



**National Workshop on
“Affordable Housing for Urban Poor”**

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Housing Options for the Urban Poor

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India's Urban Landscape

- ◆ Urbanization extremely low even by low income country standards : 2001 Census: Urban population 286 million (less than 30%)
- ◆ 22% of urban population (62 million) live in slums
- ◆ Urban Poverty 22% and median incomes low: 80% Indians live under \$ 2 PPP according to the World Bank
- ◆ Low incomes makes decent housing unaffordable.



Low Productivity Employment

Underlying cause of poverty & low median incomes
preponderance of low productivity employment in agriculture
(marginal productivity close to 0) & informal/unorganized sector

- ▶▶ Structural constraints holding back expansion of labour intensive manufacturing
- ▶▶ Census & NSSO data indicate that organized sector employment stagnant between 1990 and 2005, the incremental employment being generated in agricultural and informal sectors.
- ▶▶ OECD Economic Survey of India, 2007 found that even after controlling for technology, industry, region and firm's age, total factor productivity in firms with 250 employees double that of firms with less than 10 employees. Productivity in the formal sector 19 times higher than in agriculture.

Kaldor and Kuznets

GDP at factor Cost Constant Prices Base 1999-00

	Ag_gr	GDP_gr	contrib of agric
1950/51 to 1979/80	1.90%	3.40%	24.50%
1980/81 to 1989/90	3.30%	5.40%	21.50%
1992/93 to 2001/02	3.20%	6.10%	14.50%
2002/03 to 2007/08	4.80%	8.80%	10.70%

Agriculture's share in total employment:

1950-51: 70%

1980-81: 68%

1990-91: 65%

2004-05: 58.4%

Agriculture's share in National Income:

1950-51: 57%

1980-81: 40%

1992-93: 33%

2006-07: 20%



Simulations based on 11th Plan

- ◆ Shortage of 25 million houses in urban areas over the 11th Plan (2007-12), including 22 million for EWS.
- ◆ Total investment required is Rs. 361,318 cr. over the Plan period.
- ◆ Net flow of funds estimated at Rs. 290,000 cr.
- ◆ Assuming a conservative cost of Rs. 1 lakh per unit, total requirement of funds
 - *For 22 million EWS houses is Rs. 220,000 crore, or*
 - *For 12 million slum households is Rs. 120,000 crore*



Likely Flow of Funds

- ◆ 11th Plan (central) allocation for EWS housing is Rs. 1378 crore for interest subsidy. Another Rs. 50058 of IEBR from HUDCO
- ◆ Total amount **sanctioned** to the Urban Housing Sector under the 2 million (per annum) Housing Programme over 10 years from 1998-99 to 2007-08 was Rs. 160,000
 - ▶▶ the EWS component amounted to a maximum of Rs. 21,000 crore on the assumption that
 - 100% of HUDCO' s sanctions were for EWS
 - 7% of housing loans from HFIs/Banks that were for values below Rs. 1 lakh)
- ◆ As urbanization increases the urban housing problem would become more acute.

Funding Option: I

- ◆ National Urban Housing and Habitat Policy 2007 (NUHHP 2007) proposes housing mortgages and securitization, including a ‘flexible and innovative approach to credit appraisal’, presumably based on the discredited American model of ‘inclusive’ sub prime lending.
- ◆ Risky model based on financial innovation and speculation on real estate prices and interest rate movements and not on current incomes.
- ◆ Securitization does not attenuate repayment risk. It simply redistributes it.

The American model is now threatening to bring down the entire financial sector.





Funding Option II

- ◆ NUHHP 2007 proposes
 - ▶▶ FDI and ECB in housing
 - But this is akin to banking finance that would mostly exclude EWS
 - ▶▶ Rental Housing
 - It is unlikely that agencies other than government would construct houses to be rented to EWS on account of the limited income of the latter.



Funding Option II contd....

▶▶ Special Economic Zones

- Eminently feasible when combined with retraining for higher productivity jobs in SEZs

▶▶ Housing Co-operatives

- This appears to be the most feasible of the suggestions, especially if housing co-operatives operate through microfinance and PPP (viability gap window)



Funding Option III

- ◆ Funding from general tax and non-tax revenues, including sovereign guarantees
 - ▶ All the successful East Asian economies have followed the model of public housing for the EWS.
 - ▶ Projected balance on current revenue to finance 11th Plan (Centre and States) is Rs. 1039039 crore at 2006-07 prices.
 - ▶ Urban EWS housing requirement = 19% of BCR
 - ▶ Urban Slum housing requirement = 12% of BCR
 - ▶ Additional budgetary funds required for provision of land, common infrastructure and services.

Funding Option IV

- ◆ PPP proposed for funding urban housing in NUHHP 2007
 - ▶▶ Up to 40% viability gap funding (20% each by Central and State governments) available under PPP mode.
 - ▶▶ Even so Rs. 40,000/24,000 crore each would need to be mobilized by the Centre and States over the 11th Plan period from taxpayer resources, as this would be subsidy.
 - ▶▶ Rs. 120,000/96,000 crore would have to be mobilized on commercial terms.
 - ▶▶ Implication: Debt of Rs. 1 lakh/80,000 per household.

Problem: Those below the poverty line by definition have no savings to repay loans.



Two Examples of PPP

First

◆ West Bengal 'Neotia' Model

- ▶ PPP where government makes available subsidized land to builder for township
- ▶ Houses for higher income group cross subsidize houses for lower income group (15% of project size). Middle income group gets houses at cost (after providing for a reasonable return on investment)
- ▶ Unlikely that subsidy would be adequate for BPO/EWS families to acquire houses



Two Examples of PPP

Second

- ◆ Bangalore 'Maverick' model
 - ▶ Leveraging publicly owned/slum land by permitting builder to use part of the land for commercial purposes in exchange for constructing multi-storied apartments
 - ▶ Problem of funding maintenance and services in high rise apartments for EWS
 - ▶ Interim housing arrangements
 - ▶ Likely criticism of transfer of prime location land to developers





Bottom line

- ◆ No sustainable short-term fix for EWS housing
- ◆ Increase income through enhanced labour productivity : structural shift in employment
 - ▶ agriculture to secondary/tertiary
 - ▶ informal/unorganized to formal/organized.
- ◆ Such a shift requires an enabling environment
 - ▶ labour policy
 - ▶ infrastructure
 - ▶ education, training and skills up gradation
 - ▶ major agricultural reforms

Higher median incomes give government more flexibility in provision of public housing and in using PPP for housing.

Thank You
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Patience

