



FORMAL HOUSING FINANCING SYSTEM- KARNATAKA

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ABSTRACT

The rapid expansion of Bangalore's industrial and information technology activities in the early 1990s led to increased migration from rural areas of Karnataka state and elsewhere in India, intensifying the strain on Bangalore's infrastructure facilities. Living conditions of residents subsequently deteriorated, leading to increased urban poverty and environmental problems. The key objectives of the Karnataka Urban Infrastructure Development Project (KUIDP) were to promote decentralization of population growth and economic activity away from Bangalore by addressing infrastructure deficiencies and related environmental issues in selected urban areas in the Bangalore region, namely Channapatna, Mysore, Ramanagaram, and Tumkur. 1 The Project also sought to build the capacity of selected urban local bodies (ULBs) and related sector institutions in order to ensure sustainability of the investments and to provide housing finance assistance to low-income groups in the Project towns at affordable interest rates.

1. INTRODUCTION

In this chapter, an attempt has been made to substantiate the claims of the preceding chapters, which were based on the secondary data collected by various sources. Finance for housing provided by various institutions for housing has been referred to as the formal housing finance. Until recently, the key players were, the NHB and HUDCO in the public sector, and the HDFC in the private sector. However, of late Specialized Housing Finance Companies (SHFCs) have entered the housing finance market in a big way. Players like Canfin Homes, SBI Home Finance, Life Insurance Corporation Housing Finance, General Housing Finance Corporations and others are noteworthy. In recent times, almost all commercial banks and financial institutions have entered the fray. In all, there are about 26 Housing Finance Companies as on 10th December 1999 (ADB, 1999) registered with the National Housing Bank.

This chapter is based on primary data collected from various districts, towns and villages of Karnataka. Therefore, the objective of this chapter is , to trace out the role of the formal financing institutions to housing in the urban and rural areas of Karnataka.

2. HOUSING PROFILE

This section of the chapter focuses on various aspects such as the number respondents owning a house, number of them not owning a house but only a site/plot, type of house owned, reasons for owning a house etc. The study brings out the housing profile based on the socio-economic factors. Attempts have been made to trace the housing profile based on caste, religion, education, income levels and employment of the respondents, which are significant determinants of the housing profile.

3. NUMBER OF HOUSES OWNED

The number of houses owned, has different across the rural and urban areas and so also across the respondents belonging to different income groups, education levels, occupations, caste and religion-wise.

Caste-wise

Caste has been an influential factor in determining the number of houses owned by the respondents. The table 5.6 shows the association between caste and the number of houses owned.

The following table shows that, around 54 percent of the respondents belonging to the backward community own two houses and around 9.1 per cent of them belonging to the Scheduled Caste/Tribes own more than two houses and at the same time most of the respondents belonging to the general community also own two houses. However, in the urban areas, around 66.6 per cent of the backward community own one house each. The results of the Chi-square reveals that the association between caste of the respondents and the number of houses owned by them is moderately strong. Further, the results of the CV also reveal that it is insignificant at 1 per cent level both in the rural and the urban areas.

EVALUATION PURPOSE AND PROCESS

This project performance evaluation report (PPER) focuses on pertinent aspects of the Karnataka Urban Infrastructure Development Project (KUIDP), including the low-income housing component, and presents the findings of the operations evaluation mission (OEM) to India from 18 July to 5 August 2005. The timing of the OEM, a year before completion of the Asian Development Bank (ADB) project completion report (PCR), was influenced by the

need to assess findings on the first completed integrated urban development project (IUDP) to be conducted in India in a special evaluation study on ADB's urban sector strategy and operations.¹ The mission visited all six project towns and the sites of subprojects in each town, including a sample of the slum upgrading schemes. Before visiting the towns, interviews were conducted with relevant central government officials in (i) the Department of Economic Affairs in the Ministry of Finance, (ii) officials of Karnataka state's Department of Municipal Administration and Department of Housing and Urban Development (DHUD), (iii) key implementation agencies such as the Karnataka Urban Water Supply and Drainage Board (KUWSDB), and (iv) managers and staff of the Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC), the Executing Agency (EA) of the Project.² In each town, meetings were held with municipal commissioners (or the city commissioner in the case of Mysore) and relevant staff, as well as with the managing directors of local urban development agencies such as Mysore Urban Development Authority (MUDA) and Tumkur Urban Development Authority (TUDA), and local KUWSDB staff. Local nongovernment organizations (NGOs) involved in community development aspects of the Project, as well as federations of self-help groups, were also visited. Upon return from the field, debriefings and wrap-up meetings were held with DHUD and KUIDFC in Bangalore and the Department of Economic Affairs in Delhi. This delayed report takes into account the results of follow-up communications with KUIDFC and ADB's resident mission in August–October 2007.

DESIGN AND IMPLEMENTATION

A. Formulation

The Government approached ADB in 1993 for assistance to prepare a project that would enable selected urban locations to be developed as growth areas in an effort to reduce pressures on Bangalore. The urban areas of Channapatna, Mysore, Ramanagaram and Tumkur were selected based on criteria such as location in relation to Bangalore, existing population and annual growth rates, quality of infrastructure facilities and related amenities, and definition as self-contained urban areas. (Due to project savings, two more towns along the BangaloreMysore highway, Maddur and Mandya, were included later.) At the time, Mysore, 140 km from Bangalore, was considered to be the most likely counter-magnet to Bangalore. Tumkur, which is smaller and 90 km away, was considered a potential counter-magnet. ADB approved a project preparatory technical assistance (PPTA)⁶ on 12 November 1993 to investigate the feasibility of a project. The consultants submitted their report in April

1995. Based on the report, ADB's appraisal in June and July 1995 defined a project costing some \$132.0 million equivalent. Because of a shortage of housing and housing finance in the region, the Government also requested ADB assistance to provide housing finance through HDFC. Thus, the total project cost included a separate loan for \$20.0 million for housing finance. Loan negotiations took place during November 1995.⁷ ADB's Board subsequently approved an urban development loan for \$85.0 million to the Republic of India and a housing loan of \$20.0 million to HDFC on 14 December 1995. The loans became effective on 8 July 1996.⁸ Significantly, it was the first time the Government of India had borrowed from ADB for an IUDP and it was the first time ADB had made a loan for housing finance in the country.

B. Rationale

Bangalore, the capital of Karnataka State, had expanded at a rapid rate mainly because of its location, favorable climate and the availability of good physical infrastructure. The city was therefore the recipient of increasing and substantial local and foreign investment from 1991, when the Government began its liberalization program. The rapid expansion of industrial and information technology activities prompted increased migration to Bangalore from rural areas of Karnataka and elsewhere in India, intensifying the strain on the city's infrastructure. Living conditions of residents subsequently deteriorated, leading to increased urban poverty and environmental problems.

C. Cost, Financing, and Executing Arrangements

The estimated total project cost at appraisal included a foreign exchange cost of \$36.0 million, which ADB was to finance, together with \$69.0 million equivalent of local currency costs (\$49.0 million from the loan to India and \$20.0 million equivalent from the loan to HDFC). The Government of Karnataka was to finance \$19.3 million equivalent, with equity from ULBs and related institutions in kind and land amounting to another \$7.7 million equivalent. Thus, ADB financing covered 79.6% of the total project costs, 64.4% of all the components except low-income housing, and 15.2% for the low-income housing component. The loan was made to the central Government from ADB's ordinary capital resources for a period of 25 years, including a grace period of 5 years, at ADB's variable interest rate.

D. Procurement, Construction, and Scheduling

In as far as the OEM was still able to check, KUIDFC carried out the procurement of goods and services generally in accordance with ADB's Guidelines on the Use of Consultants (as amended from time to time) and Guidelines for Procurement (as amended from time to time).



From July 1997, prequalification of contractors for various works was done in stages to meet the needs of the Project. ADB approved broad criteria for qualification of small civil works programs. Standard bidding documents, work specifications and bid evaluation procedures were approved for use in the Project in July 1997 and were used for local competitive bidding for all project civil works. Standard bidding documents for procurement of goods internationally and locally were developed for use in procuring solid waste management equipment and water meters. Procurement of other items such as vehicles, office equipment and furnishings for the PMU, PIUs and consulting teams was done by KUIDFC through local purchase. Most works were completed after substantial delays.

CONCLUSION

The main reasons for the decrease in the FIRR are the non-implementation of some of the important institutional and service cost-recovery measures assumed during appraisal. During appraisal, it was assumed the water tariff would increase annually at an average of 13% over the project period (251% in aggregate). The overseeing agency was expected to introduce a sewerage charge of 30% in 1999. The non-revenue water is assumed to reduce from 30% in 1995 to 20% by 2001. Almost all of these policy measures have not been implemented during the project period. In addition, some 40% to 45% of the connections in the project towns are illegal. Thus, during the latter part of 2004, the ULBs took steps to audit the illegal connections and initiated the process of regularization. Another reason for the poor financial viability of the Ramanagaram and Channapatna water supply project is the fixed monthly tariff structure and the low collection in relation to water demand. In comparison, the Mysore Municipal Corporation has initiated a special drive to collect water charge arrears. These efforts have recently shown positive results.

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