

Transformation of Housing Policy in India - the Trend Towards Market Mechanisms

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Introduction

Housing policy in India in the early post independence phase, since the year 1947, was very much 'social' in nature; a policy, though unwritten, leaning towards strong state control, and direct government involvement in housing construction. Institutional growth and legislative proliferation took this line of thinking further. Parastatal bodies were created all over the country and direct government funding increased. However, over the years, these institutions got caught in a debt-trap, defaults on collections and inadequacies in performance. The laws also proved to be inappropriate in the changing times and in fact, a major hurdle.

This paper traces the evolution of housing policy in India and discusses the benchmarks over the years and how pressing exigencies in the last one decade have led to a drastic transformation towards a more market oriented and inclusive policy. The paper also discusses the recent market mechanisms put in place in various parts of the country, particularly in the aftermath of the approval of the National Housing and Habitat Policy of the year 1998, as well as the recent efforts at liberalisation in terms of Foreign Direct Investment (FDI) in the housing sector. In conclusion, this paper argues that, though late, the present transformed state of housing policy in India is a move in the right direction. It is now more participatory, facilitative and inclusive, with more room for the market. The paper also argues that if the speed of unbundling is hastened, opportunities released in the housing sector to drive the economy in top gear can be better utilised.

Early Landlordism

Early efforts at housing development in India were mostly by individuals. People provided housing for themselves. While the kings and noblemen had their palaces and mansions, the lesser fortunate had smaller buildings to live in. There were few that did not really have a shelter to hide their head from the elements, since the very poor were invariably looked after by their 'landlords'; people who extracted work and as a compensation, provided some accommodation.

India had been a state of 'zamindars' and 'jagirdars'. They were rich landlords¹ who owned large chunks of land and carried out agriculture. People working under them were allowed to stay on the premises, by putting small hutments, out houses or farmhouses. Landlords procured lands from erstwhile kings and rulers of a large number of kingdoms that existed in nineteenth century India. Such lands were granted either in return for favors rendered, or as a part of political diplomacy.

The 'master-servant' relationship that emerged out of such an arrangement had its own extremes. Exploitation was a well known consequence. The hold which the landlord had on the families under his fold was by virtue not only of economic and livelihood control but also in terms of social control. Enormous dependency on landlords led to the suppression and oppression of the lower social orders. The deep rooted caste system had its own role to play in the entire scheme of things. Whilst housing was not so much of a problem, it did present its dirty face in terms of dependency. It was only towards the end of the 19th century that social reform movements had brought out all such asymmetries into mainstream debate and ultimately paved the way for later reforms, initially by the colonial British who ruled India and subsequently, the independent Government of India² itself. During this period, the physical form of housing in India was mostly in terms of large agricultural estates, with one huge mansion, surrounded by shanties or hutments and agricultural lands.

Colonial Interventions

India has a long heritage of colonial presence of over three hundred years and colonial rule of nearly two hundred years. During this period, while several foreign powers came in, it was the British who succeeded in colonising and ruling India. As a part of their own long term strategy, the British brought in many reforms, mostly under pressure from local native groups and leaders. In the particular area of housing, the major intervention of the British was the introduction of the Victorian concept of a municipality. The first municipal body in India was established in the city of Madras (now called Chennai). Subsequently, other parts of the country were also brought under municipalisation. The major concerns of municipalities were among other things, to ensure cleanliness and sanitation in the city and approve new land-subdivision layouts by individuals for the creation of housing. The British colonial 'bungalow' was a popular form of housing during the 19th century in the Presidency towns of Calcutta, Madras, Bombay and later, in New Delhi.

Improvement Trusts were created in many cities of India, the first being in Bombay. These trusts were supposed to take up various town improvement works. Later, with the enactment of the Town Planning laws, the first being again in Bombay in the year 1915, provision for implementation of Town Planning (TP) Schemes by Municipalities was made.³ This system spread to various states of India and the T.P.Schemes⁴ could be considered the first major intervention of the government in the housing sector.

Another major colonial intervention was the War Rent Restrictions that were imposed in the state of Bombay in the 1930s. This came about in the aftermath of the Second World War when the accommodation scarcity in Bombay was very high. According to these restrictions, landlords could not exploit their tenants and only predetermined rents were to be paid. Unfortunately, as we shall see later, these rent restrictions continued for over sixty years before they could be reformed.

Independent India - the task of nation building

When India became independent from British rule in the year 1947, it was a divided country that the citizens inherited. Rehabilitation became a major concern and thus,

housing received a lot of political attention. The central Government of India accorded a high degree of importance to the housing sector. India's first Prime Minister, Pandit Jawaharlal Nehru stated that every one of his countrymen should have a two roomed house. Nation building was taken up zealously, there were many competing demands on the limited resources, but housing did receive importance in as much as over a third of the total allocation of the First Five Year Plan went into the housing sector. Rehabilitation colonies were set up in Delhi, the capital city of independent India, as also in several cities. These rehabilitation colonies were planned residential areas with properly laid out roads, parks, community facilities, etc. It was also during this time that new towns and 'model towns' were developed. Further, the migration of people from various rural areas into the erstwhile Presidency towns, mostly from jobs in the newly formed central and state governments had led to a growing housing shortage in these big cities. The government created several housing schemes with the help of the Central Public Works Department for the central government employees. In fact, in subsequent years, other agents such as the state level Public Works Departments, Post and Telegraph Departments, Police and various other departments started creating housing infrastructure for their employees.

One can therefore see that in the years immediately after the independence of the country, a lot of direct government housing provision had taken place. The direct intervention was in terms of land acquisition, construction, service provision and allotment, all with the finances of the governments alone. The fifties and sixties were the decades of direct involvement of the state in housing provision.

Land Reforms

Another major intervention in the post independence India was land reforms introduced by various state governments as a socio-economic development measure.⁵ With the introduction of these reforms, the erstwhile landlords had to surrender their large estates and could only retain a limited amount of agricultural land. While in some states like Kerala, the agricultural worker-tenant was granted land ownership rights as part of this reform process, this did not happen in the other states. As a result of extremely low compensation for lands taken over, several agriculturists shifted from rural areas to urban areas in search of new avenues of livelihood. All this led to a high degree of population concentration in various state capitals. A new wave of urbanisation began in the country. Metropolinisation started becoming a phenomena which needed more attention. Land and housing was now needed in the cities; housing shortage started increasing and housing started becoming a problem. This was also the period when slums started emerging in cities.

Government of India - Plans and Programmes

The Government of India adopted a central planning model of development. The Planning Commission of India is the central think tank which prepares the five year plans. These plans⁶ give a broad direction regarding the policy of the Government of India. They also give the broad allocation of financial resources to various sectors of the economy. Based on the five year plans, annual plans are prepared by state governments for implementation.

A look at the five year plans reveals the manner in which the Government of India had perceived the housing sector in the initial years and the manner in which it sees it now. Financial allocation for housing as a percentage of the total investment in the economy was as high as 34 percent in the First Five Year Plan (1951-56) but has now come down to as low as 2.4 percent in the Tenth Five Year Plan (2002-2007).

As part of the Five Year Plans, the Government of India had launched various programs for providing housing to the people. A broad list of the programs launched by the Government of India are given below :

Table No. 2
**Various Housing Programs of the
Government of India (1947 to 2003)**

S.No.	Name of the Program	Year of Launch
1	Integrated Subsidised Housing Scheme for Industrial Workers and EWS	1952
2	Low Income Group Housing Scheme	1954
3	Subsidised Housing Scheme for Plantation Workers	1956
4	Middle Income Group Housing Scheme	1959
5	Rental Housing Scheme for State Government Employees	1959
6	Slum Clearance and Improvement Scheme	1956
7	Village Housing Projects Scheme	1959
8	Land Acquisition and Development Scheme	1959
9	Provision of House Sites of Houseless Workers in Rural Areas	1971
10	Environmental Improvement of Urban Slums	1972
11	Sites and Services Schemes	1980
12	Indira Aawas Yojana	1985
13	Night Shelter Scheme for Pavement Dwellers	1990
14	National Slum Development Program	1996
15	2 Million Housing Program	1998
16	Valmiki Ambedkar Aawas Yojana	2001

Source : Compiled from various Reports of the Ministry of Urban Development & Poverty Alleviation, Government of India

It can be seen that while many programmes were initiated in the early decades, not many exist in the latter years. Substantial literature exists on the nature and extent of these programmes. However, the major findings could be generalised as follows :

- a) the funds available in these programmes are too meager to meet the requirements of the local needs,
- b) funds are not spent on time on account of the lack of capacities at local agency level,

- c) most programmes are 'top down' concepts which do not really involve people and therefore not acceptable,
- d) assets created from these funds often do not go to the beneficiaries intended and even if they do, they do not stay in their hands for long and
- e) where a loan component is involved, the recovery is very poor.

Increasing Government Control in the Housing Sector

The years after independence in India witnessed increasing government control in the housing sector. In the pre-independence period, landowners could easily prepare housing layouts and put their lands into the market or their lands could become part of TP schemes and could be brought into the market. They could even form cooperative societies and bring their land into the housing market. However, in the post-independence period, all this changed in a big way.

A series of government measures in the post-independence period had led to an increase in government control on the housing market and constraints on supply in an ever increasing demand scenario. Some of these government controls in the housing sector are as follows :

- a) Creation of development authorities and housing boards as the major housing providers was initially good but later, due to their very slow progress on account of a variety of reasons, led to the emergence of various popular forms of housing provision which were not entirely legal
- b) While the early TP schemes were good, somehow, their speed of implementation had slowed down considerably and the whole process has come to be viewed as a cumbersome one
- c) Although the cooperative sector had initially been encouraged (with incentives such as stamp duty exemptions, etc), the movement did not catch up as envisaged
- d) Introduction of the Urban Land (Ceiling and Regulation) Act in the year 1976 as a central legislation all over India had created many hindrances in the private land owners putting their lands into the housing market⁷
- e) Prolonged continuance of the Rent Control Acts in various states led to many problems such as disputes, non- eviction of tenants, dilapidation of housing stock, locking up of property in prime areas of the city from redevelopment, loss of revenue on account of inability to increase property tax and scarcity in the rental market on account of people not willing to let out properties on rent for fear of non- eviction.⁸
- f) Restrictive town planning laws and development controls which have made private sector participation in creation of townships difficult in terms of lack of procedural clarity, lack of economic viability, etc.
- g) Regressive fiscal policy and lack of incentives for investments to be channelised into the housing sector
- h) Restrictive income-tax provisions since the year 1986 with the introduction of pre-emptive right of the government to purchase property⁹
- i) High stamp duties and consequent lack of compliance
- j) Cumbersome procedures for registration of property transactions
- k) Restrictions on foreign investments

All the above factors had made investments in the housing sector very difficult. The result was that while on the one hand, the government promoted housing suppliers like the housing boards and development authorities were totally dependent on credit financing from various funding agencies like the home grown Housing and Urban Development Corporation, the private enterprise had little interest in getting into an industry which was highly unorganised. Over the years, government housing suppliers have taken huge loans from various agencies but have been finding it increasingly difficult to ensure cost recovery and repayment. The housing problem was perhaps at its worst in the 80's. In the year 1981, there were 28 million slum dwellers in Indian cities and this number rose to 45 million by the year 1991. The number of slum dwellers in the year 2001 was still at 40 million. As a percent of the urban population, the figures increased from 17.5 percent in 1981 to 21.5 in 1991 and 22.8 in the year 2001.¹⁰

Recent Housing Sector Reforms

The post 1990 period can be seen as the era of housing sector reforms. With the release of the National Housing Policy in the year 1994 (a subsequent version called National Housing and Habitat Policy¹¹ was released in the year 1998) in the macro economic back drop of liberalisation of the economy as a whole, sweeping changes were heralded. We must hasten to add that the full impact of these came to be felt only in the late 1990s. The Housing Policy clearly recognised the key role which all actors; public, private and the cooperative sectors need to play in meeting the housing challenge. It clearly recognises the role of private enterprise and market forces. The policy envisages a 'facilitative' role for the state and a direct and proactive role for the other players. The major housing sector reforms and market oriented policies that were brought about are :

- repeal of the Urban Land (Ceiling and Regulation) Act in as many as 9 states¹²
- repeal of earlier rent control laws and enactment of more balanced rent laws¹³
- major housing sector fiscal incentives to individuals investing in house purchase in successive annual budgets continuously for the last 4 years¹⁴
- creation of over 25 housing finance companies for credit off take in the retail housing finance sector , with innovative and competitive housing finance schemes¹⁵
- fiscal incentives to entrepreneurs to invest in development of housing projects
- permitting public-private partnerships for developing housing projects of various types
- issue of Foreign Direct Investment (FDI) guidelines¹⁶
- creation of an Urban Reform Incentive Fund (URIF) so that there is an incentive for urban local bodies and state governments to embark on the road to reform
- creation of a City Challenge Fund for taking care of transitional and transactional costs of restructuring urban civic services which are very much essential for housing projects
- provision of Pooled Finance Development to enable a group of small municipalities to come together and raise funds thru' bonds and other market borrowings
- enhancing the resource base of the Housing and Urban Development Corporation, the principal domestic funding agency for public housing projects, coupled with internal restructuring, so that viable housing projects can be taken up for the lower income groups.
- Enhancing financial resources thru' international funding agencies

- Clearing road blocks for real estate investments¹⁷
- Alternative technology propagation through Building Material and Technology Promotion Council and more than 500 Building Centres all over the country.¹⁸

All the above major reforms have brought about a sea change in the housing scenario in the country. Today, it is ever so easy for a middle class working couple to take a housing loan and have an own house. Such a thing was possible only at the time of retirement in the pre-reform period. Of particular interest are the public-private partnerships in the housing sector that have emerged in the last decade. In the case of Gurgaon, a New Delhi suburb, over 5,000 hectares of land has been developed by private entrepreneurs for housing. Similar developments have also emerged in Lucknow and Ghaziabad where huge housing condominiums have been developed. The state governments of Punjab, Haryana, Uttar Pradesh, Karnataka, West Bengal and Orissa have policies for involving private developers in the housing development process. In the city of Calcutta (now Kolkata), the West Bengal Housing Board and the Government of West Bengal have promoted joint sector companies with as many as seven major developers. The Karnataka Housing Board is another agency which has taken a major lead in promoting private developers in many towns.

The huge amount of housing stock generated by private real estate developers, coupled with aggressive marketing strategies and home loan packages have heralded a virtual housing boom in recent times. Competition amongst home loan providers has also led to a steep fall in interest rates, thereby making the housing market more accessible.

Conclusion

From the above discussion, it can be seen that while the problem of housing in India is huge, the early years were perhaps lost in various types of social housing programmes. Perhaps, this was even needed in a country which became newly independent. However, the silver lining has been that the Government of India has realised that unless and until it creates a facilitative environment for all the sectors to flourish, the housing problem cannot be easily tackled. The innovative manner in which the successive Budgets had handled the fiscal policy and incentives to the housing sector have really given a boost to the marketisation of the sector. Thanks to the change in mindset, we now have a large number of industry players, both in the housing property development sector as well as the property financing sector. The road ahead is the for the government to continue the transformations in housing policy over the next ten years so that more home ownership can be generated. Governments also need to ensure that while the marketisation of its policy is all well, the safety nets for the urban poor also needs to be ensured.

References

¹ See YUGANDHAR, B.N. (Ed.), (1998). *Land Reforms in India*, Sage, New Delhi

² A good account of British land systems can be found in MERILLAT, H.C.L. (1910), *Land and the Constitution of India*, N.M.Tripathi, Bombay.

³ GOVERNMENT OF MAHARASHTRA (1965). *Town Planning in Maharashtra : 1914-1964*, Town Planning and Valuation Department.

⁴ T.P. Schemes involve the preparation of a physical planning scheme by the local authorities. Municipal bodies are authorised to pool the lands together, plan them and redistribute to the owners in terms of reconstituted plots. This system however is a time consuming process and has lost its popularity. Post independence India saw more schemes where direct acquisition of land was involved. However, on account of financial burden on state governments for paying compensation, land acquisition is becoming difficult and TP schemes are again being seen as a good land management too.

⁵ Laws such as the Orissa Estates Abolition Act of 1951 and UP Zamindari and Land Reforms Act of 1951 were enacted in various states of the country.

⁶ So far, the Government of India has prepared ten five year plans. The current Tenth Five Year Plan is from the year 2002 to 2007. These plan documents provide all the details of programmes envisaged by the Government of India.

⁷ RAO, P.S.N. (1998). Urban Land Ceiling - an indepth analysis, Property India, Vol, Issue 5, Autust.pp.13-16.

⁸ RAO, P.S.N. (1998) Rent Law in Delhi. Journal of ITPI, December.

⁹ GOVERNMENT OF INDIA (1961), Income Tax Act.

¹⁰ NATIONAL BUILDINGS ORGANISATION (2003) Handbook of Housing Statistics. Also see GOVERNMENT OF INDIA (1997) Prominent Facts on Housing.

¹¹ GOVERNMENT OF INDIA (1998), National Housing and Habitat Policy.

¹² GOEL, A.V. (1998). Effect of Repeal of ULCRA on Property Market, Dalal Street Investment Journal, May 25 - June 7, pp.21-23.

¹³ The old rent laws in the states of Maharashtra, Karnataka and West Bengal have been replaced by new and more balanced laws. Other states are expected to follow suit.

¹⁴ Tax incentives have been provided for a) housing purchasers b) financial institutions c)enterprises developing housing projects and d) housing finance companies. These incentives were made in the successive annual budgets announced by the Finance Minister.

¹⁵ In the last few years, interest rates on home loans have fallen from around 14 percent to as low as 7.75 percent. The housing finance sector has been growing at an annual growth rate of around 30 percent.

¹⁶ For a detailed discussion on FDI guidelines, See RAO, P.S.N. (2002). FDI for Real Estate Development in India, Souvenir of 3rd National Convention on Housing , NAREDCO.pp.86-94.

¹⁷ The Association of Mutual Funds, India (AMFI) set up a Committee to look into the concept of setting up real estate investments in India on the lines of REITS of the USA. The AMFI has recommended several changes in existing laws which are still underway.

¹⁸ Building Centres have been promoted by the Government of India through a scheme of funding operated by the Housing and Urban Development Corporation.