

# **Housing Poverty in Urban India: The Failures of Past and Current Strategies and the Need for a New Blueprint**

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## ABSTRACT

This paper argues that India's housing strategy should not be confined to merely creating affordable housing stock to tackle the shortage, as such an approach is myopic. Instead, a sound housing strategy must be informed by an adequate understanding of the multiple facets of housing poverty, including the factors that are responsible for the proliferation of slums. The blueprint offered in this paper understands an effective housing scheme as a means to correct market distortions and other anomalies that upset the incentive structure underlying the affordable housing segment in the country.

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## INTRODUCTION

Even as India is the fastest growing economy in the world today—with a growth rate of 8.2 percent in the first quarter of 2018-2019<sup>1</sup>—63.67 million urban and rural households across India do not have adequate housing.<sup>2</sup> This massive number is cause for concern. The ‘Global Strategy for Shelter to the Year 2000’ declared by the United Nations General Assembly in December 1988,<sup>3</sup> defined “adequate housing” as “adequate privacy, adequate space, adequate security, adequate lighting and ventilation, adequate basic infrastructure and adequate location with regard to work and basic facilities—all at a reasonable cost.”<sup>4</sup>

In India, the 2012 report of the Technical Group on Urban Housing Shortage for the 12th Plan (TG-12)—set up by the Ministry of Housing and Urban Poverty Alleviation to estimate the urban housing shortage in the country for 2012-2017—pegged the total number of households without “decent” housing in cities at 18.78 million (See Table 1).<sup>5</sup> This number reflects an aggregate of those who live in non-liveable, temporary, overcrowded and dilapidated homes: those who live in unacceptable conditions as well as those who are homeless. This, therefore, is the face of “housing poverty” in urban India.<sup>6</sup>

**Table 1. Households in Urban India without decent housing (2012)**

| Category of households                                     | Number<br>(in million) |
|--|------------------------|
| Households living in non-serviceable <i>katcha</i>         | 0.99                   |
| Households living in obsolescent houses                    | 2.27                   |
| Households living in congested houses requiring new houses | 14.99                  |
| Households in homeless condition                           | 0.53                   |
| <b>Total</b>   | <b>18.78</b>           |

Source: Technical Group on Urban Housing Shortage for the 12th Plan (TG-12)<sup>7</sup>

This paper argues that as India's policymakers do not have an effective comprehension of the issue of housing poverty, they have failed to design housing schemes that will mitigate such form of poverty. Instead, the country's housing programmes have largely been myopic. The paper demonstrates that such shortsightedness has caused the failure of these government schemes. It offers an alternative blueprint for a housing strategy that is based on a more nuanced understanding of the notion of housing poverty.

### **'HOUSING POVERTY': DEFINITIONS AND DIMENSIONS**

The international community has long come to a consensus of what constitutes 'poverty', and goals to end it have been set and reiterated over time: Poverty is a state of deprivation of basic human needs. The idea of 'housing poverty' is analogous in that there is a benchmark in terms of requirements such as assured supply of water and electricity, minimum amount of space, and sanitation and hygiene.<sup>8</sup>

The way to conceptualise housing poverty is by defining what constitutes *adequate* housing. This covers basic amenities such as electricity, water supply, sanitation, and even sewage management. It also extends to the need for enough income to be able to access a housing loan or even rent a house. Housing poverty affects one's ability to be physically and mentally healthy, and economically and educationally productive. It affects one's capacity to access employment, and social relations.<sup>9</sup> Therefore, formulating policies to tackle urban housing shortage must focus on expanding freedoms<sup>#</sup> to enable people to function normally: this

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# Indian economist, Amartya Sen, expounded on the idea of human development as "freedom", and conversely, deprivations are 'unfreedoms': they include malnutrition, tyranny, lack of education and healthcare, communalisation, corruption, and poor public facilities. Sen identifies five categories of fundamental, interrelated freedoms—political freedoms, economic facilities, social opportunities, transparency guarantees, and protective security. See Romi Khosla, *Removing Unfreedoms: Citizens as Agents of Change*, accessed 5 February 2019, [https://www.ucl.ac.uk/dpu-projects/21st\\_Century/freedom/Removing\\_Unfreedoms.pdf](https://www.ucl.ac.uk/dpu-projects/21st_Century/freedom/Removing_Unfreedoms.pdf)

includes access to employment and social security, access to housing loans, tenure security, hygienic and disease-free surroundings, clean water, parks and open spaces, and social relations.

## URBAN HOUSING SCHEMES IN INDIA: A SURVEY

This section outlines the major housing schemes that have been launched by various Indian government agencies following Independence. It appraises the design of these schemes to determine whether housing poverty in the cities has been appropriately dealt with by the strategy defining such design.

### Housing programmes in the First and the Second Five-Year Plans (1951-1961)

1. *Subsidised Housing Scheme for Industrial Workers and the Economically Weaker Sections.* The first major housing programme launched in 1952, it involved disbursements of loans to industrial employers or cooperative societies of industrial workers to cover a sizeable proportion (75 or 90 percent, respectively, with a 25 percent subsidy component) of the project costs of housing to be provided on a rental basis for a completed or an open development plot. The target beneficiaries were the industrial workers employed in mines and factories in the private sector with monthly incomes of less than INR 500. Workers could obtain non-refundable loans from their provident funds to finance the remaining construction of houses.<sup>10</sup>
2. *The Low Income Housing Scheme of 1954.* It provided loans of up to 80 percent of the construction cost of a dwelling unit (subject to a cap of INR 8,000) to individuals whose incomes did not exceed INR 6,000 per annum. Loans under the scheme were also made accessible to non-profit organisations, educational institutions, and hospitals, to create rental or hire-purchase housing stock for their low-income employees.<sup>11</sup>

3. *The Slum Clearance and Improvement programme of 1956.* This programme was designed to clear and rehabilitate slum dwellers into government created housing stock at nominal rents. The recipients were provided either a bare minimal structure or an open development plot around the size of 1000-1200 square feet with a toilet facility. The remaining construction was to be undertaken by prospective beneficiaries, with the use of limited building materials that were provided to them by the government on the basis of certain guidelines.<sup>12</sup>

These programmes did not result in significant benefits for their beneficiaries, many of whom ended up abandoning the houses as they were either unaffordable or unacceptable.<sup>13</sup> This was especially true of the Slum Clearance and Improvement scheme, whose locations were often far from the city centre and places of employment and livelihoods of the beneficiaries. In many cases, the beneficiaries were not even in the position to pay the nominal rents.<sup>14</sup> These schemes also failed because of the absence of community participation in their design, accentuating the powerlessness of the slum dwellers. This is evident in the fact that the resettlement solutions were completely unacceptable to many of the beneficiaries.<sup>15</sup> These early programmes, while purporting to resolve housing poverty, ignored unemployment and income poverty; it was a recipe for failure.

### **Housing programmes in the 1970s and '80s**

1. *The Environmental Improvement of Urban Slums (EIUS).* The programme was launched in 1972, motivated by the realisation that the notion of housing for the poor cannot remain confined to shelter alone and must accommodate concerns about basic amenities, location and tenure. The scheme focused on slum upgrade through the provision of services such as paving of streets, water supply, sewerage, and toilet facilities.<sup>16</sup>

2. *The Urban Basic Services (UBS) Scheme*. Launched in 1986, this programme extended the provision of physical infrastructure to that of social services such as learning opportunities for women, vocational training, pre-school programmes for children, and setting up of community organisations. The scheme placed particular emphasis on women and children in urban slums.<sup>17</sup>

During this period, policymakers were more aware that they cannot ignore the relationship between housing issues, and the lack of employment opportunities and access to essential services. However, attempts at mitigating these problems in a more holistic manner failed in their objective of providing substantial gains in housing outcomes and poverty alleviation. Similar to the earlier period of housing schemes, there was a lack of community participation in formulating the programmes and measures.<sup>18</sup>

Even as the housing finance market was expanded as a result of the establishment of Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC) and National Housing Bank (NHB), they brought financial inclusion mostly for the middle and higher income groups, and not for the poor.<sup>19</sup>

### **Housing schemes in the 1990s**

1. *The Urban Basic Services for the Poor (UBSP)*. This scheme was an enlarged version of the UBS
2. *The Nehru Rozgar Yojana (NRY)*. This was an employment programme consisting of the Scheme of Housing and Shelter Upgradation (SHASHU). The NRY comprised three employment related schemes: one that involved financial assistance to set up micro-enterprises; the second consisted of providing training for self-employment; and the third provided urban wage employment to the urban

unemployed poor. Although the NRY scheme tried to integrate efforts to tackle employment and housing, it was not based on the assessment of the level of income required to support a basic minimum standard of housing. Nor did the scheme take into consideration the need to generate employment opportunities which generated enough income to access a loan or live in a rental space.<sup>20</sup>

3. *The National Slum Development Programme (NSDP)*. To financially consolidate an integrated approach to tackle the multiple dimensions of poverty, this programme was launched in 1997 by combining the housing component of NRY and the Prime Minister's Integrated Urban Poverty Eradication Programme. The programme emphasised on the provision of not only essential amenities involved in the upgrade of shelter but also social services such as skills enhancement.<sup>21</sup>

### **Housing schemes in the 21<sup>st</sup> century**

1. *The Jawaharlal Nehru National Urban Renewal Mission (JNNURM)*. Launched in December 2005, the JNNURM aims at a reform-driven, planned developmental transformation of India's urban areas. The Mission acknowledges the responsibility entrusted upon cities to act as the primary agent, engine and catalyst in the process of sustainable growth and development. Accordingly, it aspires to create "economically productive, efficient, equitable and responsive cities."<sup>22</sup>

Two of the sub-missions under JNNURM are dedicated to urban housing problems:

- a. *Basic Services for the Urban Poor (BSUP)*. Managed by the Ministry of Urban Development, the BSUP is designed for the upgrade and

improvement of the conditions of slum settlements, assuring universal access to basic amenities such as water and sanitation, and social infrastructure such as health, education and social security.

b. *Integrated Housing and Slum Development Programme (IHSDP)*. IHSDP seeks to tackle poor housing for urban slum dwellers in cities and towns as per the 2001 Census, excluding those which were being targeted under BSUP.<sup>23</sup>

2. *Rajiv Awas Yojana (RAY)*. With the motto, “Slum free India”, the scheme was launched in June 2011. The motivation underlying the programme acknowledges the failure of the market and the government to secure the rights of the urban poor to a decent and dignified life. Its material objective is to provide affordable housing with basic municipal services. The scheme is not confined to bridging the gap of material deprivation. Rather, the vision of this scheme understands that slum proliferation is an unfortunate outcome of a chain reaction, which is triggered in turn by lack of employment. Under the scheme, the government intends to circumvent the forces that are responsible for the failure of the market and the government in accommodating the housing and other basic needs of the urban poor. It is hoped that this exercise prevents any further slum proliferation. The scheme also emphasises the need to bring informal settlements within the coverage of the formal economy. The RAY strategy is two-pronged: the first component involves slum redevelopment, preferably in-situ redevelopment, of existing slums, while the second seeks to make provisions that curb future creation of slums. The Affordable Housing in Partnership (AHP) belongs to the second component of the RAY scheme. The AHP scheme envisions Public Private Partnerships in making provision for affordable housing stock – both on rental and ownership basis.<sup>24</sup>

3. *Pradhan Mantri Awas Yojana*. Launched by the Narendra Modi government in 2015, it aspires to eliminate urban housing shortage in India by the year 2022. This Yojana is being executed through four verticals:<sup>25</sup>

- *In-situ slum redevelopment*:

This strategy leverages land occupied by slums to incentivise private players for developing formal settlements for the slum inhabitants. The proposed plan is composed of two constituents: the first constituent refers to the rehabilitation of existing slum dwellings and augmenting them with basic civic infrastructure. The second constituent refers to what becomes available to private developers for sale in the market for cross-subsidising the slum redevelopment project, making it financially viable. The Centre supports this initiative by issuing a grant of INR 100,000 per house (on average).<sup>26</sup>

- *Credit Linked Interest Subsidy (CLSS)*:

Interest paid on housing loans of upto INR 600,000 availed by the Economically Weaker Sections (EWS) and the Low-Income Group (LIG) is subsidised at the rate of 6.5 percent for a tenure of 15 years or during the tenure of the loan, whichever is lower. The Net Present Value (NPV) of the interest subsidy will be computed at the discounted rate of nine percent. This subsidy subtracts from the loan and Equated Monthly Installments (EMI), making credit more affordable for the urban poor.<sup>27</sup>

- *Affordable Housing in Partnership (AHP)*:

The States/UTs, which initiate affordable housing projects in their own capacity or in partnership with the private sector, are eligible for Central assistance provided such projects satisfied certain stipulated

criteria. More specifically, a housing project, in which 35 percent of the housing stock is earmarked for the EWS category and the aggregate size of the project is at least 250 houses, becomes eligible for a central grant of INR 1.5 lakh per EWS house for all EWS houses in the project.<sup>28</sup>

- *Beneficiary-led individual house construction or enhancement (BLC):*

Within this vertical, EWS households wanting to construct new houses or improve existing houses can avail central assistance of INR 1.5 lakh. Households which are not covered under any of the above-mentioned verticals, are also eligible upon furnishing the requisite documentation.<sup>29</sup>

Both the JNNURM and RAY schemes have been criticised for the poor quality of the houses; in some instances, they have been worse than their habitation in the slums, even in size.<sup>30</sup> Moreover, the housing projects have been located in areas lacking trunk infrastructure. Many beneficiaries face lack of electricity, water supply, sewerage and solid waste management in their new residence. Often, open spaces around the newly constructed houses are reduced to serving as garbage dumps. Houses have structural defects as well (e.g. damp indoor walls, leaky ceilings). In some cases, houses have been constructed in areas distant from livelihood and income earning opportunities with inadequate provision of public transport. As a result, much of the housing stock created under the government schemes remains vacant.<sup>31</sup>

Slum dwellers value their social networks to the extent that they prefer remaining in slums over newly constructed homes. Such social networks are a source of informal credit and insurance that support the slum dwellers during financial difficulties.<sup>32</sup>

Overall, both the JNNURM and RAY schemes have failed to alleviate housing poverty. Instead, the programmes have tended to disrupt their means of employment and social networks to compel them to accommodate poor housing standards.

To begin with, the JNNURM Mission document itself contains contradictions—while, on the one hand, it aspires to build economically productive and equitable cities, it regards any initiative of generating wage and fresh employment opportunities as inadmissible on the other.<sup>33</sup> Furthermore, let alone creation of new employment, the relocation exercise executed under the mission has largely failed to preserve existing employment opportunities of the slum dwellers.<sup>34</sup>

Compounding the problem is that the implementation of the policy has failed to realise the promise of delivering basic services to all. Productive cities are founded upon productive workforce, after all, and a productive workforce cannot be conceived without access to basic services. In the case of RAY, any concrete strategies to tackle lack of formal employment and arrest slum proliferation have not been implemented despite an explicit commitment to do so in the mission document.

It may be argued that both JNNURM and RAY have enabled cities to respond to the housing shortage by creating affordable houses. However, creating new houses cannot come at the cost of lost employment or low quality of living, because these are the ends for which housing is the means.

To be sure, it also might be argued that a larger proportion of the housing created under these schemes has been occupied. To that extent, these schemes may be regarded as successful. Before claiming success, however, it must be understood that these schemes have only housed

existing slum dwellers, while having done nothing to combat the process of slum proliferation.

The government grants under the Beneficiary-Led Construction component requires the applicant to possess reliable and clear land titles. It fails to acknowledge that land and property records in India are in a dismal state, giving rise to the frequent and widespread problem of unclear land titles. Potential beneficiaries of the housing scheme find obtaining property documentation cumbersome since property records come under the purview of an agency which is different from the one that is responsible for housing issues.<sup>35</sup> Moreover, most of the housing constructed or enhanced by the low-income segment is located in the peripheries and outskirts of cities which are not notified as 'urban' by the government. As a result, they are not eligible for financial support under the PMAY (U) scheme.<sup>36</sup>

As far as the Credit-Linked Subsidy component of the PMAY (U) scheme is concerned, individuals were informed about whether they would receive the interest subsidy under this scheme only after receiving the loan. As a result, many could not access this concession.<sup>37</sup> Clearly, provisions for financial assistance under the PMAY (U) scheme have failed to understand the character of urban poverty and therefore, failed to improve the quotient of affordability of housing. The poor implementation of both CLSS and BLC implies that PMAY (U) has not been able to redress the *unfreedom* of financial exclusion facing the urban poor as regards housing.

## **FRAMING THE CONTEXT OF HOUSING POVERTY IN INDIA**

This section deconstructs the problem of housing poverty in India to draw insights that will help in revisiting existing policies and articulating the way forward.

## Understanding the problem of slum proliferation and urban housing shortage

Referring to cities as “engines of economic growth” implies expectations that they are well-performing. What are the credentials of well-performing urban centres, to begin with? The widely accepted model of urbanisation defines it as an evolution of a primitive agrarian economy into a modern industrial one; the evolution is fuelled by a change in the pattern of employment generation—a shift of surplus labour from agriculture to industry and services. The function of an urban centre as an engine of growth begins at employment generation. The expansion of the industry and services sectors kickstarts the cycle wherein job creation boosts aggregate demand, contributing to increase in GDP which, in turn, creates more jobs. The ensuing urban growth becomes the source of agglomeration economies that accelerate industrialisation and the expansion of services sector. Urbanisation also involves a transition from the informal to the formal sector.<sup>38</sup>

The pace of urbanisation in India has been gradual. The industrial regime established immediately after independence stifled the market forces governing the economy. Being excessively regulated, Indian industry suffered stagnation as a result of glaring inefficiencies, absence of competition, barriers to entry of new firms and exit of old ones, administrative burden required for acquiring licenses, and tariff and non-tariff barriers. Understanding the crucial link between industrialisation and economic growth prompted the government to revisit their policy on industrialisation. Consequently, liberalisation reforms were initiated in the early 1980s and assumed momentum in the early 1990s.<sup>39</sup>

At the beginning of the 1980s, the contribution of the Industry sector was about 25 percent, increasing to 30 percent in 2016-17.<sup>40</sup> The

contribution of manufacturing to India's GDP has remained stagnant at around 16 percent in the last 25-30 years.<sup>41</sup> Today, the share of Industry in employment is around 24 percent,<sup>42</sup> while that of Manufacturing is 10-13 percent.<sup>43</sup> The appraisal of industrialisation based on these figures must be evaluated in the light of the fact that India's agriculture, while contributing only 15-17 percent of the GDP, shoulders the responsibility of 43-50 percent of the employed in the country.<sup>44</sup> Clearly, urbanisation— as an outcome of formal employment generation in India – could not take off in an appreciable manner because the foundational force of industrialisation continues to remain weak even post-liberalisation. Industrial expansion has failed to generate productive employment so as to absorb the surplus labour in agriculture.

It has been found in India that manufacturing has been growing at a faster pace in districts that have lower concentration of manufacturing employment, but at a slower rate in high concentration districts. On average, high concentration districts have suffered loss of manufacturing employment. In fact, India has witnessed the decentralisation of formal sector manufacturing shifting away from the city centres to the peripheries in order to exploit gains from cheaper land and labour.<sup>45</sup>

The story, however, is completely different in the case of the services sector. Districts with high density of services sector employment have attracted higher growth of the services sector.<sup>46</sup> Unlike manufacturing, the services sector in India has leveraged agglomeration economies to become the largest contributor to India's GDP. Accordingly, India has managed to register fairly rapid economic growth following the 1991 economic reforms, owing to the expansion of the services sector. Indian cities appear to have remained true to being engines of economic growth as they accounted for about 60 percent of the nation's GDP in 2012.<sup>47</sup>

Furthermore, as much as 70 percent of urban GDP in 2011-12 was contributed by the services sector.<sup>48</sup> The caveat here is that this growth has essentially been in what is called “jobless growth” and a large fraction of the jobs created in the services sector are informal in nature.<sup>49</sup> In 2011-12, employment in the services sector accounted for 26.84 percent of total employment in India. Of this, while 5.62 percent were formal jobs and 2.72 percent were informal jobs in the organised sector, 0.22 percent jobs were formal jobs and 18.29 percent were informal jobs in the unorganised sector.<sup>50</sup>

Urbanisation in India has been driven by the informal manufacturing and services sectors. While leveraging agglomeration economies, the expansion of services sector and informal manufacturing in India has been responsible for the increase in the size of larger cities. As a result, urban India faces spatial inequality which is clearly reflected in the distribution of population. The Class I cities accounted for 70.2 percent of the urban population in the 2011 census, while the remaining towns accounted for the rest. In 1991, these percentages were 64.35 percent and 35.65 percent, respectively. Furthermore, about 73.5 percent of the slum dwellers resided in Class I cities, while the remainder in the other smaller towns in 2011.<sup>51</sup> The metros of Mumbai, Kolkata and Chennai are noteworthy in this context: they have 41.3 percent, 29.6 percent and 28.5 percent, respectively, of their population living in slums.<sup>52</sup>

The positive correlation between being a resident in slums and belonging to either the weaker economic sections or the low-income groups is beyond compelling.<sup>53</sup> A dominant characteristic of those belonging to EWS or LIG is that they are generally informally employed.<sup>54</sup> Urbanisation in India, which has failed to generate productive, secure formal employment, explains to a certain extent the proliferation of slums. Unskilled or semi-skilled persons, in the absence

of formal factory jobs, become part of the informal economy in cities.<sup>55</sup> Slums in urban India tell the tale of how livelihood needs have coerced people to come to terms with living in desperate housing conditions.

As already mentioned, urbanisation in India has heavily skewed the spatial concentration to bring about skewed spatial development.<sup>56</sup> High population densities exert significant pressure on the infrastructure and other resources required for providing basic services and amenities in large cities.<sup>57</sup> It is usually argued that, land being scarce, this excess pressure on land is responsible for spiking land and construction costs that make housing unaffordable.<sup>58</sup> A common counter to the above argument is based on the premise that scarcity of land is a myth. There are no limits to the vertical expansion of space use. Inefficient land use and restrictions on Floor Space Index/Floor Area Ratio, rather than fixed land, creates an artificial scarcity of land, pushing up prices.<sup>59</sup> It has been pointed out that government agencies and state-owned enterprises are sitting on vast tracts of idle lands, which can be used for easing the shortage of affordable houses.<sup>60</sup>

Another issue that needs to be pondered is the failure of the affordable housing market in accommodating the residents of informal settlements. Formal developers have little incentive to create affordable housing stock in the current scenario. Affordable housing projects end up being located in the city peripheries or in the suburbs with poor infrastructure and connectivity, as they need large stretches of land to build large volumes of such homes that can be priced appropriately for the EWS and LIG groups. Formal developers are required to provide basic infrastructure to sustain the demand for the homes constructed by them. Furthermore, these affordable housing projects are usually located in isolated areas, affecting customer demand. Lengthy and unpredictable approval processes escalate costs. All of these issues subtract from the possible profits, making affordable housing an

unviable enterprise in urban India.<sup>61</sup> Also, people generally occupy slums in areas that are near their places of work.<sup>62</sup>

The rent control regime existing in some cities in India has also been responsible for the acute shortage of affordable housing in the city. The argument is that since rental laws have lowered returns on rental properties and made eviction of tenants particularly difficult, it has led to the stagnation of new investment in rental housing.<sup>63</sup>

Banks and traditional housing finance companies are averse to providing credit to low-income customers who do not possess reliable income documentation. Such customers are deemed to be high-risk and poor-quality credit assets. Slum dwellers, mostly being informally employed, find it hard to obtain housing loans from such financial institutions.<sup>64</sup>

### **Towards a direction for policy for industrialisation, urbanisation and employment generation**

Inclusive and sustainable development is the underlying principle of India's economic aspirations. Adhering to this principle also relies upon how urbanisation is strategised. To curtail slum proliferation, housing schemes should be embedded within the broader planned urbanisation programme. The focus of policy must be to launch formal manufacturing on the path of exponential growth. This policy suggestion is motivated by the de-urbanisation of formal manufacturing in India. If India manages to capitalise on this trend, it will address the problem of housing poverty not only by generating formal employment, but will also bring the country closer to solving other problems discussed earlier.

There is a need to undertake case studies to understand gains from suburbanisation/ruralisation of formal manufacturing, apart from

cheap land and labour. Such understanding will help design a policy that augments forces that attract formal manufacturing to the suburbs and rural areas. Of course, the growth of formal manufacturing in suburban, peri-urban and rural areas mandates large investments in infrastructure, power and connectivity in such areas. Once these spaces begin to generate formal employment, they will attract new residents, making affordable housing projects in these areas viable and profitable. This will help correct both demand and supply anomalies in the affordable housing segment. Furthermore, with regularity and certainty of income flows, secure jobs, and reliable income documentation, those engaged in formal employment would be better placed to access housing loans.

The model of urbanisation being proposed in this paper aspires for an efficient allocation of resources, in part, by correcting the existing misallocations as well. For this, the urbanisation model applied must treat cities not as individual and isolated entities, but as components of a larger network or system of cities. Such urbanisation relies upon a well-developed and dense network of transportation and communication for making the connection between cities possible. This will allow mobility of resources between cities, enabling them to respond to economic shocks originating in any city so as to correct the misallocation of resources.

The strategy being proposed for achieving housing for all does not completely rule out either easing of FSI/FAR restrictions or using government land. These measures are critical to enabling large cities to deal with the ever-growing needs of urbanisation. Nevertheless, these measures must accompany the adoption of the above-mentioned urbanisation model, such a model being the fundamental component of an appropriate affordable housing scheme. Despite these measures, diseconomies of scale such as congestion, air pollution, and increase in

the cost of living, as well as the saturation of resource utilisation in large cities will keep costs and prices of everyday living higher than in newly nurtured urban centres. From the perspective of efficient utilisation of resources, the potential locked in new towns and cities must receive priority in ameliorating urban housing shortage.

Rural-urban migration has, in some instances, been regarded as undesirable and that rural development becomes necessary to reduce such migration. However, the phenomenon of migration is a natural economic and a much-needed reaction to disguised unemployment and lowered productivity levels in the agriculture sector. The onus lies with urban centres that must generate jobs to unlock the productivity of surplus agricultural labour and enable poverty reduction. The urbanisation model being proposed does not rely on rural-urban migration exclusively, but also facilitates in-situ urbanisation—i.e., urban transformation of rural areas.

## REIMAGINING INDIA'S HOUSING POLICY

This paper offers a blueprint for a housing strategy that is sensitive to all dimensions of housing poverty and the *unfreedoms* that perpetuate it. As such, components of this blueprint can be viewed as anti-poverty measures.

The blueprint intends to support the planned urbanisation programme envisioned earlier. Housing schemes in India have been time-bound, chasing specified targets in terms of houses constructed. For example, the goal of PMAY (U) is to deliver 20 million homes by the year 2022.<sup>65</sup> This goal appears to have implicitly assumed that once this target is achieved, the problem of urban housing shortage will be solved. It appears that it is also assumed that following the achievement of the targets, the affordable housing markets will not face major distortions

and slum creation will have stopped. These are naïve assumptions because they do not aspire for further urbanisation. What the country needs is for housing schemes to synchronise with urbanisation.

In this blueprint, the role ascribed to the government is more of a facilitator, and not a direct producer of affordable housing stock. The government is envisioned as a force that enables innovation, scaling of viable solutions, and correction of markets. This characteristic of the blueprint is motivated by the principle of efficient mobilisation and utilisation of available resources.

### **Transit shelter for temporary and seasonal migrants**

Rural-urban migration is fundamental to urbanisation and the contribution of migrants to the cities' economy cannot be discounted. In fact, migration is driven by aspirations of better employment opportunities. Lack of employment and rural poverty compels Indians to keep moving between their rural homes and urban workplaces. There are many estimates of the number of seasonal migrants, yet the importance of catering to their urban housing needs cannot be discounted.

Affordable housing initiatives in India have catered to permanent migrants, while ignoring the needs of temporary and seasonal migrants. Seasonal migrants are not in search of permanent residence, rather low-cost rental accommodation would better suit their transient nature. In the absence of such accommodation, seasonal migrants are forced to live in de-humanised circumstances, be it slums, open spaces or in shared rental homes. Seasonal workers, quite often, also end up living in their workplaces.<sup>66</sup>

From the perspective of inclusive growth and development, the role of any housing scheme is to provide affordable avenues of residence to migrant workers as well as job seekers whether long-term or seasonal. If

migrants resort to living in slums, then the housing scheme has failed. PMAY (U) has suffered failure in this sense.

Since 2007, Aarusha Homes Private Limited has been operating in the domain of temporary housing in urban India. It has been providing low-cost rental accommodation to low-income migrant workers in the three cities of Pune, Bangalore and Hyderabad. Aarusha Homes has ensured access to comfort and hygiene, electricity and internet, as well as good quality food for its customers. Aarusha's pay-as-you-go payment system understands the financial constraints of migrant workers in making any form of long-term payment. There are various rental plans associated with different forms of service packages that seek to be affordable across several socio-economic segments. As such, the range of rents being charged begins at around INR 1,400 and ends at INR 6,000. These hostels are generally located in areas near centres of employment.<sup>67</sup>

Neither does the company directly purchase land nor does it construct the hostels. Rather, entire buildings are obtained from landowners on lease. Builders consult with Aarusha's representatives on the design and layout of the hostels to be constructed.<sup>68</sup>

There are several challenges confronting Aarusha Homes which reflect in thin and sensitive profit margins. To begin with, the company is treated as a commercial entity and, hence, pays higher tariffs for electricity and water. The cost of leasing properties is high. Fixed costs account for about 60 percent of total costs. The risk of non-occupancy, especially during the startup phase as well as during job switches of migrant workers, adversely affects profitability. This risk is particularly more pronounced during the startup phase and can adversely affect the survival of the business. This problem is further accentuated with lack of support from financial institutions.<sup>69</sup>

As a corrective to the unfortunate neglect of the affordable rental housing segment by the Government, it must extend support to ventures such as Aarusha Homes under the ambit of partnerships with the private sector. Some of the measures that need to be considered are the following:

- In cities where land represents a substantial cost, unutilised government-owned land in city centres can be leased to private developers partnering with providers of low-cost rental homes at affordable rates.
- Infrastructure status can be accorded to such constructions so that private developers can leverage lower cost of borrowing, tax breaks as well as seamless access to capital.
- Grants that were being offered to private developers under AHP programme must extend to stakeholders operating in the affordable rental housing segment.

These measures will lower costs incurred by the builders in this segment. It is also expected to further translate into lowered rents for service providers such as Aarusha Homes, so that the pressure on profit margins is relieved.

The Reserve Bank of India needs to launch an enquiry into the reasons that have prevented lending to private players like Aarusha Homes and how banks can be incentivised, or even nudged, to lend to such players. There is a need to understand the risk-return tradeoff characterising the affordable rental housing space and the capital requirements of ventures in this space. Of course, new financial products in the form of credit and insurance instruments need to be designed to cater to the needs of this space.

## **Affordable rental housing**

At an early stage of urbanisation of a new area, the housing scheme needs to cater to job seekers. As migrants flow into this newly-urbanising area, the need for immediate housing, which cannot be catered to by ownership housing, will require the provision of affordable rental accommodation. The inability to cater to this need will spur slum creation.

The housing scheme needs to ensure that the draconian rent control laws enacted by the Centre and the States find no place in the housing strategy adopted for new towns and cities. It is this rental regime that has disincentivised investment in the rental space in India.

## **Credit instruments catering to the informal sector**

The informal economy will leverage agglomeration economies, swelling the number of the informal workforce. The goal of urbanisation is to maximise the opportunities for formal employment by catalysing the transition from the informal to the formal sector. The housing scheme must contemplate on how it can support this transition as lack of formal housing should not exclude anyone from participating in the process of development. In the absence of documentation necessary for credit assessment, conventional banks and traditional Housing Finance Companies prefer not to lend to the informal segment. Therefore, the Credit-linked Subsidy scheme under the PMAY (U) cannot be availed through these banks.

Affordable Housing Finance Companies (AHFCs) have developed an alternative credit assessment mechanism, which does not depend upon the conventionally required documentation for such assessment. This mechanism is a field-based process, which reliably assesses the income, assets and repayment ability of the prospective borrower. Even the Credit-linked Subsidy scheme under the PMAY (U) is accessible only

through these companies, since they do provide loans to the EWS and LIG segments. As compared to the credit needs of the low-income segment, the supply of credit by these AHFCs is quite limited. There is a lot of scope to improve the geographical coverage of such credit facilities. Furthermore, these loans have only reached the upper-end of the EWS and LIG markets.<sup>70</sup>

Housing loans to the lower-end of the EWS and LIG segments represent a huge market opportunity.<sup>71</sup> Existing credit instruments may not serve well the credit needs of the informal market. This calls for concerted efforts for financial innovation to design financial products that understand the financial reality of the above mentioned segments and the risk of default involved thereof, and, in turn, make lending to such sections a viable exercise. Fintech players<sup>72</sup> also need to be enrolled in this initiative to make the most of their expertise of financial innovation and the use of technology wherever possible.

### **Customer-tailoring affordability**

Home loans, which are affordable in the context of Mumbai, for instance, may not be so in another city like Vishakhapatnam. Housing credit instruments must therefore be sensitive to the wage levels and cost of living in a particular region. This will definitely improve efficiency of lending. Some borrowers may not need as much interest rate concession or interest subsidy as is being offered, while others end up being crowded out as they may require much more. Custom-tailoring credit instruments rather than the ‘one-size-fits-all’ approach are more desirable from the point of view of efficient allocation of resources.

### **Fixing the weaknesses of the affordable housing ecosystem**

Developers who wish to operate in the affordable housing segment are reeling under the burden of a broken ecosystem. While some developers

ace the quality of construction, they are in need of capital. Others who may be well-placed in capabilities and access to capital may lack branding and marketing expertise. Developers in India need to be enabled to deliver at every stage of the value chain,<sup>73</sup> and an effective government housing strategy must cater to this need. There is a need to examine the role that the state can play in building a robust, affordable housing ecosystem. In this regard, the government can consider forging Public Private Partnerships with entities such as Brickeagle which are incubating local developers by equipping them to deal with their deficiencies at any stage of the value chain. The government must gauge what responsibility it can shoulder in such incubation efforts to make the most of its resources and expertise, and identify ways to upscale such efforts.<sup>74</sup>

### **Creation of a well-defined conducive space for impact investment/social finance in the domain of affordable housing**

Impact investment is neither philanthropy nor driven purely by financial returns. Impact investment represents a new avenue of capital that defies the conventional wisdom that social welfare and financial returns are mutually exclusive. In contrast, funds are invested in fulfilling social needs with an expectation of a reasonable rate of return, which may be lower than other possible instruments of investment.<sup>75</sup> The pressing social needs, on the one hand, and stable financial markets with strong rule of law, on the other hand, make India a preferred destination for impact investment.<sup>76</sup>

Impact investment in India is growing. In 2016, a cumulative US\$2 billion were invested more than 50 companies in over 300 social enterprises.<sup>77</sup> Areas in which India has seen impact investment include financial inclusion, clean energy, agriculture, education, and healthcare.<sup>78</sup> Yet, from the point of view of sizeable and visible

improvement in socio-economic parameters, there has been marginal change, and today India is ranked 100<sup>th</sup> among 146 countries on the Social Progress Index 2018. In fact, India stands at 95<sup>th</sup> in the domain of shelter, suggesting that much needs to be accomplished by the affordable housing segment of the country.<sup>79</sup> Banks and other conventional credit mechanisms have shied away from lending to developers operating in the affordable housing segments owing to the high risk and low profits that characterise such lending.<sup>80</sup> Impact investment can fill the void.

The affordable housing scheme needs to envision how impact investment can be leveraged to make the promise of “housing for all” a reality. The policy must articulate a blueprint for the impact investment ecosystem for affordable housing in India. The components of such an ecosystem should include financial instruments through which impact investment funds will be mobilised, parameters of evaluating increments made in affordable housing as a result of impact investment, measures to ensure investor confidence and protection, platforms that connect real estate developers to impact investors, and tax incentives for investors. As far as tax incentives are concerned, there is a need to ascertain that forgoing of tax for incentivising impact investment does generate gains which outweigh lost tax revenue.<sup>81</sup>

### **Accessing philanthropic resources**

There has been hardly any conversation on how volunteer service and private donation can be leveraged by a housing scheme to achieve the objective of “housing for all”. Habitat for Humanity’s<sup>82</sup> model of supporting low-cost housing exemplifies how the process of building a house has been engineered relying on philanthropic resources to make housing affordable. More specifically, the labour cost involved in building homes is heavily subsidised by sweat equity—i.e., volunteers

undertaking construction, and materials and technology used are as low-cost as possible. Furthermore, part of the construction cost is covered by an interest-free loan.<sup>83</sup> This model of low-cost housing can motivate new insights on increasing affordability of houses. It would be useful to brainstorm on the possibilities of scaling this model to a national level and forms of collaboration between the government, the NGOs and custodians of philanthropic resources.

### **Housing as an investment in the productive capacity of human resources**

An alternative way of envisioning affordability of housing is to view the house as an investment in, for example, a home-based business. The question to be explored is how the house can be the workplace of an individual and the beneficiaries can thus be enabled to become micro-entrepreneurs. The income earned from such an endeavour can be utilised to repay the financial assistance obtained for housing.

### **Affordable housing as an inherent principle in urban land use planning**

Making housing affordable does not end at the purchase of a house. Urban land use planning must be conscious about making affordability sustainable. Distance between residential spaces and employment hubs, design of transportation networks, benchmarks for optimal density—these all have implications for the cost of everyday living including commuting costs, loss of time and productivity as well as cost of healthcare. These costs bear significantly on whether a house in a certain area is affordable or not. Also, optimum utilisation of land resources assists in keeping real estate prices reasonably low in the long run. A housing scheme cannot be disconnected from land use planning, which itself is a component of the broader urbanisation strategy.

## Utilising unoccupied homes created under previous housing schemes

To make good use of the expenditure incurred, there needs to be a systematic effort to understand how these unoccupied units can be best salvaged. This effort must be based on a mapping of local needs and concerns, which helps identify prospective beneficiaries, so that the salvaging exercise is accomplished in a cost-effective manner. Of course, this exercise is permissible only if the resources are lower than that involved in creating new housing stock.

## CONCLUSION

This analysis has probed the multiple dimensions of housing poverty, pointing the discourse towards much needed insights on tackling this poverty by policy. This understanding is also anchored in the fundamental relationship between employment and housing within the broader context of urbanisation. A country's housing strategy has to evolve in response to the direction assumed by urbanisation. In India, approaching housing poverty and slum proliferation outside a holistic framework has caused the failures of various housing schemes that have been attempted over the last 70 years.

The dominant strategy for dealing with housing poverty has been the construction of affordable houses or the facilitation of such construction by providing financial assistance. Such measures do little to address the phenomenon of slum proliferation. Moreover, the strategies being implemented are not compatible with the character of urban poverty faced by the country. This paper suggests a departure from this approach, and offers an alternative blueprint based on the following principles:

- The housing strategy must be sustainable in nature.

- The strategy is underpinned by efficient allocation and utilisation of available and accessible resources. The conversation does not end with government-owned resources, but rather includes the private sector as well as philanthropic resources.
- The various efforts which are being undertaken in the area of housing must be consolidated and scaled up.
- The emerging Fintech sector must be incentivised to engage in the housing strategy to innovate for the financial needs of the lower end of the EWS and LIG populations.
- Focus must be placed on correcting market distortions and other anomalies that adversely impact the incentive structure underlying the affordable housing segment in India. 

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