of microfinancial institutions in India and to what extent these have been inspired by the Grameen model.

Micro Financial Institutions in India

The historic focus on the provision of microfinance in India is to the rural poor. Though much of the energy in the Indian microfinance sector has been directed towards the rural poor, some of the pioneers of the sector have a strong focus on urban poor. These include SEWA Bank (Ahmedabad), the Women's Working Forum (Chennai), Annapurna Mahila Mandal & SPARC (both in Mumbai). For example SEWA has 150,000 clients in urban Ahmedabad. The paradigm shift in extending micro credit, which in turn leads to inclusive growth is centred around two models – the Self Help Group (SHG) – Bank Linkage programme and micro financial institutions.

Self Help Group Model

A typical SHG has 15-20 members usually belonging to one neighbourhood who meet and save regularly. Saving per member varies from half dollar to four dollars a month. Members can take small loans from the group itself. The group charges some interest on loans. Borrowers overcome the problem of lack of collateral. They get timely loans. SHGs help women to become financially self reliant. After a year or two if the Group is regular in savings, it becomes eligible for availing loan from the bank. This is called SHG-Bank linkage programme. The SHG programme has expanded tremendously during the last decade. By March 2007, the number of bank linked SHGs stood at 2.71 million with cumulative disbursement of \$ 3 billion [Tara S Nair 2008]. It has covered about 14 million poor households. This programme has made India a leading country in the microfinance movement.

Micro Financial Institution Model

This model is NGO based model similar to the Grameen Bank. Some NGOs inspired by Grameen have chosen to act as financial intermediaries directly delivering financial services to poor and low income clients with the help of funds from

multiple sources. It is comparatively costlier in delivery of financial services because of low volumes and bigger size of loans. It is estimated that this model serves around 7.3 million household, of which 3.2 million are poor.

However, both the models are responsible to some extent for bringing urban poor in the financial mainstream by providing hassle free small loans free of collateral and offering them doorstep services.

MFIs in India : Challenges and Trends

The issue is whether microfinance has the ability to reach the poorest of poor. Research findings indicate that the poorest either self exclude themselves from microfinance for fear of not being able to cope with its terms and conditions or are excluded as graver credit risks by the more powerful members. Also, in their search for financial sustainability, the MFIs tend to progressively move towards better off clients [*Tara S.Nair, 2008*]. Moreover, India has a very few dedicated and committed NGOs like FUPROVI in Costa Rica or PRODEL in Nicaragua or Grameen in Bangladesh working in urban areas. Surprisingly the World Bank has estimated that Indian Microfinance reaches only eight percent of extremely poor in urban areas.

The success of MFIs with respect to high repayment rates is largely because of the close door-step monitoring by the staff of the MFIs and this only results in high transaction costs in terms of staff salaries/other expenses which in fact leads to these organisations charging high interest rates to have an appropriate speed. This could be 3 to 10 percent of the Prime Lending rate of Commercial banks.

Therefore, MFIs need to attain financial sustainability by cutting down on their costs which can be done by introducing IT-enabled services. Moreover, MFIs should also try to increase their lending volumes by adopting loan products which have flexible repayment options as the income surplus of the poor in the urban areas is often low and irregular.

Further, the microfinance sector in India is unregulated therefore there is no accountability in their operations. There is a demand to regulate this sector. Looking into the potential of microfinance sector, it is understood that there is a need to identify, classify and rate MFIs and empower them to intermediate between banks and the beneficiaries. In short, MFIs have tremendous potential to channelise funds from banks to the community at large. We need to evolve a strategy for this.

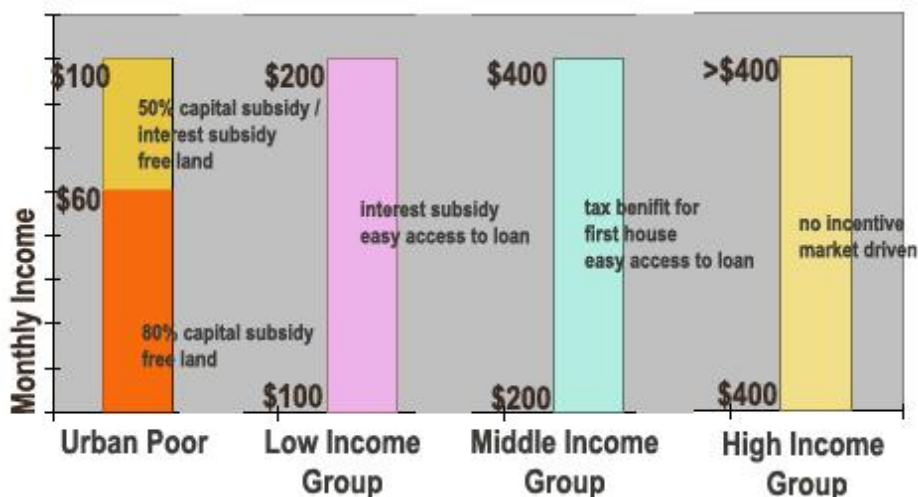
Policy and Programme Interventions for Sustainable Housing Finance System for Low Cost Housing

There is an urgent need for making housing affordable to the urban poor. The entire housing market needs to be segmented so that different segments can be best left to different mechanisms.

India has to work on a strategy to bridge the gap of housing shortage of 24.7million. The key approach could be segmentation of housing market and approaching each segment with an appropriate range of policies.

- Higher Income Groups (\$ 400 or more)- require no intervention.
- Middle Income Groups (\$ 200 to \$ 400) – by providing easy access to credit and by providing tax relief for building/purchasing first house.
- Higher income segments within low income group categories (\$ 80 to \$ 200) – by facilitating credit and by providing some kind of interest subsidy on that loan.
- Interest subsidy scheme : Objective would be to ensure urban poor to have access to subsidy by way of lowered interest say by 5 percent.
- Poor may have easy access of loan through Small/Micro finance - example SIDA's FUPROVI/ PRODEL model or Grameen Bank Model or through Self Help Group Model - Bank Linkage programme of India.
- All Nationalised and Private Banks will have to provide seed money to MFIs/NGOs out of their profits. Government will further allow Banks to raise money for financing low cost housing through tax free bonds and debentures.
- Government will provide upto 80% capital subsidies (through Jawaharlal Nehru Urban Renewal Mission and other schemes) for housing the extremely poor. Centre, State and Local Governments may evolve partnership (Center providing chunk of subsidy and State providing land free of cost) for housing the poorest including the slum dwellers. Governments will have to play a pro-active role by providing subsidies and also by providing land free of cost to the extremely poor.

A Financing model for low cost housing has been attempted and is given in illustration below :



Mr K.L.Dhingra, CMD of HUDCO (Housing and Urban Development Corporation) strongly advocates that Government intervention is required for financing low cost housing. There is a need for separate project appraisal system for poor vis-à-vis rich. He believes that micro finance alone would not help in meeting the housing shortage since India is a large and diversified country. Certain share of the profits made by the banks need to be diverted for financing social housing. However, Mr R.V.Verma, Executive Director of the National Housing Bank (NHB) feels that housing for lower income population has to be seen in the larger context of the economic development process. With growing urbanisation and migration of people to the growth centres, the land and urban infrastructure invariably come under severe pressure. There is also competing demand on land from different sectors. As part of the planning process, the housing needs of such population must be addressed with due priority, upfront. He further adds that in the absence of a formal solution, the unmet housing demand converts into slums and squatter. Mr Anoop Singh, a migrant and a daily wager in unorganised sector in Delhi has no faith in formal credit system. For him owning a house is a distant dream. He would ultimately settledown in some informal squatter like sixty million other urban poor in India. Mr Jagirilal a low level functionary in the Government office in Delhi commutes 60 km daily from his home in village Sonepat because he cannot housing in Delhi has become unaffordable for him.

Proposal for Change : Towards Pro-poor Housing Finance System

Government of India and State Governments will have to play a major role as 'provider' of housing solutions to the extremely poor . Subsidies will have to flow from Government coffers. Land will have to be provided free of cost by the Government to the people living in extreme poverty.

Financial inclusion is defined as the delivery of banking services at an affordable cost and without discrimination to disadvantaged and low income groups. It is our objective to ensure that institutional credit for low cost housing is made accessible and affordable. Building an Inclusive Housing Finance System on sustainable lines is a viable solution to tackle growing housing requirements of low income segment household .

To improve the access of urban poor to formal housing, Non Governmental Organisations (NGOs)/ Microfinance Institutions (MFIs) can also be seen as an alternate channel to serve them. Demand aggregation is the key and such informal organizations by organizing the urban poor like industrial workers, self-employed women who are running small enterprises etc., provide an opportunity to work with them on a scale. MFIs clearly demonstrate the repayment history i.e. credit worthiness of the urban poor by giving and taking back various loans. It has also been seen that some of the urban poor who may have clear land titles may be part of these groups but would have been excluded from the purview of the formal financing institutions. If such kind of urban poor are therefore given housing loans may be only for incremental housing to start with can show us the way forward in meeting the shelter needs of the urban poor. NGOs/MFIs who have been working with the slum dwellers can be roped in for disbursement of Government subsidies (capital and interest subsidies both) and the Banks/HFCs can provide credit to the community to meet their contribution in these projects. Risk mitigation also forms an important component and instead of working directly with the urban poor, if a strategy of working with the informal organizations who themselves are aware of their needs, customs, resources and enterprises is adopted, it will remove the doubts in the minds of the formal institutions with regard to providing housing solutions for them. This will be a paradigm shift in the working of Government and Banks in India.

Moreover, Government of India will have to provide some kind of interest subsidies of say five or more percent to make credit affordable and within the reach of the urban poor.

With the proposed interventions adequate resources as required for low cost housing could be mobilised and affordable market based housing system could be evolved enabling reduction in housing shortages. Success in repayment of housing loans can be further enhanced through dovetailing of habitat development with income generating opportunities for the poor.

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