

# A Solution to the Housing Problem in India

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shall survive as long as man survives."**

**—A. D. Shroff**

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# A Solution to the Housing Problem in India

By

H. T. Parekh\*

After 25 years of development and operation of five 5-year plans, we have not yet been able to show any significant progress in providing residential accommodation for the people. Hitherto, Indian planning has given low priority to housing needs of the people, and inadequate funds have been provided for housing. A good part of whatever effort has been made is the result of private initiative. Efforts on the part of individual public and private agencies to build, hire and finance housing for their own employees have helped to a moderate extent. State Housing Boards, LIC and HUDCO (Housing and Urban Development Corporation) are making useful contribution.

Nonetheless, at the end of every Five-Year Plan, shortage in housing has been increasing. Housing shortage in urban areas is presently estimated at four million, allowing for deterioration in the stock of existing accommodation. The magnitude of shortage in the rural areas is even greater and placed at about 12 million units. During the period 1970-71 to 1973-74, the actual annual expenditure on housing in private sector has declined from Rs 1,653 crores to Rs 1,183 crores.

The Draft Fifth Five-Year Plan estimates sector-wise outlay on Housing as follows :

	Rs in Crores	
	IV Plan	V Plan
State Sector .. .. .	141	343
Central Sector .. .. .	49	237
Private Sector .. .. .	2,140	3,640
<b>Total ..</b>	<b>2,330</b>	<b>4,220</b>

\* The author, eminent economist, is the Chairman of the Industrial Credit and Investment Corporation of India (ICICI). This booklet is based on excerpts from a feasibility study by the author. It appeared as an article in "Capital Annual 1975".

Figures of Plan provision given above indicate that of the total outlay of Rs 53,000 crores envisaged in the Fifth Plan, funds earmarked for housing would be Rs 4,200 crores, which is less than 8%. As regards public sector, only Rs 600 crores are allocated for housing, which is 1.6% of public sector outlay. On the other hand, out of the private sector spending of Rs 16,000 crores, investment in housing is estimated at Rs 3,600 crores which would form a much greater proportion.

The argument usually put forward in defence of low priority for housing is that our resources being limited, they should first be utilised for objectives with higher priority than housing. It is not easy to follow this reasoning because housing needs are no less important than food and clothing.

Further, resources have to be viewed in physical and human terms and not only in financial terms. The staggering unemployment of skilled and unskilled labour, both in urban and rural areas would indicate no shortage of the human resources and building construction is labour intensive. Moreover, what we find today is that even physical resources like steel, cement, etc., are in ample supply, and we seem to be at a loss to find ways for utilising the available production of these and other allied products.

Construction activities in developed countries contribute substantially to economic growth and house construction is a very important segment of total construction. In the U.S.A., construction starts for 2 million dwellings every year. In other developed countries such as the U.K., the position is similar, indicating how much employment is accounted for through house construction. In Singapore, 40% of the population has been provided housing in the last 15 years with government effort.

Housing also helps in generating additional resources because of its employment potential. Perhaps, it is time we give a fresh look to this form of activity and modify our planning policies in this direction so as to achieve speedier economic growth as well as greater welfare for the people.

It is estimated that an investment of Rs 5 lakhs in housing would give direct jobs to 100 persons for one year. This

would work out to two million jobs for every investment of Rs 1,000 crores per year. Capital employment ratio thus works out to Rs 5,000 per worker. In industry, transport and other capital intensive activities, capital employment ratio is 5 to 10 times higher, depending upon small or large scale of activity. According to the Planning Commission, during the Fifth Plan, while for the economy as a whole, additional Rs 3.50 will have to be invested for raising income (gross value added) by one Rupee, in the construction sector investment of one Rupee will generate income of Rs 10 mainly in the form of wages to workers.

There can be thus no doubt that house construction activity on a large scale has tremendous capacity to create new jobs and to relieve unemployment considerably. Though much lip sympathy is paid to the problem of employment, in actual practice, we have overlooked this vital aspect of creating greater employment through investment in house construction. The social aspect of housing in improving the health and hygiene of the people is a further factor to be taken into account in making any cost benefit evaluation of investment in housing.

### **ROLE OF EXISTING SOURCES FOR HOUSING FINANCE**

While Government ought to do much more than what it is proposing to do under the Fifth Plan, it would be useful to review the work which Housing and Urban Development Corporation Limited (HUDCO) has been able to do in the five years of its existence. HUDCO, which is wholly owned by the Central Government, is the first major institutional step which Government has taken for housing finance and housing development. HUDCO's activities are only now catching up. According to its Fifth Annual Report for 1974-75, HUDCO has so far sanctioned finance of Rs 127 crores for the construction of 93,000 dwellings and 20,000 developed sites through 181 projects. It has so far disbursed Rs 50 crores. On an average, the cost works out to less than Rs 15,000 per dwelling. HUDCO has been doing admirable work in financing schemes submitted by State Housing Boards, Slum Clearance Boards, Municipal Corporations and

Development Authorities. Three-fourths of these dwellings are meant for households with a monthly income not exceeding Rs 600. Half of the total dwellings finances are for the lowest income groups, the cost of these dwellings not exceeding Rs 8,000. However, HUDCO does not grant loans directly to individuals.

HUDCO charges differential rates of interest ranging between 5% and 11-1/2%, and it even charges 14% for commercial purposes. Government gives subsidy to HUDCO in respect of housing for economically backward people, though overall, it is endeavouring to operate on a viable basis. HUDCO raises funds through borrowing from banks, LIC and others, both with and without Government guarantee. The activities of HUDCO are now fast expanding. It has accomplished or has under implementation all over the country, schemes with diverse interesting features. The next five years will show much greater strides. HUDCO's activities are likely to be limited only by the availability of funds. HUDCO has begun to function as the apex housing finance agency and it would be desirable for government to rapidly increase its share capital from Rs 10 crores to Rs 50 crores to enable it to raise larger funds through borrowing now that it has established itself and its field of operation is rapidly growing.

At the state level, Housing Boards, as also state level cooperative housing finance societies have been set up in almost every state. Impressive progress has been made, however, by Tamil Nadu (particularly in slum clearance), Maharashtra and Gujarat Housing Boards, while other states are now beginning to be active. State Housing Boards derive their funds from loans and grants from the respective State Governments, issue of public debentures, loans from HUDCO and LIC.

LIC's contribution to housing construction has been significant. Its large annual contribution in the form of loans to HUDCO, State Housing Boards, other agencies and to its policyholders is the most important source of capital for new housing. LIC's contribution to housing development has steadily increased and presently, the annual contribution

is around Rs 100 crores. LIC has also begun to be a large builder itself to provide housing on a mass scale for its policyholders. It has built impressive townships in Bombay, and has large ventures in Bangalore and other cities, apart from construction for its own use. In western countries, insurance funds have contributed considerably to new mass housing. Nonetheless, for LIC, housing is not its primary activity, but a channel for investment of part of its funds.

At the end of March 1975, the total contribution of LIC to housing development amounted to Rs 582 crores. Of this, about 75% has been granted to the government and the cooperative sectors, while mortgage loans and loans under LIC's various housing schemes occupy a relatively smaller place.

The Central and State Governments build houses for their staff. The Delhi Development Authority has made a significant contribution in the field of housing for the people. So do Railways, Reserve Bank and large industrial complexes in the public sector. During the Fifth Plan, investment of public sector undertakings, including departmental ones like Railways, is estimated at Rs 450 crores.

However, all these efforts are only marginally helping to meet our vast housing problem. Not only we need new housing to meet the growing needs of the people, but most of the existing housing in the country is old and requires re-building. In Bombay city, it is estimated, the existing stock of housing is 30,000, of which 20,000 houses are over 50 years old, and would need to be rebuilt. This would give an idea of the magnitude of the problem, which involves construction of new housing and also replaces much of existing old houses.

The Planning Commission's estimates referred to above indicating private investment in housing of Rs 3,600 crores for the present Plan, in relation to the much smaller investment of Rs 600 crores being made in the public sector, suggests that the major part of investment in housing is on private account. This, perhaps, is a measure of the priority which people themselves give to their housing needs as against

Government's assessment of its priority. When we analyse this private investment, we find that a considerable part of this investment is for the growing needs of the urban population. Taking Bombay as an example, the initiative for new housing has remained with private builders who have made it their business to buy sites and build residential flats in high rise buildings for sale to needy families. This has been an extremely profitable business for enterprising contractors who being actuated by profit motive have concentrated more on housing for the better off classes, who can afford to pay for it. However, also for the lower income groups, contractors have been extending their activities to suburbs to cater to the housing needs of the middle income groups.

The crucial fact to remember is that builders show a great deal of enterprise and initiative, take risk in developing new areas and are able to make large profit by catering to the dire needs of the people for dwellings. However, the major part of the finance for such construction actually comes from the buyers of these houses who pay in instalments or from those who invest in flats for attractive return. Even then, only a small part of the needs of the people for housing is met and that too often of sub-standard quality and at excessive cost. This situation needs to be remedied in order that people's needs for dwellings can be met to a much greater extent through mass construction and on moderate terms.

### **PROPOSAL FOR A SPECIALISED INSTITUTION FOR HOUSING FINANCE**

It would be observed from the foregoing that while some institutional support for housing exists, it is not adequate for meeting the needs of individual housing in lower and middle income groups. In this connection, it needs to be emphasised that the desire for ownership houses is high among individuals. Moreover, when individuals are building up an asset like housing, they are willing to provide a large proportion of their income as saving to pay for such assets. It is, therefore, expected that the proposed company will be a major factor in mobilising people's savings and using it for their welfare. The situation can be improved by institutionalising building development activity and building



finance, and by creating specialised agencies which can mobilise people's savings and direct them to house building.

Except for cooperative finance companies in some states, who limit their operations to cooperative societies, institutions for housing have not developed. An individual is unable to raise loan for housing from any specialised agency. This is a serious lacuna which should be removed. Just as there are development banks to finance industry, so also housing development and finance companies can be started on all-India basis, as well as state and even district levels. At local level, these institutions can be started under the auspices of all-India institutions. These specialised institutions should be able to collect savings on specially attractive terms, which would be used only to meet the needs of finance for house construction and purchase by individuals as well as other bodies.

This is how housing problem has been solved in developed countries. Building societies in the U.K. and Savings and Loan Associations in the U.S.A. operate all over the country, which collect private savings and put these funds for the use of those who build houses or who buy them. Such specialised finance institutions have grown in many other countries. They have some features of banks and some of developed finance institutions and cater only to finance house building activities.

The proposal for the establishment of a specialised institution for housing finance is to be viewed against the above background.

A housing finance corporation, called The Housing Finance and Development Corporation of India Limited (HFDCI), might be formed to provide loans for residential housing to individuals, groups and cooperative societies in urban and rural areas. To further this objective, the Company will also be willing to consider housing estate development on its own directly or as agents for any other party. The Company will also provide funds for construction of office development, shopping centres and other amenities which go with housing schemes. The Company will also

provide loans to contractors and builders. It will also be willing to consider proposals for major repairs of residential buildings to improve the quality of existing houses. The main object of the Company will be to provide housing for low and middle income groups.

The Company will in due course, promote local housing agencies on the basis and pattern determined by it in order to expand its operations as widely as possible.

The basic policy of the Corporation will be to finance house construction at moderate rates of interest so as to operate the proposed Corporation on a viable basis. It would not ordinarily finance subsidised housing, but it will initiate steps to create a fund for giving subsidy in interest rate for low income housing.

The company will not seek any direct capital assistance from government, nor will it seek any grant or subsidy for its operations. However, the Company will initiate steps to create funds, for giving subsidy in interest rate for low income housing, from any other source.

*The views expressed in this booklet are not  
necessarily the views of the Forum of  
Free Enterprise*

## Appendix 'A'

### Housing Requirements

“The next decade (1969-79) will witness an unprecedented pressure on our housing resources. Not only will it commence with a backlog of 837 lakh housing units, but also add about 100 lakh families to the effective demand . . . The urban housing shortage amounted 28 lakh units in 1951, 50 lakh units in 1956, 93 lakhs in 1961, 118 lakhs at the end of 1967. Another 25 lakh units are likely to be required to cover the new families during the next decade. Again, ten lakh units of the existing housing stock of 110 lakhs would need replacement during the next ten years. Thus in all there would be an estimated shortage of about 154 lakh units. Against this, our rate of new house construction has been extremely low. The private sector could roughly build about 2 lakh housing units per year. The social housing schemes of the Department of Works and Housing barely provided 4 lakh housing units during the last three Plans. This works out to about 3.5 units for 1000 persons per year.

“Regarding rural housing, the overall shortage in rural areas was 565 lakh units in 1961, 696 lakhs at the end of December, 1967 and is expected to shoot up to 718 lakhs by April, 1969. Another 75 lakh housing units would be required to cover the anticipated increase in rural population. About 11 lakh housing units would be required to replace the deterioration of the existing housing stock in our villages. Thus about 800 lakh new units are required to be provided in the next decade . . . Against this demand, the rate of construction of new houses in our rural areas has been extremely slow. The N.B.O. has estimated that the rate of annual construction of pucca houses (including houses under the social housing scheme) is about 0.44 units only for 1000 persons.”

..... Report of the Working Group on Housing for Fourth Plan submitted in 1968. (Quoted by Estimate Committee of Fifth Lok Sabha in its 37th Report).

## Appendix 'B'

### Housing Conditions

“With a view to studying the housing situation among middle class families, information was collected in Schedule B of the Middle Class Family Living Survey on the structural characteristics of the family's dwelling, its location, the accommodation available, ancillary facilities, ventilation and lighting, water supply and sewage, tenure, etc. The information was based on a sample of about 8,880 families in all. As the sample covered not only families but also single member households living in hotels, hostels, messes, etc., the data collected would cover such units also, although they might be few in the sample.”

#### Summary of Findings

- “(i) A majority of the middle class families live in pucca dwellings with walls and floors made of durable materials such as brick, stone and cement. A large proportion of the dwellings, however, do not have pucca roofs. Apart from Shillong where the dwellings are usually built with light materials, Hubli-Dharwar seems to present a picture of structurally unsatisfactory housing. Most of the middle-class dwellings are in good or moderately good condition except at Calcutta where 37 per cent of the dwellings are stated to be badly in need of repair.
- “(ii) A large majority of the middle class families live in dwellings of two rooms or less. At Bombay, Poona, Madras, Madurai, Tiruchirapalli, Vijayawada, Visakhapatnam, Gauhati and Muzaffarpur, a majority of the families live in one-roomed dwellings. The average living space per family varies from 174 sq. ft. at Gauhati to 449 sq. ft. at Srinagar and is in most cases less than 300 sq. ft. In the major cities it is about 200 to 250 sq. ft.
- “(iii) While a majority of the families have independent kitchens, they do not have independent bath rooms and latrines. Often they have to share these facilities with

other families. At 9 of the centres most of the latrines are of flush type. Elsewhere, including cities like Hyderabad, Lucknow and Kanpur, the ordinary system of manual cleaning predominates. A majority of the families do not have store rooms.

“(iv) A majority of the middle class dwellings at most centres are well ventilated and are provided with electricity. A majority of the families in many of the smaller centres in the eastern and southern states do not, however, yet seem to be enjoying the benefits of electricity.

“(v) A large majority of the middle class families at most centres get their water supply by the tap but not always within the dwelling premises. At Ranchi, Sambalpur, Madurai, Kozhikode, Mangalore, Meerut and Amritsar, however, a majority of the families do not still have tap water. Sewage arrangements are not too unsatisfactory except at Gauhati, Visakhapatnam and Srinagar.

“(vi) A large majority of the families live in non-self-owned houses except at Srinagar. At Chandigarh, Kharagpur, Sambalpur and Bhopal, most of the non-self-owned housing is provided by the employers-public or private. Elsewhere, housing is mostly provided on rent by private individuals.

“(vii) At 5 of the 45 centres, viz., Bombay, Calcutta, Delhi, Bangalore and Chandigarh, a majority of the middle class families reside at places more than a mile away from the place of work of the main earner. A large majority of the families live within an easy reach of places of daily concern such as schools, shopping centres, bus stop and post-offices at most centres. Places of infrequent interest such as hospitals, cinema houses, railway stations and telegraph offices are usually somewhat farther. So are colleges, which are of daily interest but not of common interest.

“(viii) Larger cities provide housing of a better structural quality, better sanitary facilities and sewage arrangements, better ventilation, electricity and running

water but less of accommodation and ancillary facilities, than the smaller towns.”

From Vol. II REPORT ON THE MIDDLE CLASS FAMILY LIVING SURVEY 1958-9 (published by Central Statistical Organisation, Department of Statistics, Government of India.)

## Appendix ‘C’

### Fifth Plan & Housing Policy

“The role of housing in economic development, both as an end and a means, is an important one : as an end, housing is an essential ingredient in the basic requirements of civilised living ; as a means, besides adding to National Income, housing is a strong motivator of savings and plays an important part in the generation of employment. Whilst the economic utility of a large housing programme is not in question, it presents many difficulties on account of the magnitude and complexity of the problem and its demand on financial resources. . . . .

“Consequently, the Fifth Plan addresses itself to the following limited objectives in the housing sector :

- “(i) preservation and improvement of the existing housing stock ;
- “(ii) provision of house sites to 4. million landless labourers as a part of the Minimum Needs Programmes ;
- “(iii) continuance of the existing schemes to provide subsidised houses to certain weaker sections of the community ;
- “(iv) extension of support to institutional agencies such as, HUDCO and housing boards under the State Governments to enable them to provide assistance to schemes for the benefit of low-income and middle income groups ; and
- “(v) intensification of research in and development of cheap building materials.”

From DRAFT FIFTH FIVE YEAR PLAN — 1974-79  
Vol. II Government of India — Planning Commission.

“People must come to accept private enterprise not as a necessary evil, but as an affirmative good”.

—Eugene Black

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