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PUBLIC / PRIVATE PARTNERSHIP IN HOUSING
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The overall shortage in EWS and LIG housing in India has been estimated at close to 25 million dwelling units. With rapid urbanization and increasing labour mobility arising out of the shift from the agrarian economy to the industrialised and service economy that is emerging in India, this shortfall is increasing in leaps and bounds. With five people to a dwelling unit, the minimum living space required per dwelling unit is about 300 sq ft, which means that approximately 7,500 million sq ft needs to be built. At a conservative cost of Rs 1,000 per sq ft in urban India where most of the demand exists, the overall investment requirement is a staggering Rs 750,000 cr.

This obviously necessitates a major Government led initiative to spur public private partnerships to begin to address the problem. The sheer size of the amounts involved should not deter this initiative, and it is helpful to view the problem of housing as a huge opportunity to kick start the economy, generate productive employment and create national wealth. The real estate sector and construction activity in general is already one of the largest employers in the country and can still absorb skilled and unskilled workers in very large numbers. It is also estimated that close to 70% of the value of investment directly trickles to the GDP of the country.

Currently, for various reasons, private sector activity in the weaker segments is negligible due to various reasons. The lesser margins involved, and the lack of financing for the end buyer, are obvious deterrents to private sector initiatives. While the margin issues can be overcome by the sheer volumes involved, the lack of financing is a more chronic issue that needs to be addressed.

In fact, Micro Housing Finance Corporation ("MHFC") was set up for exactly this reason - to assist EWS/LIG families and those currently excluded by the mainstream banking sector (particularly the informal sector which lacks documentation) in financing the purchase of the first home. By combining the best practices of the microfinance industry and mainstream housing finance companies, MHFC hopes to play a significant role in the development of an active micro mortgage market, which is much needed, given the size of the informal sector. A recent government report has estimated that workers from the unorganized sector / small and micro enterprises account for about 90% of the 200 million non farm workers.

However, what MHFC can do is obviously very limited, given the huge requirements in capital. Even if 1 Million homes were built (which is still not even close to solving the problem), the financing needed – at an approx Rs 3 lakhs average loan size – would be Rs 30,000 crores. Thus, there needs to be a massive impetus given not just to the supply side (by assisting developers who have a focus on lower income housing) but equally in setting up financial institutions which will focus on the poorer and excluded sections of society.

This is not going to be easy given that even mainstream institutions with large balance sheets, operational capabilities and years of housing finance experience have shied away from this market. Thus, this part of the eco system will only grow if the government steps in to assist its growth – and for this, we suggest the following key fiscal incentives. *We would like to state at this stage that the National Urban Housing and Habitat Policy 2007 (as created by the Ministry of Housing and Urban Poverty Alleviation), as well as several policies designed by the National Housing Bank ("NHB") and the Deepak Parekh Task Force, have outlined the necessary framework, and we endorse their recommendations*. It is the implementation of the policy that is awaited, and which we believe will provide a catalyst to the sector.

Some of the key recommendations which have been made, which we would like to reiterate (and add to) are:

- A "Housing Risk" Fund to be set up by the NHB (or state govts) which would cover repayment risks on loans upto say Rs 1 lakh to EWS / LIG households (particularly under state housing board / JNNURM funded projects);
- Separate sub-target for EWS / LIG housing loans (defined as loans of less than Rs 5 lakhs) under compulsory priority sector financing requirements for commercial banks;
- Modifications in Income Tax Act for HFCs and developers engaged in affordable housing projects – ideally this should be NIL if the projects are related to homes which cost less than Rs 5 lakhs;
- Establish a refinance scheme under the NHB which provides long term refinance to HFCs (even to new ones – which have not been in existence for the usual refinance qualification period of 3 years) focusing only on loans made to EWS / LIG borrowers;
- Permit HFCs to access the long-term External Commercial Borrowing ("ECB") market, since HFCs require long-term funding sources at the lowest cost possible to pass on to the ultimate borrowers;
- Waiving of stamp duty rates and registration fee for affordable housing to say 2% uniformly in all states;
- Levy a flat charge of Rs. 1,000 on registration of equitable mortgages;
- Continue to make available JNNURM funds for affordable housing and ensure that part of the funds be used for direct provisioning of housing for poor urban households;
- State Housing Boards be encouraged to focus on playing a more active role in the provision of affordable housing, and particularly through public private partnerships;
- Funds raised through the sale of land transactions by State Housing Boards must be ring fenced, with a defined proportion to be redeployed only for affordable housing;
- Simplifying procedures and processes for land acquisition and conversion of agricultural lands for urban use;

- Upward revision in the FAR/FSI, across cities of different sizes commensurate with investment in infrastructure that it will necessitate;
- Improve the speed of transactions through computerised land records and application of e-governance to land transactions;
- Commission a professional study, to examine the range of issues covering urban land and recommend a comprehensive, long-term urban land policy. Given the environmental concerns, "sustainable" methodologies need to be developed;
- Finally, bring "affordable housing" under the infrastructure definition.

Obviously, the entire eco system needs to be created to encourage private investments in housing for the poor. Starting with the time taken to obtain various permissions, to the design, to the construction technology, to materials, to town and urban planning for supporting infrastructure growth, all areas need huge changes for an efficient market to develop. The best practices from the assembly line type manufacturing to just in time inventory management, to an IT like approach to project planning and execution, will help in mass production reducing unit costs. Needless to say, over 25% of the overall investment required is taxes in various forms, including stamp duty, sales tax and excise on inputs, service tax, etc. The government needs to think of simplifying if not eliminating most of these taxes for projects that are exclusively meant for EWS/LIG segments.

Finally, we would also like to highlight the role of the state housing boards / agencies as a developer of EWS / LIG housing. There is no question that the government will continue to be the biggest builder for the weaker sections of society and MHFC is in discussions with several states, to find ways to work together, especially in terms of filling the last gap of buyer financing. This might be administratively difficult, due to the large number of beneficiaries under state schemes and the small ticket size of loans, but government incentives (including some mentioned earlier like credit guarantees, refinance and interest rate subsidies) can make lending to EWS / LIG buyers attractive – for all housing finance companies, not just MHFC. We need more players in this market if we have to make our cities slum free.

The author is the Chairman of Micro Housing Finance Corporation ("MHFC"), a housing finance company which was incorporated in May 2008, with the objective of providing housing finance for lower income households (mostly in the informal sector) in urban India. The company has received the necessary regulatory clearance from the National Housing Bank ("NHB") and started disbursing loans in June 2009. Mr Menon has 23 years of previous banking experience, initially with the Reserve Bank of India, and then with American Express Bank.