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IMPACT OF ANTI-COMPETITIVE PRACTICES IN THE CONSTRUCTION INDUSTRY ON HOUSING FOR THE URBAN POOR IN INDIA

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RESEARCH REPORT

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IMPACT OF ANTI-COMPETITIVE PRACTICES IN THE CONSTRUCTION INDUSTRY ON HOUSING FOR THE URBAN POOR IN INDIA

Report by

Civitas Consultanice Pvt Ltd | Advocata Institute

with Knowledge partner

Centre for Public Policy Research

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Acronyms

AMC	Annual Maintenance Contract
BLC	Beneficiary Led individual new house Construction
BMC	Brihanmumbai Municipal Corporation
BRICS	Brazil, Russia, India, China and South Africa
BSUP	Basic Services to the Urban Poor
CCI	Competition Commission of India
CLSS	Credit Linked Subsidy Scheme
CREDAI	The Confederation of Real Estate Developers' Associations of India
DFI	Development Finance Institution
EWS	Economically Weaker Sections
FAR	Floor Area Ratio
FDI	Foreign Direct Investment
FSI	Floor Space Index
FY	Fiscal Year
GHTC	Global Housing Technology Challenge
GST	Goods and Service Tax
HIGs	High Income Groups
HUDCO	Housing and Urban Development Corporation Ltd.
IHSDP	Integrated Housing and Slum Development Programme
KPMG	KPMG International Limited
LHPs	Light House Projects
LIFE	Livelihood Inclusion Financial Empowerment
LIGs	Lower Income Groups
MCMV	Minha Casa Minha Vida (My House My Life)
MHT	Mahila Housing Trust
MIGs	Middle Income Groups
MoHUA	Ministry of Housing and Urban affairs

MRTP	Monopolies and Restrictive Trade Practices Act
NBC	National Building Code
NBFC	Non Banking Finance Companies
NCR	National Capital Region
NHB	National housing Bank
NITI	National Institution for Transforming India
NOC	Non Objection Certificate
NPA	Non Performing Assets
NSDP	National Slum Development Programme
OECD	The Organisation for Economic Cooperation and Development
PIB	Press Information Bureau
PMAY(U)	Pradhan Mantri Awas Yojana (Urban)
PMAY	Pradhan Mantri Awas Yojana
RBI	Reserve Bank of India
REIT	Real Estate Investment Trust
RERA	Real Estate Regulatory Authority
RREP	Residential Real Estate Project
SNP	Slum Networking Project
SRA	Slum Redevelopment Authority
SWAMIH	Special Window for Affordable and Mid-Income Housing
sq. m.	Square metre
sq. ft.	Square feet
sq. km.	Square kilometre
TDR	Transferable Development Rights
TNHB	Tamil Nadu Housing Board
UN	United Nations
UNICEF	United Nations International Children's Emergency Fund
UT	Union Territory

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Executive Summary

Access to adequate, safe, and affordable housing is recognised as a universal right and a key target for sustainable development. Affordable housing has been a critical issue in India, with an estimated 18 million people living without a support roof cover. As per the UN, as of 2021, 35 percent of the urban population in India lives in substandard housing, which translates to 170 million. An increase in urbanisation and population pressure have further pressed the demand for housing.

India offers one of the largest prospects for affordable housing due to the sheer amount of unmet demand. Despite the statistics offering an attractive proposition for investors and entrepreneurs to jump in, there has been only 17% investment in the sector by private entities since 2011. An enabling environment is a precondition for a successful market in the affordable housing sector. Therefore, it is crucial to identify the significant gaps and limitations in the supportive environment to enhance strategic interventions and ensure the effective delivery of services. Given this context, a study on anti-competitive practices in affordable housing was conducted to comprehensively understand the effects of anti-competitive practices in the construction industry on the availability of safe and affordable housing for the impoverished and to facilitate evidence-based policy development and program implementation. The primary goal was to comprehensively assess anti-competitive practices in the construction industry, their impact on affordable and safe housing for the disadvantaged, and how market-oriented solutions and robust competition policies and laws can be utilised to address these challenges. This involved reviewing the existing policy and legal framework and analysing programmatic interventions. Some of the key findings of the study are summarised below.

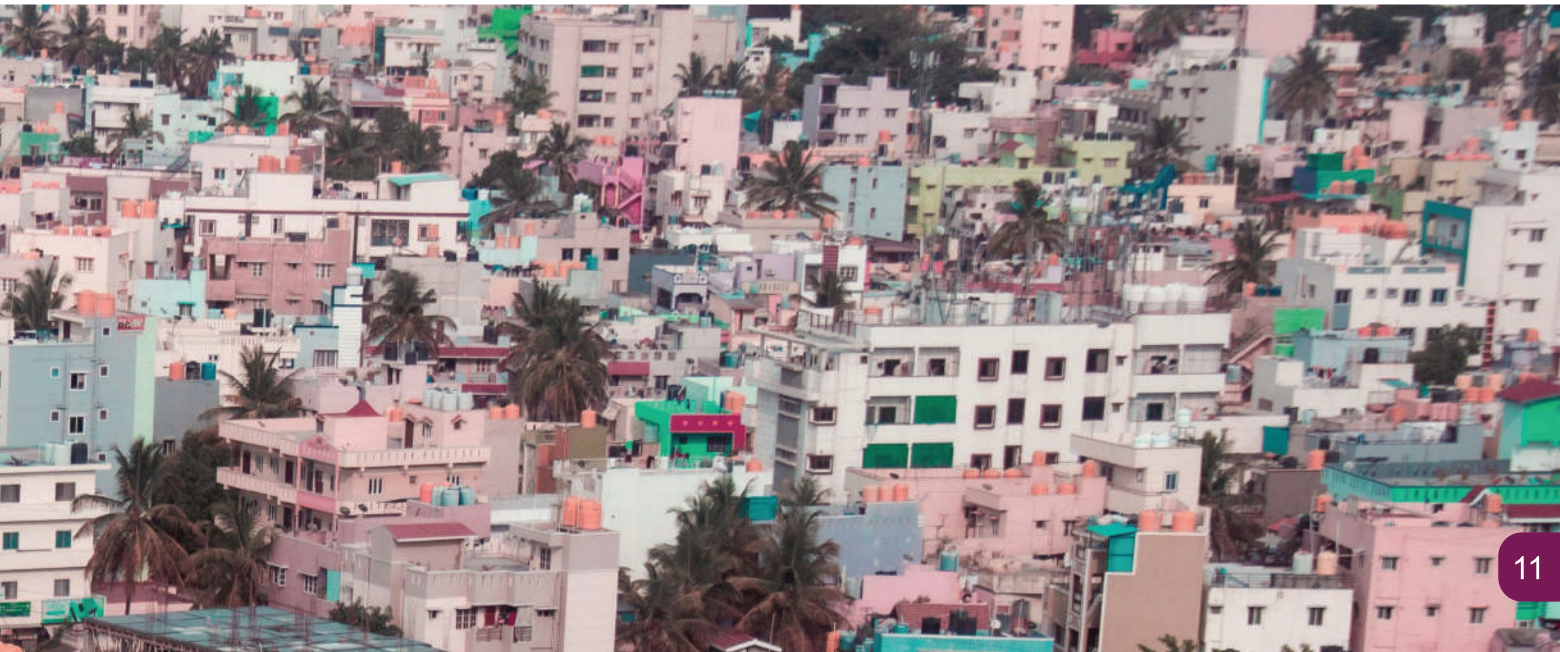


Table 1: Anti-competitive Practices and Key Implications

Anti-competitive Practices	Key Implications
I. Micro-level Monopolies	With powers given to urban local bodies over urban planning, including town planning, regulation of land use and construction of buildings, there is evidence of micro-monopolies sprouting, where powerful groups at the local level wield influence and obtain favours from the governing institutions.
II. Regulatory Barriers	Regulations in India vary from state to state, and there are multiple regulations right from the time of acquiring land to construction that different agencies implement. The delay in complying with all the regulations is a hefty cost being shouldered by both the poor and the builders.
III. Restricted Development Regulations	Bye-laws in India impose heavy restrictions on construction, thereby hindering new and innovative methods that a developer might use. Lower Floor Area Ratio (FAR), Floor Space Index (FSI), licencing requirements, building codes and guidelines, and restrictions on height increase the cost of houses.
IV. High Transaction Costs	Delays in regulatory approvals, clearances, and permits are pushing up construction costs for the builders. Stamp duty and registration charges are not waived even for affordable housing; hence, the buyer is burdened with associated costs.
V. Interest Groups and Lobbying	There is evidence of cartelization in the cement and steel industries, which are the key raw materials for any construction activity. The industries routinely lobby for higher import duties on cement to limit competition. This has resulted in the high cost of acquiring raw materials for construction.
VI. Monopolistic Control of Land	The land is one of the major contributors to the cost of house prices. Government policy measures through the years have led to monopolistic control over limited land, which has starved the open market for land resources and inflated house prices.

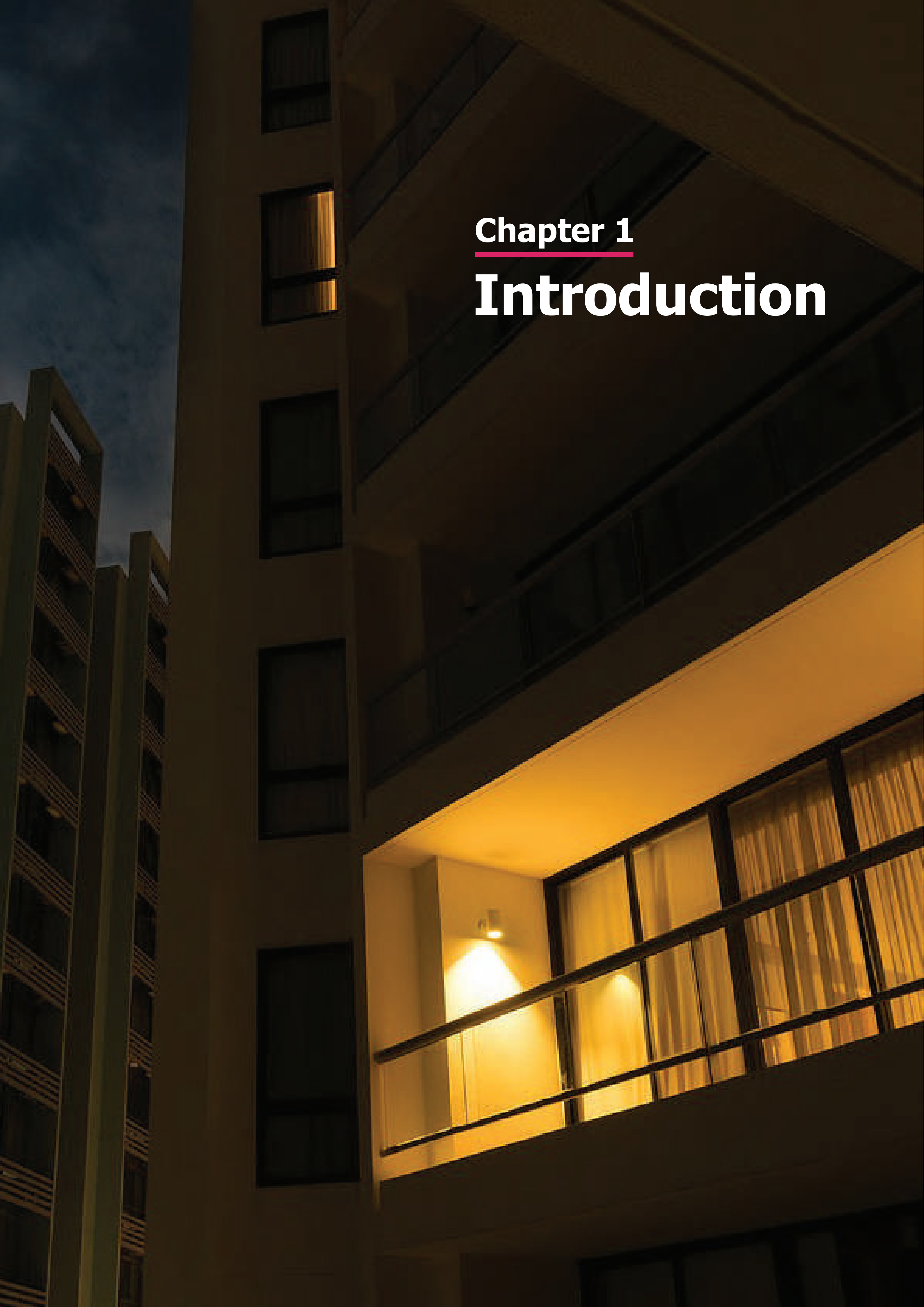
VII. Weak Competition Enforcement	Although the Competition Commission of India (CCI), as an institutional body, has attempted to break the anti-competitive practices, the companies charged with a violation can further appeal to the Supreme Court of India. This results in delays in enforcement. Additionally, on several occasions, the Supreme Court has rebuked the CCI's orders despite the CCI’s thorough investigation. There is also evidence of government intervention stalling the CCI’s investigation process in different sectors. For instance, in 2018, the CCI was accused of dropping its investigation into allegations of anti-competitive practices by a number of pharmaceutical companies after the government intervened. CCI’s lack of financial independence also limits its powers. The CCI’s budget is set by the Government of India and is subject to budgetary constraints. Budgetary dependence acts as a tool for the state to curtail or penalise CCI.

The COVID-19 pandemic highlighted the significance of having a roof over our heads. It is, therefore, prudent for developing countries like India to provide affordable housing options to economically weaker sections of the population. However, to make housing accessible and affordable to all, the concerns recapitulated above need to be addressed at their root level.

This study proposes several policy recommendations to overcome these challenges and promote development in the construction sector. These include simplifying regulations, implementing a single-window clearance system, revising FSI/FAR limits, incentivizing developers through tax breaks and streamlined processes, encouraging innovation and technology adoption, improving access to finance for the low-income segment, establishing an efficient tax structure, streamlining the land litigation process, and ensuring the independence of the enforcement body. By implementing these measures, a more conducive environment can be created for affordable housing, leading to increased growth and improved access to housing for the population.

Chapter 1

Introduction



1.1 The Relevance

India, the most populated country in the world, has a **total population of 1.43 billion**, and its **urban population is projected to be 675 million in 2035**.

The urban population of the country has grown at a rate of 2.8% from 2001 to 2011, resulting in an increase in urbanisation from 27% to 31%. India's total urban population is expected to reach 600 million by 2031, making it the fastest-growing urban population among the BRICS. 79% (19.3 million) of the new jobs created between 1991 and 2001 were in urban areas, highlighting the increase in labour flow to urban areas. Many rural areas are being transformed into urban spaces, and the existing urban spaces are being over-pressured by a constant spike in population. More than 10 million people are added to urban areas every year (India's Urban Population, 2022). According to the UN Habitat's World Cities Report 2022, 43.2% of the country's population will be residing in urban areas by 2035.

35% of urban population in India lives in substandard housing.

- As per 2021 UN estimates

Access to adequate, safe and affordable housing for all is recognised as a universal right and a key target for sustainable development. An increase in urbanisation causes population pressure, which further presses the demand for housing. As per estimates from the UN, as of 2021, 35 percent of the urban population in India lives in substandard housing, which translates to 170 million. Considering the current average household size of 4.8, this amounts to 35 million households living in substandard housing, indicating the need for adequate housing.

The data shows that the urban housing shortage across India was 18.78 million houses for the period 2012–2017, which is high compared to other Emerging Market Economies (EMEs). Out of the estimated 18.78 million urban housing shortages, 14.99 million are living in congested houses, 2.27 million are living in obsolescent houses, 0.99 million are living in semi-permanent houses made of hay, twigs or bamboo, and 0.53 million are homeless and require new houses (KPMG, 2012). Economically weaker sections (EWS) and lower income groups (LIGs) account for 95.6% of the urban housing shortage in the country. In 2018, the urban housing shortage in India witnessed an increase of 54 percent, reaching 29 million from 18.78 million in 2012 (Roy and ML, 2020). The shortage was experienced by EWS and LIG households.

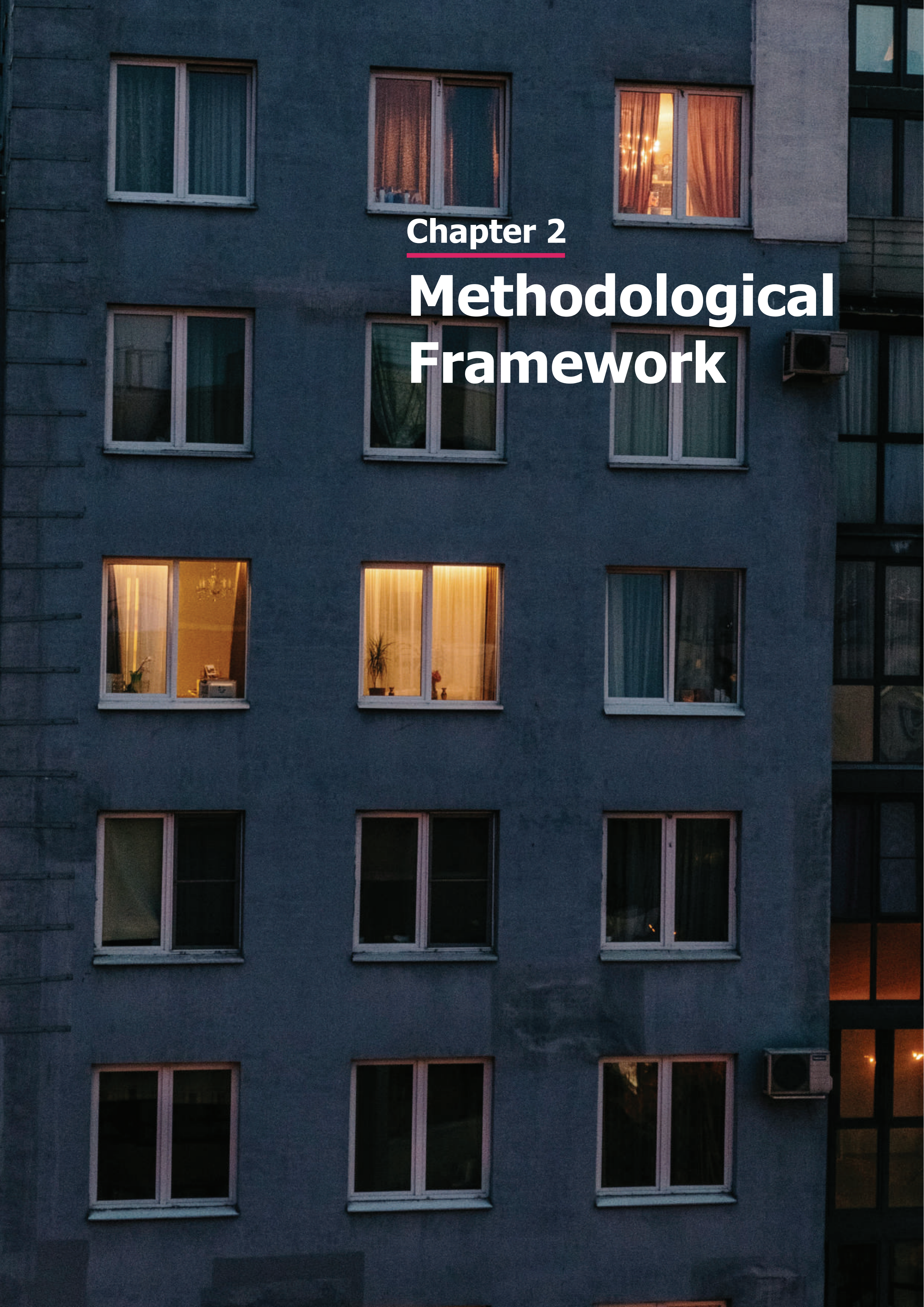
The urban housing shortage in India varies from state to state; Uttar Pradesh, Maharashtra, West Bengal, Andhra Pradesh, Madhya Pradesh, Tamil Nadu, Bihar and Gujarat constitute 76% of the total urban housing shortage in the country. According to the National Sample Survey Office's Reports on 'Housing Conditions and Amenities in India', released in 2018, an estimated 65.5 million people in India's urban areas are living in slums, highlighting the disordered urbanisation in the country. A slum in India typically refers to a densely populated urban area of at least 300 people, or about 60-70 households, characterised by inadequate housing and basic infrastructure facilities such as water supply, sanitation, and waste management. The percentage of homeless people has decreased in rural areas and increased in urban areas over the years in India. The total share of the population living in slums has decreased in the last 20 years, yet 25% of the urban population still lives in slums (Affordable Housing in India, 2016).

The affordable housing sector, in its current state, is unequipped to cater to the ever-increasing demand unless corrective actions at policy and institutional levels are undertaken. A 2019 RBI report states that the ratio of house price to annual income has worsened over the years, reducing affordability (Housing Affordability, 2019). Affordability, in general, is the economic capacity of a person to purchase a house. In India, house affordability is defined by the central government in terms of the income levels of the citizens. One-fourth of the country's total urban population (80.7 million) lives below the poverty line, which constitutes 26.7% of the total poor in the country. The urban housing shortage for the Economically Weaker Sections (EWS) and Lower Income Groups (LIGs) categories combined is 17.96 units from the total 18.78 million units, and the demand from EWS and LIG is considered affordable house demand for the urban poor.

1.2 Need for the Study

The growing concentration of people in urban spaces has led to a range of problems, including land and housing shortages and congested transit. As more people move to cities in search of better opportunities, the demand for housing has increased significantly, leading to a shortage of affordable housing in many urban areas. This has made it difficult for low-income families to find decent housing, leading to the development of slums and informal settlements on the outskirts of cities. The shortage of land in urban areas has also led to high land prices, making it even more difficult to develop affordable housing.

Given the sheer unmet demand for affordable housing in the country, India presents one of the largest affordable housing opportunities globally. While the statistics offer an attractive proposition for investors and entrepreneurs to jump in, the housing landscape is surprisingly littered with failed attempts and a lack of players in the market. The real estate developers and builders in India primarily target the middle or high-income housing segment, resulting in a gap in the lower-income housing segment. There is a demand for 1.12 crore houses in India's affordable housing market. Even with a huge market opportunity, there has been only 17% investment in the sector by private entities since 2011 (Live Mint, 2021). Hence, it is important to understand and analyse the lack of private players in the market and efficient competition in the sector.



Chapter 2

Methodological Framework

An enabling environment is a precondition for a successful market in the affordable housing sector. Hence, identifying key gaps and constraints in the enabling environment becomes imperative for strengthening the strategic interventions and the implementation process to ensure effective service delivery. To arrive at the objective of identifying the gaps in the existing ecosystem, the study undertook the following methodological framework.

2.1 Objective of the Study

- To understand the impact of anti-competitive industry practices in the construction industry on safe and affordable housing for the poor in India and assess how market-based solutions, stronger competition policies and legislation can be used to address these problems.

A qualitative approach and quantitative data analysis were adopted in the study to identify the key gaps and impediments to competition in the sector. As policy goals are realised through interventions made by the state, an attempt is made to frame the contours of policies that need to be focused on and strengthened.

2.2 Qualitative Study

2.2.1 Literature Review

The study presents a comprehensive compilation of relevant literature, incorporating a wide range of sources such as articles, books, commentaries, and government reports. The literature review encompasses key topics that are crucial to understanding the affordable housing sector, including land, capital, labour, revenue, rent, and affordable housing itself. The review entails a detailed study of the Acts and laws in the said domain while focusing on aspects of regulation and competitiveness. Some case studies are also highlighted, which focus on legal disputes as well as monopolistic practices in the sector.

Policy goals are realised through programmatic interventions. Hence, a desk review of policies, Acts and programmes was undertaken as an integral part of this study. The review exercise was largely qualitative in nature. All the policies deemed appropriate in the context were listed and scanned. The policy review aimed to identify the gaps, and the review of Acts aimed at examining the extent to which a supportive environment is created with legitimacy and authority for action by the state agency.

2.2.2 Stakeholder Interactions

To get an in-depth understanding and accommodate varying perspectives, focus group discussions were conducted with stakeholders in the construction and housing sectors in India, including investors, lending institutions, real estate developers, government officials at the state and national levels, and other experts in the field. A semi-structured questionnaire format was used to drive the discussion while also allowing sufficient flexibility with respect to the issues and topics discussed.

2.3 Quantitative Data

For closely examining the sector, along with anti-competitive practices in the country, quantitative data was used to support the findings wherever credible data was available. Data was collected from various national and international reports, ministry-level department databases, newspaper reports, articles and multiple research papers.

2.4 Definitions of terminologies used in the study

2.4.1 Competition/Anti-Competition

The Competition Commission of India (CCI) was established in March 2009 for the administration, implementation, and enforcement of the Competition Act in India. The Competition Act prohibits anti-competitive agreements and abuse of dominant positions by enterprises and regulates combinations that cause an appreciable adverse effect on competition within India. Anti-competition, as defined by the CCI, can either be a horizontal agreement or a vertical agreement. A horizontal agreement is one where enterprises engaged in identical or similar trade of goods or services collude amongst themselves to distort competition in the markets. Such an agreement is presumed to have an appreciable adverse effect on competition and, thus, shall be void. A vertical agreement, on the other hand, is one that is entered into by enterprises at different stages or levels of production, distribution, supply, storage, etc. It could also be dominance, which refers to a position of strength that enables an enterprise to operate independently of competitive forces in the market or to affect its competitors or consumers in its favour. The dominant position of an enterprise is not inherently prohibited under competition laws. However, if an enterprise exploits its dominant position in a way that harms competition, it can be deemed an abuse of dominance and can be subject to legal action. The commission has listed out the activities that count as anti-competitive practices in the country:

Horizontal
• An agreement to fix price • An agreement to limit production and/or supply • An agreement to allocate markets • Bid rigging or collusive bidding

vertical
• A tie-in arrangement • An exclusive supply/distribution arrangement • Refusal to deal • Resale price maintenance

Dominant Position
• Imposing unfair conditions or prices, including predatory pricing • Limiting production/market or technical or scientific development • Denying market access • Making conclusions of contracts subject to conditions and having no nexus with such contracts • Using a dominant position in one relevant market to gain an advantage in another relevant market

2.4.2 What qualifies as a house in India?

In India, a census house is defined as a building or part of a building that is used or intended to be used as a separate unit for enumeration purposes during a population census. It may be occupied, vacant or used for either residential or non-residential purposes. If a building has a number of flats or blocks, which are independent units having separate entrances of their own from the road or a common staircase of a common courtyard leading to a main gate, it will be considered separate census houses. A permanent house is defined as one with walls and roofs made of permanent materials. The wall can be made of galvanised iron (GI), metal, asbestos sheets, burnt bricks, stones or concrete. Roofs can be made up of tiles, slate, GI, metal, asbestos sheets, bricks, stones or concrete. As per the 2011 census, there were 330.84 million houses in India, out of which 110.14 million were in urban areas. A house in India is categorised into three different types based on the physical condition of the house. The majority of the houses in urban India are Pucca (91%), meaning houses made from durable materials like concrete and burnt bricks. 6.2% of the houses are semi-pucca, a house whose wall is made from permanent materials like concrete but the roof is made out of a temporary material. 2.10% of the houses still remain Kutcha, made from temporary materials like bamboo, clay or hay.

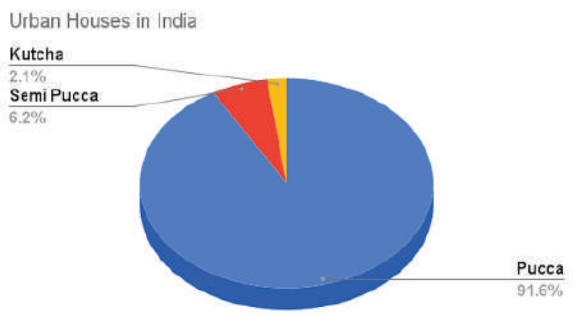


Figure 2.1 : Urban Houses in India

The Indian Government has defined affordable housing as Dwelling Units (DUs) with carpet area between 21 and 27 sq. m. for the Economically Weaker Section (EWS) category and 28 to 60 sq. m. for the Lower Income Group (LIG) category

(LIG-A: 28-40 sq. m. and LIG-B: 41-60 sq.m.). These houses should cater to the needs of EWS and LIGs of society and fall within their income brackets, i.e., ₹3,00,000 to ₹6,00,000. The Ministry of Housing and Urban Affairs defines an affordable housing project as one where 35% of the houses are constructed for the EWS category.

Slums

A slum is defined as a compact area of at least 300 people, or about 60-70 households, with a collection of poorly built or dilapidated structures, usually with inadequate infrastructure and services. The definition includes areas where the dwellings are unfit for human habitation due to dilapidation, overcrowding, lack of ventilation, or basic amenities. Different state governments and municipal bodies in India have their own specific criteria and definitions of slums, which can vary to some extent based on local context and requirements.

2.4.3 Poverty

Poverty estimation in India has undergone several changes through the years. In 2015, NITI Aayog, recognising the multi-dimensional character of poverty, brought out the Multidimensional Poverty Index (MPI). The MPI is measured with the help of three equally weighted dimensions: health, education and standard of living. The health indicators are nutrition, child and adolescent mortality, and antenatal care; education is measured in terms of years of schooling and school attendance; and standard of living is measured in terms of the availability of cooking fuel, sanitation, drinking water, electricity, assets, bank accounts, and housing. While calculating MPI, housing is an important indicator that measures the standard of living, showcasing the importance of housing in the development.

Income classification

The total population is classified into different categories on the basis of income as Economically Weaker Sections (EWS) as households with an annual income below ₹3,00,000; Lower Income Groups (LIGs) as households with an annual income from ₹3,00,001 up to ₹6,00,000; Middle-Income Groups (MIGs) as households with an annual income from ₹6,00,000 to ₹12,00,000; and the rest of the population belonging to Higher Income Groups (HIGs) (PMAY scheme guidelines, 2021).

2.5 Limitations of the Study

The study has certain limitations, primarily stemming from the lack of available data to substantiate claims of anti-competitive practices within the affordable housing sector. Due to the unavailability of comprehensive and transparent data, it was challenging to gather concrete evidence or establish a clear cause and effect relationship between specific actions and their impact on competition. However, efforts were made to mitigate this limitation by employing alternative research methods and incorporating available evidence to provide valuable insights and perspectives on the topic.

Chapter 3

The Indian Context

3.1 History of Housing in India

One of the largest mass human migrations in recent history, the partition of India in 1947, resulted in the displacement of about 15 million people. The immediate migration following independence was the factor that fueled the demand for housing in India. According to the 1951 census report, around 7,249,000 people moved to India from Pakistan immediately after the partition. The major migration centres were Punjab in the west and Bengal in the east. Cities such as Delhi, Amritsar, and Ludhiana saw a significant increase in population due to the influx of refugees from Pakistan. Partition altered the population and property ownership in cities significantly. The sheer volume of refugees strained urban infrastructure, especially housing, in many Indian cities.

With the sudden increase in population, along with increased urbanisation in search of employment opportunities, the existing housing infrastructure faced immense pressure, and there was a consequent surge in demand for new homes. In the immediate post-independence era, the government dominated the housing sector to resolve the housing problem. The Central Government initiated several urban schemes, such as the LIG Housing Scheme, the MIG Housing Scheme, the Slum Clearance and Improvement Scheme, etc., and also emphasised developing planned cities to address the housing needs of its citizens.

The Central Government defined housing as a welfare activity during the post-independence era. Later, with its liberalisation policies and opening up of the economy, the government changed its role to a facilitator. During the immediate post-independence era, the government concentrated more on directly building houses for the poor and eradicating slums entirely. Later years witnessed a policy change; the government shifted its focus from directly building houses to initiating various schemes for the poor to build their own houses. The details of the house schemes developed over time are provided in Appendix 1.

The following periods showcase the evolution and policy shifts adopted by the government over time.

1950 - 1960

There was a dominant role played by the government in the low-cost housing sector in India during the 1950s and 1960s. The government at the time launched various housing programs and policies to address the growing problem of housing shortages and slum dwellings in the urban areas of the country. The government was the primary actor in the construction of low-cost houses, with most of the housing projects being initiated and implemented by public agencies. The government's dominance in the low-cost housing sector was also reflected in its control over land acquisition and development, building regulations and standards, and distributing public resources such as water and electricity.

1970 - 1990

During the 1970s and 1980s, the Indian government continued its efforts to provide low-cost housing to the urban poor. The government's approach during this period was marked by a shift towards a more community-oriented and participatory approach, with greater emphasis on the involvement of local communities and non-governmental organisations (NGOs) in the provision of low-cost housing. The government launched several programs and policies during this period, including the Integrated Urban Development Program (IUDP) and the National Slum Development Program (NSDP), which aimed to provide basic infrastructure and services to urban slums and to upgrade and improve existing housing stock. The government also encouraged the development of self-help housing schemes, which involved providing technical and financial assistance to communities to build their own homes. These schemes were seen as a way to empower local communities and promote self-sufficiency in housing provision.

1991 - 2005

India adopted its liberalisation policy in 1991 and opened up its economy. Deregulation of the economy was one of the major provisions of the policy, where the government removed several restrictions on private sector investment and removed price controls. The government's approach during this period was marked by a greater focus on market-oriented policies and a shift towards greater involvement of the private sector in the provision of low-cost housing.

During this period, the government introduced several policy initiatives to encourage private sector participation in the housing sector, including the establishment of the National Housing Bank (NHB) to provide financial support to housing projects and the introduction of tax incentives for private developers investing in low-cost housing. In addition, the government introduced several measures aimed at improving the regulatory environment for the housing sector, including the introduction of the Urban Land (Ceiling and Regulation) Act of 1999, which aimed to prevent the hoarding of urban land and facilitate its efficient use for housing and other development purposes. The government also introduced several initiatives aimed at improving the quality of housing and infrastructure in urban slums, such as the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and the Valmiki Ambedkar Awas Yojana (VAMBAY), which aimed to provide basic services and infrastructure to slum dwellers and to upgrade and improve existing housing stock. Overall, the government's approach during this period was marked by a greater emphasis on market-oriented policies and private sector participation while continuing to provide direct support and subsidies for low-cost housing. However, no new housing schemes were launched by the government, and there was only a continuation of the existing ones.

2005 - Present

The government's approach from 2005 to the present has been marked by a greater emphasis on public-private partnerships, the use of technology and innovative financing mechanisms, and the promotion of affordable housing through various policy initiatives and financing mechanisms. The government introduced several measures aimed at promoting private sector participation in the housing sector, such as the introduction of Real Estate Investment Trusts (REITs) and the establishment of a regulatory framework for the affordable housing sector. The government also introduced several financing mechanisms aimed at promoting affordable housing, such as the Credit Linked Subsidy Scheme (CLSS) under the Pradhan Mantri Awas Yojana (PMAY), which provides interest subsidies on home loans to eligible beneficiaries, and the Affordable Housing Fund (AHF), which provides financing to developers for the construction of affordable housing projects.

Globally, this period saw the introduction of the National Slum Upgrading Programme by Cities Alliance, a global partnership for urban poverty reduction. The Cities Alliance had a Slums Action Plan that aimed at improving the lives of slum dwellers. In line with this global trend, cities were seen as engines of growth in India. Hence, schemes were made with an emphasis on housing and informal settlements.

While many schemes were initiated with good intentions, the implementation has been patchy and irregular. Classic maladies included the untimely release of funds to undertake projects, unplanned construction away from the cities lacking basic amenities, non-conformity to global standards, and other scheme-specific concerns. Most schemes entailed incentives and concessions, such as a reduced rate of stamp duty, exemption from payment of conversion charges, and fast-track approvals. However, these incentives are subject to certain conditions and eligibility criteria specified in the policy, such as adherence to recommended standards, timely completion of the project, and compliance with all regulatory requirements. As a result, housing schemes often became subject to political influence, with the allocation of benefits being influenced by political considerations rather than genuine needs or eligibility. There are inadequate mechanisms for monitoring and evaluating the implementation and outcomes of housing schemes, which hinder effective decision-making and programme improvement. Better coordination and collaboration between central and state governments in the design, implementation, and monitoring of housing schemes was found to be lacking in the existing system of operations.

3.2 Trends in House Price

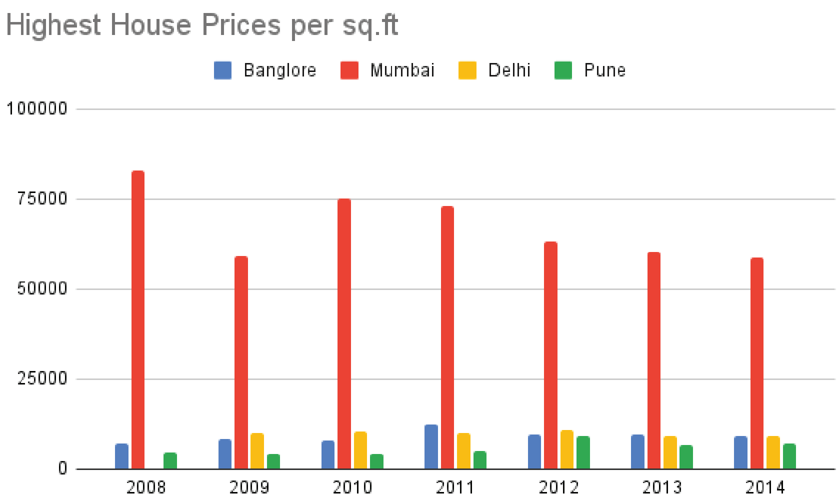
India's average property prices have increased by 6 percent every year (CRISIL, 2022).

A retrospective look at India's housing market shows the market has undergone significant changes over the last two decades. The market has witnessed periods of growth and decline influenced by many factors, such as government policies, domestic economic conditions and global events. **India's average property prices have increased by 6 percent every year (CRISIL, 2022).**

There is a significant difference in house prices in urban areas across different Indian states. The price difference varies widely depending on factors such as the property's location, demand and supply of housing, infrastructure, and amenities. In states such as Maharashtra, Delhi, Karnataka, and Tamil Nadu, house prices in urban areas are generally higher due to factors such as rapid urbanisation, increasing demand for housing, and high economic growth. In Mumbai, for example, property prices are among the highest in the country due to the city's status as a major commercial and financial centre. In contrast, urban areas in states such as Bihar, Jharkhand, Uttar Pradesh, and Odisha have generally lower house prices due to factors such as lower demand, limited infrastructure development, and lower levels of economic growth.

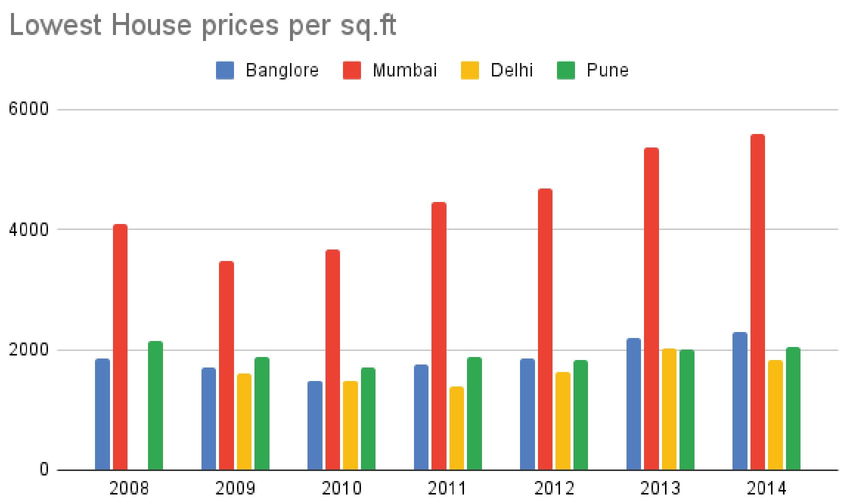
The following figures showcase the house prices per sq.ft. in some major Indian cities.

Figure 3.1: Highest House Prices (in rupees) per sq.ft. in Major Indian Cities from 2008-2014



Source: CREDAI

Figure 3.2: Lowest House Prices (in rupees) per sq.ft. in Major Indian Cities from 2008-2014



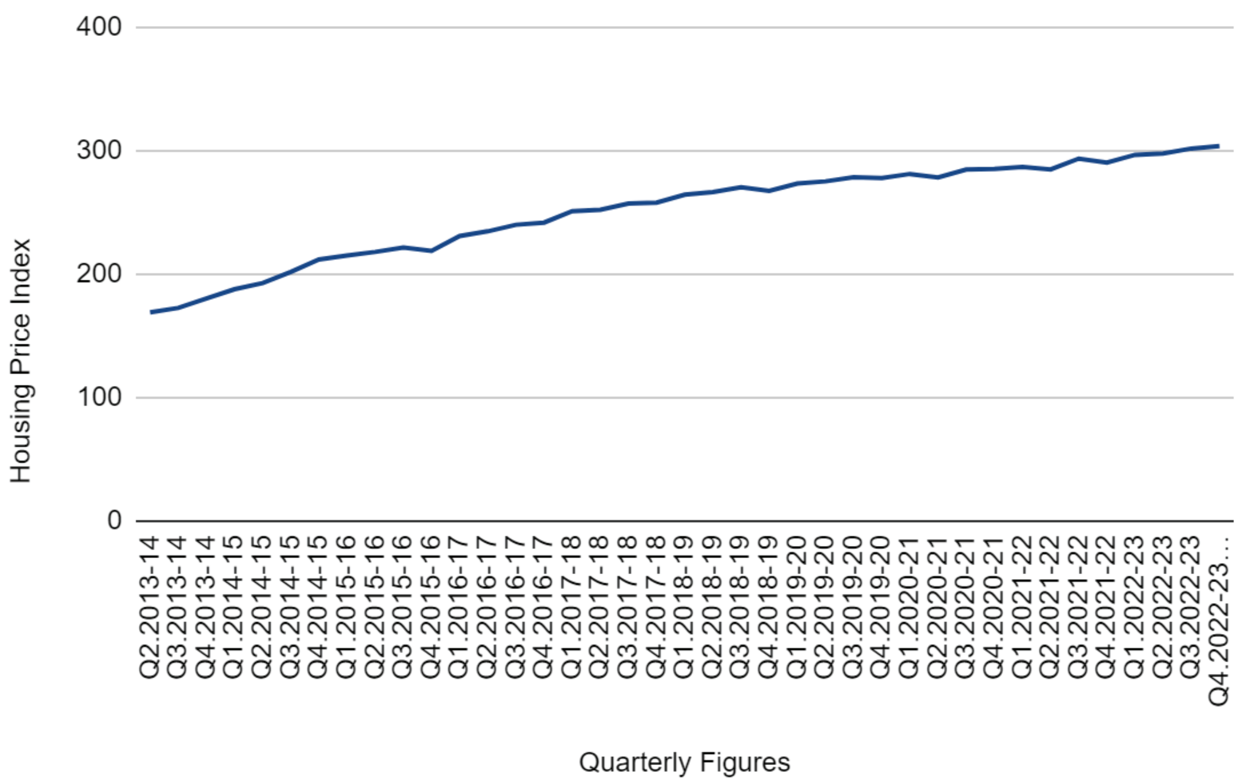
Source: CREDAI

The data shows that house prices in Mumbai remained the highest from 2008 to 2014. It is noted that while the highest house prices per sq.ft. decreased from 2008 to 2014, the lowest house prices increased during the same period. This shows that affordability decreased for the lower income groups, and houses became expensive during the period.

Housing Price Index Over Time

The all-India Housing Price Index (HPI) is a quarterly data released by the Reserve Bank of India. It tracks the home prices across 10 Major cities over time and develops a composite index at all-India level to capture intertemporal price variations. During the first quarter of 2022-23, the pricing index for homes in India went up by 3.5 per cent year-on-year. Overall, the HPI displayed a trend of steady growth in the last decade. Despite periodic fluctuations in specific regions and segments, the overall trajectory showed an upward movement in property prices across the country. (Figure 3.3)

Figure 3.3: Housing Price Index (India)



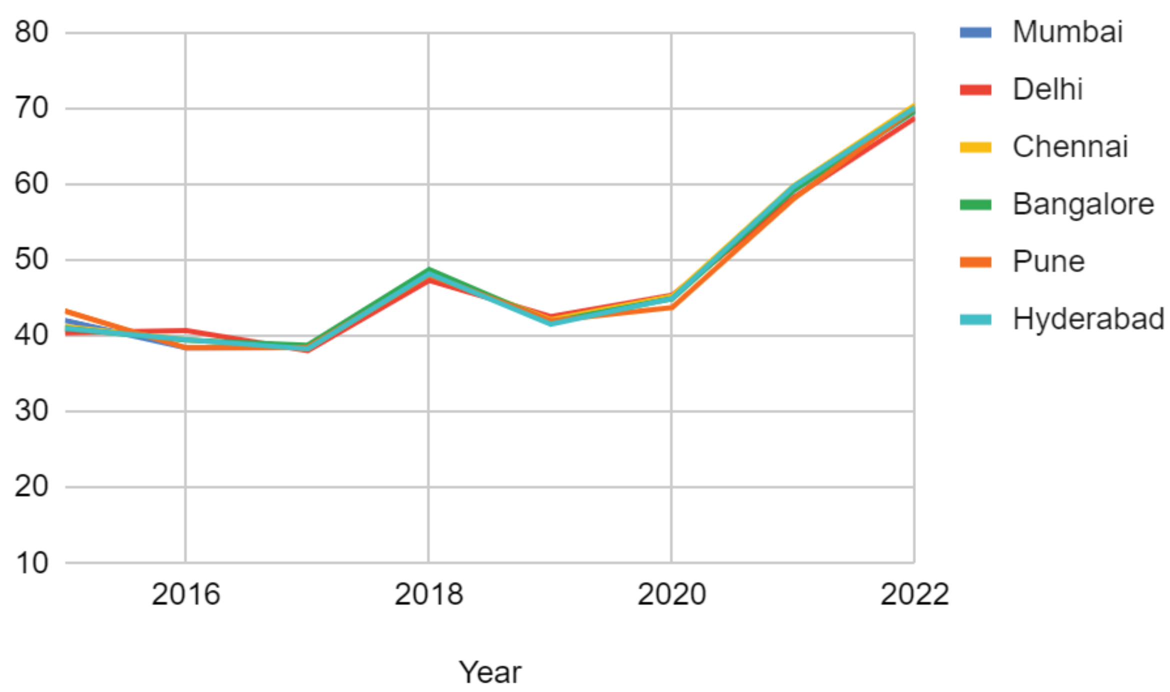
Source: RBI

Trends in Input Industries

Input industries are a crucial determinant shaping the housing market, as material costs represent a significant portion of the real estate industry. The interplay between housing prices and materials costs extend beyond the immediate market dynamics and permeate pressing issues of housing affordability. The price trends of key inputs over the years are presented below.

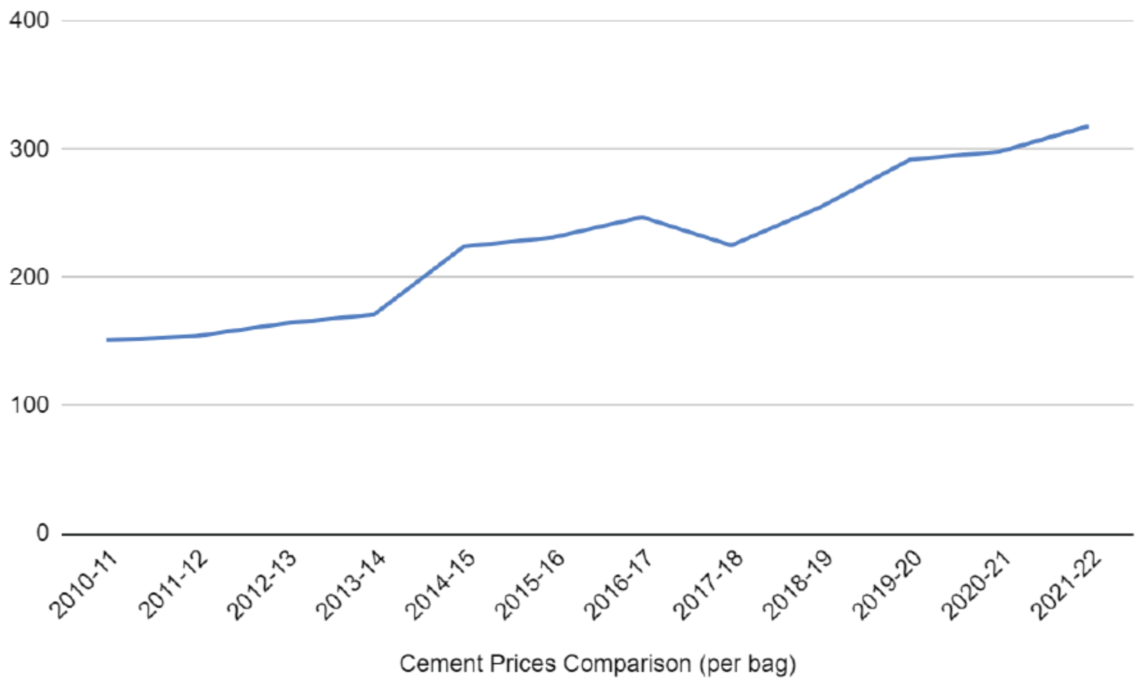
Several policy changes may have coincided

Figure 3.4: Steel Price in India from 2015 to 2022, by city (Rs. per kg)



Source: Author

Figure 3.4: Steel Price in India from 2015 to 2022, by city (Rs. per kg)



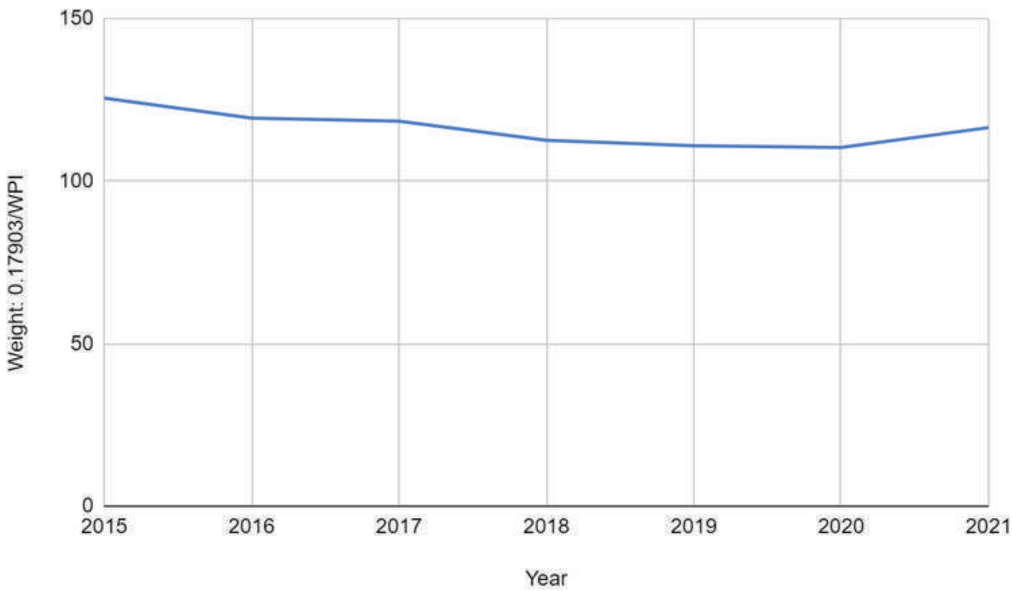
Source: Author

The prices of both steel and cement have exhibited an upward trend over time, with a decline observed for steel in 2018 and for cement in the years 2019-20.

with the pricing dynamics within the housing market. Notably, the domestic steel industry has consistently advocated for anti-dumping duties on imported steel products, prompting the government to impose duties on certain steel imports from China, Japan, Korea, Russia, Brazil, and Indonesia in 2017. This measure was intended to safeguard the domestic steel industry from unfair trade practices. Consequently, while it reduced import pressure on steel, it also led to a surge in domestic steel prices. Additionally, the implementation of the Real Estate (Regulation and Development) Act (RERA) in May 2017, aimed at regulating the real estate sector and protecting homebuyers' interests, resulted in decreased demand for cement in the housing segment due to compliance-related project delays and cancellations.

In contrast to cement and steel, the pricing of ceramic tiles (Figure 3.6) has demonstrated stability and a competitive nature over an extended period of time. The tile industry presents unique market dynamics and factors influencing the ceramic tile industry, setting it apart from the fluctuating trends observed in other construction materials.

Figure 3.6: Ceramic Tiles Wholesale Price Index (WPI) Over the Years



Source: Author

The data and corresponding policies indicate that market distortions in input industries, including steel and cement, through cartels, subsidies, taxes, tariffs, quotas, regulations, etc., affect housing affordability by increasing production costs, limiting housing supply, creating artificial shortages or surpluses, and distorting price signals.

The government has played a role in influencing the price of housing through its policies by responding to the needs and preferences of both the producers and consumers of housing. In the next chapter, we will explore the various policies and legal frameworks related to housing in India and evaluate their effectiveness and implications for the housing market.

Chapter 4

Legislative and Policy Environment of Housing in India

An enabling legal and policy environment can propel industries to flourish. Alternatively, a restrictive environment hinders their growth. A hard look at the history of regulations in India shows that new policies and laws are often added to the system without forgoing the older, obsolete ones. As a result, an average business owner has to wade through a plethora of approvals and compliance procedures. This is further compounded by the fact that housing is a state subject in India, which means the state has the power to legislate on the subject. Hence, multiple rules at the national, state, and local levels govern the housing and real estate markets.

4.1 Policies and Legal Framework Concerning Land

Affordable land is by and large missing due to restrictions and extra costs associated with building new housing, such as zoning regulations, development charges, and limits on housing development. While land-use regulation generates important benefits, in most cases, studies find that the costs imposed by housing regulation outweigh the benefits. Some relevant laws entail the aforementioned, like the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation, and Resettlement Act, 2013; the Land Revenue Codes; poor keeping or dismissive state of the land records; and the concerned state rules.

4.1.1 Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013

The Act lays down the rules and procedures for the acquisition of land by the government or private companies for public purposes such as the construction of highways, railways, airports, industrial corridors, etc. The Act aims to ensure that landowners are fairly compensated and that the process of land acquisition is transparent. The Land Acquisition Act has been the subject of much debate and controversy in India, particularly in terms of its impact on the construction sector. Some of the problems with the Land Acquisition Act in enabling the construction sector in India are:

- **Lengthy and complicated process:** The process of acquiring land under the Act can be long and complicated, resulting in delayed construction projects. The Act requires the government or private entities to conduct a social impact assessment and obtain the consent of 70-80% of affected families before acquiring land, which can take time and resources.
- **Opposition from local communities:** Local communities often resist the acquisition of their land, which can lead to protests and legal challenges. This can further delay construction projects and increase costs.
- **Land title issues:** Lack of clear ownership, multiple claims on the same property, inadequate land records, and fraudulent land transactions lead to land title issues. These issues make it difficult to acquire land under the Act. Many landowners do not have clear titles to their land, which can lead to disputes and legal challenges.

4.1.2 Real Estate (Regulation and Development) Act, 2016

RERA is one of the most important Acts that govern real estate in India. Housing projects themselves cannot be undertaken without real estate, as land is the most important factor governing housing. The main intention of RERA is to protect the interests of home-buyers. It sought to increase transparency, citizen-centricity, accountability, and financial discipline. The main provisions of RERA are as follows:

- Each State/UT has to set up its own Real Estate Regulatory Authority and Appellate Tribunal and appoint Adjudicating officers.
- Mandatory registration of all projects above 500 sq. m. and above 8 apartments with the regulatory authority.
- All real estate agents need to register themselves with the state real estate regulatory authorities.
- RERA prohibits the developer from taking any deposit or advance from the home-buyer without entering into an agreement for sale with them.
- All the specific details of the project, like the plan, layout, agreement for sale, carpet area, and time period, need to be furnished by the developer at the time of registration.
- A developer involved in multiple projects needs to maintain separate bank accounts for each project.
- The developer has to update quarterly the relevant details of the project's progress in the online portal.
- The developer is barred from altering the sanctioned plans without the consent of the buyers, and the buyers are eligible for a refund if the developer fails to complete the project on time as per the terms of the agreement for sale.

RERA compliance requires developers to register their projects, adhere to strict timelines, and meet various other regulatory requirements. This can significantly increase the cost of development, making it difficult for developers to build affordable housing projects that are financially viable. A departmental delay from the government in approving the registration process further delays the project, sometimes pushing the developers into financial burdens. The launch of newly completed projects is also delayed, as all projects now require clearance. Unless the authorities come up with a faster method to scrutinise and complete the process, there will be delays in housing projects. RERA sets strict timelines for project completion and imposes penalties for delays. While this is beneficial for homebuyers, developers may face financial implications due to factors beyond their control, such as delays in obtaining approvals, the unavailability of construction materials, or other external constraints. These delays can lead to increased project costs, including prolonged interest payments on loans and escalated construction expenses.

4.1.3 National Building Code (NBC)

The NBC provides guidelines for the construction of structures in India. These include some norms to be followed in residential building construction. NBC defines residential buildings as constructions in which sleeping accommodation is provided for normal residential purposes with or without cooking or dining facilities, or both. NBC consists of several parts that address specific aspects of building construction, like providing an exit in every building, a dedicated refuge area on every seventh floor, a continuous main staircase, and a fire escape staircase from the ground floor to the terrace level. There are separate provisions for each part of a building, like the building site, safety, bathrooms, living area, kitchen, lofts and basements. Every part of a structure is defined clearly in the NBC regulations. The provisions of NBC are provided in Appendix 2.

Each state in India has the authority to establish its own building regulations and building codes. While some states adopt the NBC in its entirety, others like Maharashtra, Tamil Nadu, West Bengal and Karnataka, choose to incorporate specific sections or provisions from the NBC into their own building codes. States also have the flexibility to introduce additional regulations or standards beyond the scope of the NBC if deemed necessary for their region. These codes are typically implemented through state building bylaws and regulations, which outline the specific requirements for building design, construction, and safety within the respective state's jurisdiction.

It is important for architects, engineers, builders, and other stakeholders in the construction industry to familiarise themselves with the specific building codes and regulations of the state where they are operating. They need to ensure compliance with the applicable codes and obtain the necessary permits and approvals from the local authorities before undertaking any construction project. Builders working in specific local contexts may find it challenging to adapt the code requirements to suit the local conditions, materials, and practices.

4.1.4 Building Bye-Laws

The building by-laws ensure that the buildings adhere not only to safe construction standards but also to certain aesthetic standards. The bye-laws are concerned with aspects of externalities that a housing project might create, like environmental aspects, crowding, safety provisions, disturbances to communities living nearby, etc. Bye-laws cover many important aspects of a building, like Floor Space Index (FSI), building height, area usage, density, parking, and open spaces.

A high level of compliance with the bye-laws, in addition to the laws and norms that are already in place, often causes project delays in India. There are often delays from official departments in getting approvals. There are also many state and local bye-laws in addition to the central bye-laws that the builder has to follow. This creates a lot of complexity and a lack of uniformity in the sector, discouraging builders from taking up projects.

FSI

Indian cities have the lowest FSI in the world because of bye-law regulations. The FSI range is between 2 and 4, including all the major cities, whereas highly populated cities like Singapore and Tokyo have FSIs between 20 and 26. FSI determines the amount of built-up space, and the higher the FSI, the more a builder can construct, which can bring in more revenue. From a consumer's perspective, a higher FSI results in increased density, which in turn enhances affordability. Higher density can lead to cost savings and reduced environmental impact, such as minimising the need for extensive pipeline networks and reducing energy consumption as cities expand both in size and into suburban areas.

BUILDING HEIGHTS

There are restrictions on building heights, ranging between 11 and 25 metres. Surat is the only city with a permissible height of 30 metres when compared to global levels, which are around 30 metres, with many cities even having no restrictions. With limited space, the height restriction directly translates into reduced housing supply in the already crowded urban spaces of India. The supply crunch shoots up prices, making affordability even harder. The builders will be reluctant to give away the units at low prices in the affordable housing segment because of this factor.

CLEARANCE PROCESS

The land clearance process in India is slow-paced. In the World Bank's Ease of Doing Business Indicators (2018), India ranks 181 out of 190 countries for the number of procedures required to obtain construction permits. A builder needs to wait around 2-3 years after entering into an agreement to begin construction because of the delays caused by multiple documentation processes at varying levels of administration. The cost of acquiring these permits is also high, and these are not waived off for the builders in the affordable housing segment, nor will they get a single window clearance.

4.1.5 Transferable Development Rights (TDR)

In India, the Transferable Development Right (TDR) is a mechanism used by municipal bodies to regulate land use and facilitate planned development. The concept of TDR was first introduced in Mumbai in 1991 and has since been adopted by several other cities in the country. Under the TDR system in India, a landowner who surrenders land for public amenities, such as roads, parks, or schools, is granted development rights or development potential equivalent to the value of the surrendered land. The landowner can then transfer these development rights to another party who wishes to use them for construction purposes.

There is a lack of an efficient market for TDR in India. The absence of a well-functioning TDR market makes it difficult for landowners to monetize their development rights. There are a few cities that have used TDR for development. In Mumbai, there is high floor space demand but a low FSI because of the limited prospect of horizontal development from the linear geography; this, in turn, led to a TDR market in the city, and 12.93 million sq. m. of the area was generated as TDR. In Ahmedabad, the government modified the Town Planning Act to implement TDR. TDR is used in Ahmedabad for slum rehabilitation, heritage conservation, and public housing redevelopment projects. Hyderabad has issued more than 600 TDR certificates since 2006 and is mostly used for infrastructural development, conservation of water bodies, and heritage buildings. TDR is generally avoided in more congested areas of the city.

The monetary value of TDR certificates depends on the overall property market in the city and is thus uncertain (NITI Aayog, 2020). There is a lack of clarity and uniformity in TDR policies across different states in India. This has led to confusion and inconsistency in the implementation of TDR. The limited availability of TDRs, influenced by land use regulations and government policies, contributes to a concentrated market where a few influential entities can acquire and control a significant portion of TDRs. Entities with greater financial capabilities and established networks may have an advantage in acquiring TDRs, potentially leading to monopolistic control. These entities can wield influence over planning and development decisions, shaping policies and projects to their advantage. This can create barriers to entry for smaller developers and restrict competition in the real estate market. It may also lead to inflated prices for TDRs, making it difficult for smaller developers or individuals to afford them, thereby limiting their ability to participate in the development process. Additionally, there have been instances where TDRs have been misused or manipulated, leading to corruption and irregularities. This includes instances of unauthorised trading, forgery, and the creation of fictitious or illegal TDRs, which undermine fair competition and transparency. It is important to ensure that the TDR system is implemented fairly and transparently, with appropriate safeguards to prevent misuse or exploitation.

4.1.6 Rent Control Act

Rent control laws in India have a long history, dating back to the 1940s. The first rent control legislation was introduced in Bombay in 1939, and similar laws were later implemented in other cities across the country. The main goal of these laws was to protect tenants from eviction and excessive rent increases. However, such legislative controls on the price of private property weaken people's property rights. The consequence is a loss of efficiency and a shortage in the supply of housing. The policies that are set out to make houses affordable to the lower-income group inadvertently make rented housing unavailable for them, as in the case of Mumbai, where rent control policies have contributed to driving up real estate prices in the city. In India, the permissible rate of rent revision is often governed by state-specific Rent Control Acts or Rent Control Orders. These regulations typically prescribe a maximum rate of rent increase that landlords are allowed to charge tenants, which in most cases is much lower than the prevailing rate of inflation. Rent ceilings are often set too low, which disincentivizes landlords from investing in rental properties and maintaining them properly. This can lead to a shortage of rental housing, which in turn drives up the prices of rental properties.

4.1.7 Slum Policies

The earliest policies on slums, introduced after India achieved independence, were focused primarily on slum clearance, demolition, and resettlement of squatter settlements on the outskirts of the city. However, in recent years, there has been a shift towards in-situ redevelopment and creating a more inclusive and participatory implementation that involves slum dwellers in the planning and implementation of the programme.

One of the many initiatives to address the issue is the in-situ Slum Redevelopment (ISSR) vertical of the Pradhan Mantri Awas Yojana - Urban (PMAY-U), which aims to improve the living conditions of slum dwellers by redeveloping and upgrading existing slums. This approach emphasises the provision of adequate housing and basic facilities without the displacement of residents. PMAY's ISSR encouraged the involvement of private developers and housing agencies as part of the mission to redevelop slums. While PMAY's ISSR has been a remarkable initiative, its performance has been comparatively weaker than the other verticals of the PMAY programme. Only 38.84% of the total proposed investment has been sanctioned under ISSR, indicating the complex challenges like land title issues and the lengthy procedures that have hindered its progress.

4.2 Policies and Legal Framework Concerning Labour

The construction sector in India is labour-intensive, and labour plays a crucial role in the growth and profitability of the sector. The availability, cost, and quality of labour have a significant effect on the construction industry in general. According to the National Skill Development Corporation (NSDC) and the Confederation of Indian Industry (CII), the construction sector in India faces a shortage of skilled labour. This labour shortage is also a result of the country's welfare policies, such as the National Rural Employment Guarantee Act of 2005.

4.2.1 National Rural Employment Guarantee Act, 2005 (NREGA)

The National Rural Employment Guarantee Act (NREGA) is an Indian labour law and social security measure that aims to guarantee the 'right to work'. It aims to enhance livelihood security in rural areas by providing at least 100 days of wage employment in a financial year to at least one member of every household whose adult members volunteer to do unskilled manual work. The scheme's wages are kept below market wages with the assumption that only those in extreme economic distress will opt under the NREGA framework. The stakeholder consultation undertaken in the study revealed that despite the payment of below-market-level wages, the mainstream labour market gets distorted to some extent. That is, even when the cities provide relatively higher wages, the travel costs and the cost of living and accommodation drive workers to confine themselves to the village premises, thereby contributing to a labour shortage in the construction industry.

4.2.2 The Building and Other Construction Workers Act, 1996

The Building and Other Construction Workers Act, 1996, is one of the most important acts that govern labour rights in the construction industry. The Act covers any project that employs 50 or more workers on any given day. The Act states that establishments employing construction workers must be registered and establish provisions like normal working hours, weekly paid rest days, creches, overtime pay, and other basic facilities like drinking water, latrines, first aid, canteens, etc. The Act also mandates the supply of temporary living quarters on or near the job sites for the workers. The Building and Other Construction Workers Act of 1996 places a significant burden on developers regarding compliance, registration, and welfare measures for workers.

Another significant Act is the Inter-State Migrant Workmen Act, 1979, which protects the legal rights of migrant workers and regulates their working conditions in India. The Act is applicable to any contractor or company that employs five or more migrant workers ("Labour, Legislations, and the Indian Construction Sector", 2022). Interstate migration involves coordination between multiple states. However, there is often a lack of effective coordination and information sharing between states, which can hinder the enforcement of the Act and the protection of inter-state migrant workers.

These Acts aim to protect the rights and welfare of workers in the construction industry, but they also introduce compliance requirements that increase costs for employers. Government support, especially through financial incentives, can be instrumental in helping to alleviate the administrative and operational costs incurred by contractors and builders, particularly in the context of affordable housing projects.

4.3 Policies and Legal Framework Concerning Capital

Capital is considered one of the most restricted resources available, including for investment by builders as well as buyers. Real estate is capital-intensive and has become much more regulated in recent times. The NBFC sector and housing companies adopt stringent credit norms that deploy capital only to select builders. Additionally, banking sector lending has plateaued despite being flush with cash. Some areas relevant to financing include

- Real Estate (Regulation and Development) Act (RERA), 2016
- The availability of credit from Banks and Non-Banking Finance Corporations (NBFCs) and the regulations set by the Central Bank and Reserve Bank of India.
- Investors' dilemma with the regulations and involvement of the government.

4.3.1 The National Housing Bank Act, 1987

The National Housing Bank (NHB) was established in 1988 under the National Housing Bank Act, 1987, with the objective of promoting the development of housing finance institutions and providing financial and other support to such institutions. The National Housing Bank was set up in 1988 as a subsidiary of the Reserve Bank of India (RBI) and was tasked with regulating and supervising housing finance companies (HFCs) in India. In 2019, the government decided to transfer the regulatory functions of the NHB to the RBI to consolidate the regulation of the financial sector and ensure better coordination among regulators. The RBI is now responsible for regulating and supervising housing finance companies in India, along with other non-banking financial companies (NBFCs) and banks.

The RBI's primary mandate is to regulate and supervise banks and other financial institutions, and its expertise in the housing finance sector may be limited. As a result, there may be a learning curve for the RBI in understanding the nuances of the housing finance market and developing appropriate regulatory policies. The RBI's mandate also includes maintaining price stability and promoting economic growth, which may sometimes conflict with its role as a regulator of the housing finance sector. For instance, regulatory measures that may be necessary to address risks in the housing finance market, such as raising capital requirements or imposing lending restrictions, may also impact credit growth and overall economic activity. The housing finance market in India is highly fragmented, with a large number of HFCs and banks operating in different segments of the market. Regulating such a diverse and dispersed market requires significant resources and coordination among various regulatory agencies.

According to the National Housing Bank (NHB), around 85% of the housing market in India is dominated by private sector NBFCs and commercial banks. These institutions provide a range of housing finance products, such as home loans, construction loans, and home improvement loans, among others. The remaining 15% of the market is served by public sector banks, cooperative banks, and other institutions. Over the years, private - sector NBFCs have played a significant role in the growth of the housing finance market in India. They have been able to tap into the demand for housing finance in India by offering innovative products and services, flexible repayment options, and faster loan processing times. Commercial banks, on the other hand, have a wider reach and a larger customer base, which gives them an advantage in the housing finance market.

The RBI has expressed concerns about the intense competition among NBFCs in the housing finance segment. The RBI has noted that the competition has led to aggressive lending practices and has created an unhealthy environment in the sector. Some NBFCs have been offering loans at lower interest rates and with more lenient eligibility criteria than traditional banks, which has led to increased credit risk. In some cases, NBFCs have also resorted to unethical practices such as mis-selling of products and charging hidden fees, which has eroded customer trust and confidence in the sector. The RBI has tightened the regulatory norms for NBFCs and introduced guidelines on responsible lending practices, such as maintaining adequate capital and liquidity buffers, conducting proper due diligence before lending, and adopting fair and transparent practices. NBFCs presently hold a 38% market share in the home loan market.

Financing the Home Buyers

The fiscal policy relating to housing finance in India has been designed to encourage affordable housing for all sections of society, including the economically weaker sections (EWS) and low-income groups (LIG). However, the effectiveness of these policies in addressing the housing needs of these sections has been limited. One of the challenges is the limited availability of affordable credit for low-income households. While the RBI has introduced several measures, such as subsidising interest rates on loans up to ₹ 2 lakhs and providing refinancing facilities to housing finance companies (HFCs), the private financing sector is still reluctant to provide credit to these households due to perceived risks and inadequate collateral. Moreover, the subsidies provided by the government may not be enough to make housing affordable for the poorer sections, especially in urban areas where land prices are high.

Financing the Developers

The real estate segment requires capital-intensive investments spread over a long period of time. India has experimented with various initiatives in the past to meet long-term financing requirements, particularly the Development Financial Institutions (DFIs). DFIs are critical intermediaries for channelling the long-term finance required for infrastructure and real estate development. India tried and tested DFIs post-independence from 1960-1980s. However, during the 1970s, DFIs got discredited for mounting non-performing assets allegedly caused by politically motivated lending and inadequate assessment of investment projects for economic, technical, and financial viability. As a result, the idea of DFIs was disbanded by the Narasimha Rao government in 1991.

Recently, in 2021, DFI made a comeback with the institution of the National Bank for Financing Infrastructure and Development Act (NBFID), with the essential objective of addressing the gaps in long-term non-recourse finance for infrastructure development. The success of this initiative can only be established at a future point in time. A helpful contribution to realising the initiative's intent would be to eliminate some of the existing issues plaguing the infrastructure sector.

Hitherto, the real estate sector has been mired in regulations, causing delays in project completion, which not only affects the profitability of builders but also makes it difficult for them to access finance for future projects. To secure loans from banks, builders are required to submit all the necessary approvals and purchase the land required for their projects, which is a crucial factor in any construction project. The approvals vary from land title deeds, building plans, environmental clearance, municipal approvals, etc. Often, builders finance the purchase of land through equity financing, as the cost of land and approvals is quite significant and is not covered by debt financing. Contrary to the popular belief that construction is mostly financed through debt, builders tend to rely heavily on equity financing to fund their projects. Because of the various regulations that demand strict approvals, builders often face challenges accessing credit from the banking system.

4.3.2 Policies around Key Input Industries in Construction

Steel, cement, and tiles are considered essential input industries in the construction sector. These industries, influenced by government policies, that are often overlooked, exert a great influence on the construction landscape, shaping its dynamics and impacting various stakeholders involved. It has a direct bearing on construction and the functioning of the market.

Steel

The Steel industry has a lot of forward and backward linkages in terms of material flow and income generation, thus making it technologically complex and crucial in the construction industry. The National Steel Policy, 2017 is a policy framework introduced by the Government of India to guide and promote the growth of the steel industry in the country. Key objectives of the policy are to increase domestic steel production capacity to 300 million tonnes by 2030, promote domestic steel consumption, and achieve a high degree of self-sufficiency. This has often resulted in the government initiating protectionist measures such as high import duties, preferential procurement policies, and safeguard duties to curb sudden surges in imports. These protectionist measures create barriers to entry for foreign competitors who may offer more competitive prices, thereby impacting the affordability factor in the housing sector. The implications of such measures are evident in the observed changes in the market's pricing dynamics (Figure 3.4).

Despite the policy being formulated with the objective of developing a globally competitive and sustainable steel sector in India, there is always a demand from the industry's side (Indian Steel Association) to impose import duties and countervailing duties. The Indian Steel Association, which represents about 65 percent of crude steel production in the country, has 17 members, of whom are executives, including all major steel players in India, indicating their significant influence and dominance within the association. The government has, in many instances, imposed duties on cheap imports. While this may provide temporary relief to the domestic steel industry, it impedes competitiveness by limiting market access and reducing price competition. Additionally, there have been cases where top steel producers lacked transparency in price determination. Investigations have revealed indications of collusive price leadership within the industry, suggesting anti-competitive behaviour. Such practices further hinder competition and can result in inflated steel prices, negatively impacting consumers and downstream industries reliant on steel.

Cement

Cement accounts for approximately 20% of the total building cost, making the construction industry heavily reliant on it. Hence, any price fluctuations (Figure 3.5) directly affect the construction industry. The capital-intensive nature of production is a natural barrier to entry. The market is characterised by a high concentration of market power and is often referred to as an oligopoly. The major cement companies in India enjoy a position of dominance, with a significant 57.23% market share (Builders Association of India vs. Cement Manufacturers' Association &

Ors. 2016). This has led to their involvement in monopolistic and restrictive practices that aim to control the price of cement by limiting and restricting its production and supply, even when the production capacity is available. The Competition Commission of India conducted investigations that uncovered the involvement of prominent cement companies in price manipulation through collusion with other dealers, creating an unfair market, and engaging in bid rigging (PIB, 2017).

Tiles

The tile market in India is a significant and dynamic industry that is one of the fastest-growing markets in the world. This is due to various factors, like rising demand, housing shortages, developing real estate, rising disposable income, the expansion of metropolises, government policies, etc. The tile industry is highly competitive, with a mix of large-scale organised players and numerous small and medium-sized enterprises (SMEs). 40% of the tile industry market is organised, while the remaining 60% is unorganised.

It is evolving into a more structured market with the emergence of new users and is characterised by innovation. Large companies have established brand recognition and nationwide distribution networks. SMEs, on the other hand, often specialise in specific types or designs of tiles and cater to niche markets.

While government protectionism exists in the tile market, its inherent characteristics contribute to a competitive field. This is reflected in the pricing trends of the tile market, which have been stable over an extended period of time (see figure 3.6). The tile industry is characterised by market segmentation, which fosters innovation and product differentiation. Companies in a segmented market have an incentive to differentiate their products to appeal to specific consumer segments. This drives innovation in terms of product features, design, quality, and functionality. As a result, companies are motivated to continually improve their products and offer unique value propositions to consumers. This competition through differentiation reduces the likelihood of anti-competitive practices as companies strive to gain a competitive advantage by offering superior products.

4.4 Role of Antitrust Enforcement Law

Effective competition in well-regulated markets is capable of delivering lower-priced and better-quality goods and services to people. It creates strong incentives for firms to be more efficient and to invest in innovation, thereby helping raise productivity growth. While the benefits of competition are clear, competition, if not regulated appropriately, can lead to inefficient outcomes. In this regard, institutional policies and frameworks play an important role in protecting and promoting competition for the greater good of society. Recognising the importance of establishing a competitive market environment, India constituted its antitrust law, the Competition Act, 2002, to protect small enterprises and ensure free and fair competition.

4.4.1 Competition Act, 2002

The Competition Act came into force in 2003 with the goal of regulating free and unfettered trade in India. It aimed to draw a distinction between restrictive and monopolistic trade practices. The Competition Act prohibits abuse of dominant positions and anti-competitive agreements that cause or are likely to cause an appreciable adverse effect on competition and gives the Competition Commission the power to conduct an inquiry into allegations and complaints.

The objectives of the Act are to be achieved by the Competition Commission of India (CCI). The Act enables the Competition Commission to be involved in matters of anti-competition. Cases of abuse of dominant positions and industry cartelization are taken up by the commission and investigated. The Commission also has the power to pass on verdicts after an investigation in the form of fines and restrictions. The Commission regulates three types of conduct:

- Anti-competitive agreements, including cartels
- Abuse of a dominant position
- Combinations like mergers, acquisitions, and amalgamations

The CCI has the discretion to impose penalties that it deems appropriate based on the facts and circumstances of each case. The penalty imposed by the CCI is based on various factors, including the nature, gravity, and duration of the violation, as well as the market position and financial status of the violator. The penalty limit of 10% of the average turnover is meant to ensure that the penalty is sufficient to deter entities from engaging in anti-competitive practices while also ensuring that it is not so excessive as to cause undue hardship to the entity. However, a maximum penalty of 10 percent of the company's turnover may not completely deter anti-competitive behaviour, especially in cases where the potential gains from anti-competitive practices are much higher. To address this issue, the CCI has the power to impose additional penalties, such as the disgorgement of profits earned through anti-competitive behaviour. Disgorgement refers to the repayment of profits earned through illegal or unethical means. In the context of anti-competitive behaviour, disgorgement is used to ensure that companies do not profit from their illegal behaviour. However, CCI has never used disgorgement against any anti-competitive practices identified.

The highest penalty levied to date by the CCI is ₹63.2 billion, levied against cement manufacturing companies. The fine was levied on the companies for fixing cement prices and limiting and controlling the production and supply of cement in the market. CCI reached the decision on the basis of evidence that the cement companies were involved in cartelization. However, the outcome of such a verdict has not fostered a competitive field due to institutional overlaps. While the CCI has strong accountability mechanisms in place, they are not complemented by stronger standards of independence (Shelke et al., 2021). For instance, CCI, as an institution, has attempted to break the competitive practices exercised by companies. However, there have been instances of companies further appealing their cases to the Supreme Court (SC). On many occasions, the SC has rebuked the CCI and the National Company Law Tribunal (NCLAT) for shoddy rulings. In the aforementioned case of cement cartelization, the SC stayed the orders of the NCLAT, thereby favouring the powerful entities. Other elements that limit the independence of the CCI include:

1. Appointment of CCI Members

To ensure the long-term sustenance of anti-trust objectives, various jurisdictions attempt to protect the appointment of commission members from political change. This is done by fixing the tenure at 7 years, which allows for their term to be extended across the presidential term of 4 years (OECD, 2016). In this regard, the appointment of CCI members is not insulated against election cycles and political changes; i.e., if the CCI members fulfil their current terms, their term will be completed in 2023, with the Lok Sabha elections. A change in government or even a reshuffling of the Ministry of Corporate Affairs may lead to a change in preferences pertaining to the antitrust policy in India, which can subsequently reflect in the appointment of the members (Shelke et al., 2021).

2. Financial Independence

The CCI's budget is set by the Government of India and is subject to budgetary constraints as with other government departments. In 2019, CCI reported to the government that the funds allocated to it were inadequate and that it was unable to carry out its statutory obligations.

To maintain the independence of the Commission, the Act needs to guard against the use of budgetary restrictions as a manner of curtailing or penalizing the CCI, as well as the use of funding as a vehicle of capture by private entities (ibid.). Antitrust literature indicates that in addition to funding from the government, the presence of alternative sources of funding, the creation of a fund, the transparent allocation of a budget, and discretion in spending the money are conducive to the independence of an authority (UNCTAD, 2008).

The overall status of CCI shifts power away from the regulatory authority to the central government. This gives greater scope for government intervention in the operations of CCI. Such a setting is vulnerable to regulatory capture, where those with political connections wield considerable influence over the decisions of the government.

Chapter 5

Key Findings

The lack of competition in the affordable housing sector is a major challenge to meeting the needs of low-income households. This is not so much about a lack of market opportunity as it is about the lack of an ecosystem that supports the successful execution of affordable housing projects. Construction activities are highly cost-sensitive; hence, efficiently managing costs is the key performance indicator for such development. However, delayed approvals and other regulatory barriers push up the cost of credit. Various supply challenges also hold back the process of bridging the need gap for affordable housing. Among the supply-side challenges are land acquisition and security titles.

Additionally, regulatory concerns such as restricted development regulations, like lower FAR (Floor Area Ratio), licencing requirements, protracted approval procedures, restricted height, uneven population density distribution, etc., increase the cost of houses. Such complex, non-transparent development processes favour deep-pocketed, well-connected firms, effectively limiting entry into the market for smaller or newer companies. The challenges underscore the market inefficiencies plaguing the development of the construction sector.

However, the issue of affordable housing is considerably more complex than this, transcending regulatory challenges. Governments around the world have recognised the significance of this problem and are increasingly recognising the need for comprehensive solutions that encompass not only housing affordability but also access to basic amenities, transportation options, and sustainable urban planning. Promoting and investing in basic amenities like water, sanitation, electricity, and public transport is crucial for urban development. These amenities play an important role in creating sustainable and livable communities.

While promoting a level playing field is vital to aiding the uptake of affordable housing in India, integrating housing with public transportation infrastructure (transit-oriented development) is of equal significance. By developing housing near transit hubs, it aims to improve accessibility, reduce commuting times, and create more affordable housing options that residents would be willing to utilise. Addressing the affordable housing problem requires a multifaceted approach that combines various strategies and the involvement of multiple stakeholders.

Some of the key findings of the study are summarised below.

1. Micro-level Monopolies

Urban local bodies, such as municipal corporations and councils, are responsible for managing the development and planning of urban areas. With the Constitutional Amendment Act granting them more power, they have greater control over land use, zoning, building regulations, and other aspects of urban development. This, in certain cases, leads to abuse of power, which leads to biassed decision-making and the exploitation of their power for personal gain.

The publication of building bye-laws by urban local bodies typically occurs in the form of circulars or notifications. These documents serve as crucial guidelines for construction activities within a given region. However, a significant issue arises when these documents are not made easily accessible or available online, hindering the access and comprehension of these regulations, particularly for new entrants into the sector. This lack of availability and accessibility imposes a substantial hurdle for new players who are attempting to navigate the regional rules and comply with the prescribed building codes. As a result, only an established regional player with influence within the local government continues to operate efficiently. This leads to disparities and potential favouritism towards big and established developers in the region. The lack of transparency can hinder efficient market mechanisms.

2. Cartelization in Cement and Steel Industry

An investigation arm of the Competition Commission of India has established that market leaders in the cement industry have colluded in 13 states, with more than 50 industry executives engaged in cartelization. The cartel formation entailed fixing sale prices and controlling the supply of products in the market. Similarly, the steel industry has been under the radar of regulatory authorities. Steel prices have risen despite the cost of key inputs like raw materials and power declining, indicating anti-competitive conduct in the industry.

3. Import Tariffs

The Indian government levies tariffs on building materials as a form of protectionism. As a result of the government imposing tariffs, any changes in the rate of materials lead to volatility in overall pricing in the housing market. This has wider implications for contracts and budgets completed in different scenarios. Additionally, it contributes to delayed construction or incomplete projects, as has been widely reported.

4. Presence of Lobbying and Interest Groups

The local cement manufacturers routinely suggest an increase in import duties on cement and associated raw materials, citing the protection of domestic industries from global competition. On several occasions, the government has levied duty charges on key materials. Such a move significantly increases the cost of essential raw materials, which could otherwise be imported at cheaper prices from countries with comparative advantages. The presence of powerful groups influences laws and regulations at the expense of the public interest. This has contributed to unfair competition and policy capture.

5. High Transaction Costs

Affordable housing markets have relatively lower margins and are price-sensitive; hence, high transaction costs can significantly increase the final cost. Delays in regulatory approvals add to the overall time and cost of the project and can also lead to financial losses for the developer. Various clearances, permits, and licences obtained from different agencies before starting a project also add up to transaction costs. These include environmental clearances, building permits, fire safety certificates, NOCs (No Objection Certificates) from local authorities, water and sewage connections, electrical and plumbing clearances, and more. Each agency has its own set of rules and requirements, leading to a complex and time-consuming process for obtaining all the necessary permissions. Additionally, a builder operating in multiple cities may face challenges in complying with different local-level regulations, which eventually discourages taking up new projects in many cities.

6. Building Regulations

The bye-laws in India impose heavy restrictions on construction, like low FSI, FAR, and building height, thereby hindering new and innovative methods that a developer might use. Consequently, these regulations limit the potential supply in the market, deterring many builders from entering it. These laws also prevent smaller players from entering the affordable housing segment due to their inability to comply with these regulations within their profit margins. National Building Codes have several mandatory norms intended to improve the quality of housing, but they often end up as hindrances for builders in the construction process.

7. Floor Space Index

The imposition of low FSI limits has resulted in a decrease in housing supply, causing a rise in housing prices. When cities are not allowed to expand vertically, they expand horizontally, which increases commute distances and leads to traffic congestion. Additionally, low vertical expansion causes families to live in cramped conditions in city centres to avoid moving to the suburbs. Although the aim of setting low FSI and FAR limits in Indian cities was to control population density and traffic congestion, this objective has not been met, as traffic congestion and high population density are still prevalent in major Indian cities.

8. Monopolistic Control over Land

A considerable amount of government-owned land in India is either wasted or unproductive. As per the Department of Public Affairs under the Ministry of Finance, this unproductive land covers an area of 2.35 lakh acres with Public Sector Undertakings (PSUs) and 0.38 lakh acres with the railways. The accumulation of large areas of land with the government that remain unused reduces the overall housing supply. Monopolistic control over limited land starved the open market of land resources. During the 12th Five-Year Plan (2012-2017), 3 million hectares of surplus land were identified, and more than 30% of it was mired in litigation. The prolonged and complicated land litigation process in India further prevents the release of declared surplus land, leading to the illegal occupation of land. Such settlements frequently turn into slums, and their inhabitants do not possess any property rights over the land. Moreover, some plots allocated to beneficiaries of various government schemes lack a clear title, indicating the land entitlement issue in India. The Indian land title system suffers from a lack of transparency, with local authorities possessing incomplete land title documents that further exacerbate the problem. This lack of transparency increases the risk of litigation for housing projects, deterring many investors from undertaking projects in India.

9. Weakened Independence of Enforcement Body

The CCI, as a regulatory body, has been exercising its power to dismantle competition. However, the body does not enjoy complete independence in its operations. The CCI has conducted timely probes against the anti-competitive conduct of many industry players and has imposed penalties for violations. However, the outcome of such verdicts, especially in the cement industry, has not fostered a competitive field. For instance, CCI, as an institution, has attempted to break the competitive practices exercised by companies. However, there have been instances of companies further appealing their cases to the Supreme Court (SC). On many occasions, the SC has rebuked the CCI and the National Company Law Tribunal (NCLAT) for shoddy rulings. In the aforementioned case of cement cartelization, the SC stayed the orders of NCLAT, thereby giving a palatable ruling to the powerful entities.

Additionally, the CCI lacks financial independence, which hampers its ability to protect competition in India. The budgetary allocation from the government is inadequate, and the same also serves as a tool to penalise or restrict CCI's operations.

10. Welfarism and its Implications

Housing has been viewed as a welfare activity over the years; this is evident from the programmes and schemes aimed at addressing the housing needs of citizens. Many of the housing projects implemented by the government are not economically viable and require ongoing subsidies to maintain. The government was proactively engaged as a provider from the time of independence until recently, when the focus shifted from a provider to an enabler.

The discussions from stakeholder consultations also highlighted that the role played by the government as a provider distorts the market. Employment generation schemes such as the NREGA marginally contribute to the shortage of labour force in the construction sector. Although the payment of NREGA is below market-level wages, the mainstream labour market gets distorted. That is, even when the cities provide relatively higher wages, the travel costs and the cost of living and accommodation drive workers to confine themselves to the village premises.

Section 5.1 explores two case studies that validate the findings of the study.

5.1 Case Studies

I. Building regulations are a barrier to affordable housing in Indian cities - The case of Ahmedabad

The aim of the study was to understand how regulations inflate costs and disrupt supply. The study compares two projects on the same plot of land; one was built following all the building regulations, while the other was built by making some modifications to the regulations to enable the construction of smaller, more affordable units without compromising safety and quality. There was a shortage of low-income houses in the formal sector in Ahmedabad, and only 8% of the supply was affordable.

The layout that was prepared after relaxing the regulations can accommodate 75% more units and has a higher land utilisation intensity. Removing the elevator to cut costs and adding an extra floor, all on par with the national regulations, helped in adding the additional units. Pathways and internal roads were also changed. The land used by each unit decreased since more built-up space was possible on the same site. The study finds that the modified project was able to provide affordable housing units to a wider range of households, including those from the EWS and LIG segments, at a lower cost per unit than the project that followed all the regulations.

The study concludes that the current building regulations in Ahmedabad are a significant barrier to the development of affordable housing, particularly for EWS and LIG households. The authors suggest that there is a need for more flexible and adaptive building regulations that can accommodate a range of housing types and sizes and encourage the development of affordable housing units.

II. Parshwanath Group and public sector involvement

Parshwanath Group was a government housing contractor turned builder in Ahmedabad, known for their innovative strategies in developing affordable housing. The group concentrated on low-income housing for the poor and adopted new techniques to reduce costs by not delivering fittings and add-ons (kitchen sinks, doors, washbasins, and staircases) in the houses. It was up to the buyer to add these according to their convenience. They also offered informal and competitive financing options to the buyers.

The Parshwanath Group faced financial troubles due to its partnership with the Housing and Urban Development Corporation (HUDCO) for a private-public affordable housing project in Ahmedabad. The project, which was launched in 2011, aimed to provide affordable housing units to the economically weaker sections (EWS) and low-income groups (LIG) in the city. Under the partnership, HUDCO provided financial assistance to the Parshwanath Group for the project, which was to be developed on land owned by the Ahmedabad Municipal Corporation (AMC). However, the project faced a number of challenges, including delays in regulatory approvals, disputes over land ownership, and issues related to the quality and safety of the housing units.

Parshwanath Group had to follow all standard procedures and change its original practices; for instance, the group normally does not apply for NOCs and many other permits to save time and reduce costs. On the partnership project, they had to undertake all of this, which made the project less affordable. This resulted in groups shifting away from low-income groups and starting to cater to middle and higher-income groups. This is a case where the public sector's involvement negatively impacted buyer perceptions and the builder’s operational flexibility. This highlights the challenges of private-public partnerships in the affordable housing sector and the need for careful planning and management to ensure the success of such projects.

Chapter 6

Policy Recommendations

The study on affordable housing revealed a few recurring themes that have been impeding the growth of the affordable housing market. They are centred around multiple regulatory barriers, a weak policy environment and anti-competitive conduct among industry players. The policy approach undertaken by India has been largely welfare-oriented. There is a need to move beyond the welfarist and need-based approach to a market-oriented approach in the construction sector and create an enabling environment for private investment and entrepreneurship.

The following are some policy suggestions that, if implemented effectively, could create an enabling environment for the construction sector in general and affordable housing in particular to promote growth and development and help address some of the challenges faced by the sector.

- **Simplify regulations**

Simplify the regulatory environment for affordable housing construction, including building codes and safety standards, to reduce costs and delays in the construction process. Additionally, there is a need to develop a repository of local rules and circulars in the public domain to make compliance easier. The stakeholder discussions undertaken for the study indicated that there is an absence of knowledge repositories and circulars on government websites, which makes it difficult for new builders to navigate the local and regional rules and regulations. Such a system has led to the emergence of micro-monopolies, where only influential regional players get access to important circulars.

- **Single-window clearance**

The government needs to introduce a single-window clearance system for construction projects. The system would allow developers to obtain all necessary clearances and approvals from a single agency, which could reduce the time and cost involved in obtaining clearances. A single window system has been in place for special projects in the past and has been a very effective tool to increase the pace of work.

- **Changes in FSI/FAR limits**

India has a very low FSI limit, which traps away additional housing units. The limits in India prevent developers from accommodating more households in a single project. FSI limits in India need to be regularly revised to meet the growing population demand, city-specific demand, and housing requirements.

- **Incentivise developers**

Developers can be incentivised to construct affordable housing by providing them with tax breaks and other incentives such as reduced property tax rates and streamlined approval processes. Simplify and streamline the land acquisition processes, reduce the time and cost involved in acquiring land, and provide a transparent and predictable regulatory framework for land acquisition. India has a lot of surplus land lying idle with various government departments; effective usage of such surplus land and converting it to efficient and sustainable projects can be beneficial for both the government and the market.

● **Encourage innovation and technology adoption**

Encourage innovation and the adoption of new technologies in construction, such as prefabrication, 3D printing, and modular construction, which can increase productivity and reduce costs. This can be an alternative to conventional methods of construction, which are highly labour-intensive, time-consuming and cost-heavy.

● **Enhance access to finance to the LIG Segment**

It is important to provide easy and affordable access to finance, including long-term financing. To help the LIG segment get cheap credit, public-private partnerships with housing finance institutions and microfinance institutions can be looked into. In these partnerships, PPP operators could form a project-specific partnership with microfinance institutions. In exchange for exclusive financing rights and a title guarantee from the PPP operator, the microfinance institutions can offer credit to the LIG segment at competitive rates (FICCI).

● **Removing barriers that hinder innovative financing models**

Compliance with regulatory requirements and reporting standards can pose challenges, particularly for smaller organisations or innovative financing models that may not fit traditional frameworks. Simplifying regulatory compliance procedures and providing flexibility in reporting requirements can support the development and growth of new financing models. Additionally, laws pertaining to mortgages and collateral may place restrictions on the availability and accessibility of mortgages for affordable housing. Traditional lenders often require substantial collateral and have stringent eligibility criteria, making it difficult for low-income individuals to access mortgage financing. Alternative models of collateral and mortgages that are inclusive and flexible can promote innovative financing models for affordable housing.

● **Promoting Insurance**

Insurance, like mortgage and title insurance, when appropriately designed and implemented, can enhance the confidence of lenders, reduce their risk exposure, and make affordable housing projects more attractive for financing. By providing mortgage insurance to lenders, companies assume a portion of the risk associated with lending, making it more feasible for lenders to extend loans to borrowers with lower down payments or weaker credit profiles. Title insurance can contribute to the availability of affordable housing financing by offering protection against legal issues related to property titles. In India, where land ownership and title disputes can be complex, title insurance can give lenders confidence in financing affordable housing projects. By reducing the risk of legal complications and potential losses, lenders may be more willing to provide financing for affordable housing initiatives.

● **Independence of Enforcement Body**

The tenure of members of the CCI needs to be increased to ensure that it extends across election cycles. This will help resolve the issue of credible commitment to policy and limit any form of governmental intervention in

CCI's operations. The CCI framework should also guard against government interference in financial and administrative matters. Provisions enabling financial independence should be considered by the government so that the CCI can explore additional sources of income in consultation with the members of the CCI.

- **Stamp Duty Reduction**

Stamp duty reductions for affordable housing units within a size and price threshold would make urban living more affordable.

- **Clear Land Litigation Process**

The land litigation process in India can be complex and time-consuming. One of the major causes of land disputes in India is the lack of accurate and accessible land records. The government could invest in digitising land records and making them easily accessible to the public, which would help reduce disputes. Land disputes often get stuck in the court system for years, which leads to a lengthy litigation process. The government could increase the number of courts and judges dealing with land disputes and streamline the legal process to speed up the resolution of disputes. Additionally, the use of alternative dispute resolution mechanisms such as mediation and arbitration can be promoted, which can help resolve disputes faster and at a lower cost. Encouraging transparency in land deals by mandating the registration of all land transactions and publishing details of these transactions online would help reduce disputes related to fraudulent land deals.

Anti-competitive practices in the construction industry have a significant impact on the urban poor in India. These practices have led to a shortage of affordable housing options and limited the ability of low-income individuals and families to secure safe and adequate housing. The lack of competition in the sector has also led to a lack of innovation and slow progress in meeting the demand for affordable housing, further exacerbating the problem. Ultimately, anti-competitive practices can perpetuate poverty and inequality, with the most vulnerable populations being the most affected. It is essential to take measures to promote fair competition and discourage anti-competitive practices in the construction industry. It is imperative that stakeholders work together to address these issues and create a more equitable, market-efficient, and sustainable housing market in India.

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Appendices

Appendix 1: Housing schemes over time

1950 - 1960

- ***Subsidised Housing Scheme for Industrial Workers and Economically Weaker Sections (1952)***

The Scheme aimed at constructing a substantial number of houses of a minimum standard for industrial workers and others in low income groups. The construction was partly funded through Housing boards, Central or State governments, and partly through employers or cooperatives. The Scheme provided subsidies up to 50% of the construction work and loans for the rest of the amount when the house was built by the government. For houses built by employers, the loan amount was 25% of the cost. The houses constructed were in accordance with the specifications provided by the government.

- ***Low Income Housing Scheme (1954)***

The Scheme provided 80% of the total construction cost of a house as grants for long term house building, at a reasonable rate of interest, for people whose income does not exceed ₹6,000 per annum. The grant amount was up to a maximum of 8,000 rupees. The Scheme also provided loans to the state governments at 3% interest, repayable in 3 years, for land acquisition and land development by local authorities.

- ***Rental Housing for State Government Employees (1959)***

Loans were provided to state governments to provide rental accommodations for their employees. 30,000 houses were built under the Scheme.

- ***Land Acquisition and Development Scheme (1959)***

This Scheme was launched during the Third Plan. It provided 10-year loans to state governments for acquiring land and developing it, which was developed for housing and community amenities.

1970 - 1990

- ***Site and Service Scheme (1970)***

Under the Site and Service Scheme, the government provided basic infrastructure such as roads, water supply, and sewage systems on plots of land allocated to eligible beneficiaries. The beneficiaries were then responsible for constructing their own houses on the plots of land, with the government providing technical assistance and subsidies for building materials. However, the scheme faced a number of challenges, including delays in land acquisition, difficulties in providing basic infrastructure in some areas, and issues related to the quality and safety of the housing units constructed by the beneficiaries. In addition, the scheme was criticised for being too complex and bureaucratic and for not providing enough subsidies to the beneficiaries.

- ***Environmental Improvement for Urban Slums (1972)***

The programme envisages a package of amenities for the slum buildings. These included latrines, water taps, storm water drains, sewer open drains, community baths, widening and paving of the existing lanes, and street lighting.

- ***Urban B asic Services Scheme (1986)***

The Scheme was launched in the 7th Plan with support from UNICEF. The aim of the programme is to upgrade the quality of life for the urban poor. It envisages the development of basic provisions in slums. The guiding principles of the programme are community initiative and participation, convergence, and cost effectiveness. The strategy aimed at improving awareness, promoting collective action, and encouraging community management. Each slum community develops a mini plan based on local needs and implements it after approval from higher authorities. The Scheme was implemented in different ways throughout the country, but the objectives remained the same.

1991 - 2005

India adopted its liberalisation policy in 1991 and opened up its economy. Deregulation of the economy was one of the major provisions of the policy, where the government removed several restrictions on private sector investment and removed price controls. The government's approach during this period was marked by a greater focus on market-oriented policies and a shift towards greater involvement of the private sector in the provision of low-cost housing.

During this period, the government introduced several policy initiatives to encourage private sector participation in the housing sector, including the establishment of the National Housing Bank (NHB) to provide financial support to housing projects and the introduction of tax incentives for private developers investing in low-cost housing. In addition, the government introduced several measures aimed at improving the regulatory environment for the housing sector, including the introduction of the Urban Land (Ceiling and Regulation) Act of 1999, which aimed to prevent the hoarding of urban land and facilitate its efficient use for housing and other development purposes. The government also introduced several initiatives aimed at improving the quality of housing and infrastructure in urban slums, such as the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and the Valmiki Ambedkar Awas Yojana (VAMBAY), which aimed to provide basic services and infrastructure to slum dwellers and to upgrade and improve existing housing stock. Overall, the government's approach during this period was marked by a greater emphasis on market-oriented policies and private sector participation, while continuing to provide direct support and subsidies for the provision of low-cost housing. No new housing schemes were launched by the government and there was only a continuation of the existing ones.

2005 - Present

- ***Jawaharlal Nehru Urban Renewal Mission (2007)***

The Mission aimed at improving urban infrastructure through Basic Services to the Urban Poor (BSUP) and Integrated Housing and Slum Development Programme (IHSDP). The IHSDP aimed at improving slums by providing entitlements like security of tenure, affordable housing, water, sanitation, health, education and social security to the dwellers. The strategy was to improve the lives of those living in slums rather than relocate them.

- ***Rajiv Awas Yojana (2009)***

The vision of the scheme was a slum free India with inclusive and equitable cities. It aims to bring all existing slums, both notified and non-notified, into the formal system and enable them to avail basic amenities that are available for the rest of the city. There was an emphasis on improving the basic civic infrastructure in the slums and identifying and addressing the causes leading to the creation of slums.

- ***Pradhan Mantri Awas Yojana, PMAY (2015)***

Pradhan Mantri Awas Yojana (PMAY) is a flagship affordable housing scheme launched by the Government of India in 2015. The scheme aims to provide affordable housing to all eligible beneficiaries by 2022. The scheme has two components: Pradhan Mantri Awas Yojana-Urban (PMAY-U) and Pradhan Mantri Awas Yojana-Rural (PMAY-R). PMAY-U is aimed at providing affordable housing to the urban poor, including economically weaker sections (EWS), low-income groups (LIG), and middle-income groups (MIG). The scheme provides financial assistance to eligible beneficiaries to buy or construct a house. The government provides subsidies on interest rates for housing loans under this scheme. The subsidy amount ranges from 2.5% to 6.5%, depending on the income category of the beneficiary. The PMAY guidelines state that affordable housing projects are those where 35% of the houses are constructed for the EWS category.

The Ministry of Housing and Urban Affairs (MoHUA) has defined the income categories for housing schemes for the EWS, LIG, and MIG groups. As per the Pradhan Mantri Awas Yojana - Urban (PMAY-U), the income criteria for each group are as follows:

1. Economically Weaker Sections (EWS): Households with an annual income up to ₹3,00,000.
2. Low-Income Groups (LIG): Households with an annual income between ₹3,00,001 and ₹6,00,000. States/UTs have the flexibility to redefine the annual income criteria as per local conditions in consultation with MoHUA.
3. Middle-Income Groups (MIG):

MIG - I: Households with an annual income between ₹6,00,001 and ₹12,00,000.

MIG - II: Households with an annual income between ₹12,00,001 and ₹18,00,000.

PMAY focuses only on the construction of new houses and does not address the issue of urban housing shortages in a comprehensive manner. The Scheme's budget has been criticised as inadequate to meet the target of providing affordable housing to all eligible beneficiaries by 2022. The government has also faced criticism for not releasing the allocated funds in a timely manner. The application process for PMAY is often seen as complex and time-consuming, which can discourage eligible beneficiaries from applying for the scheme.

- ***Light House Projects (LHP)***

Light House Projects are part of PMAY's Global Housing Technology Challenge (GHTC). The aim of the GHTC is to identify and mainstream the best available construction technologies from across the world. These projects aim to promote sustainable and affordable housing in India by using alternative construction technologies and materials suited to the local geo-climatic and hazardous conditions. The project involves the construction of ready-to-live houses with maximum speed and better quality construction in a sustainable manner. The LHPs are to be used as live laboratories to promote widespread learning about the use of innovative construction technologies or systems.

As of August 2021, 71 lakh houses have been completed under the PMAY Scheme, and around 1.4 lakh crore in central assistance has been released by the government to support the construction of these affordable houses. The Scheme has a completion rate of 67.72% in rural areas and 50% in urban areas. West Bengal, Madhya Pradesh, Bihar, Odisha, Uttar Pradesh and Chhattisgarh account for 70% of the PMAY (U) target units. The maximum number of houses has been constructed for the EWS segment under the Beneficiary Led Individual New House Construction (BLC) segment. BLC allocated Rs.1,50,000 per house for the EWS category who have not availed of any other PMAY(U) scheme. The house completion rates depend largely on the release of central financial assistance and the economic condition of the beneficiaries. The beneficiaries also have to contribute a part of the total construction cost. The COVID-19 pandemic has impacted many low-income families and their ability to contribute towards house construction. With job losses, reduced working hours, and business closures, many families have experienced a decline in their income, making it difficult for them to make ends meet. With families unable to contribute towards the construction costs, many such projects have been left incomplete, resulting in delays in the availability of much-needed housing. One of the main challenges of PMAY(U) has been the location of some of these projects outside the core city areas, which has resulted in many new houses remaining unoccupied. This is because these locations lack essential infrastructure and services such as transportation, healthcare, education, and markets, making it difficult for people to live and work in these areas.

- ***Special Window for Affordable and Mid-Income Housing (SWAMIH)***

SWAMIH Investment Fund is India's largest social impact fund, specifically formed in 2019 to complete stressed and stalled residential projects. The fund is provided by the Ministry of Finance, Government of India. It has raised ₹15,530 crore so far with the aim of providing priority debt financing for the completion of stressed RERA registered residential projects that fall in the affordable and mid-income housing categories. SWAMIH had provided financial approvals for about 130 affordable and mid-income housing projects in India, with sanctions worth over ₹12,000 crores. As of 2022, the fund had completed the construction of around 20,557 homes across various affordable and mid-income housing projects in India. The fund aims to complete 81,000 homes in the next three years across 30 cities across the country (PIB, 2023).

The SWAMIH fund has a limited corpus of ₹25,000 crores, which may not be sufficient to address the funding needs of all stalled affordable housing projects. As the fund provides last-mile funding to stalled projects, there is a risk that the quality of construction and project execution may be compromised in a rush to complete the project. While the SWAMIH fund aims to provide affordable and mid-income housing, there may be a mismatch between the supply of housing and market demand. If the housing units do not meet the needs of potential homebuyers, they may remain unsold, resulting in a loss for the developers and the SWAMIH fund.

State-specific Housing Programmes

Apart from the central housing schemes, many of the states have their own state-specific housing schemes. These schemes are implemented along with the central government schemes or as independent schemes. Some of the prominent state specific schemes are:

- ***LIFE Mission, Kerala***

The LIFE Mission is a housing scheme in Kerala launched with the aim of providing housing to the homeless and landless people in the state. The target of the scheme is to build 4.3 lakh LIFE Mission homes in five years. Social services like primary health care, geriatric support and skill development are also offered as part of the LIFE Mission project to enhance inclusivity. To be eligible for LIFE Mission, an applicant must be landless or homeless, or not be able to complete the house construction, have no other home, or have a temporary home in coastal, plantation or exotic areas; the annual income of the applicant should not exceed ₹ 3 lakhs per year and be a permanent resident of Kerala. The implementation of PMAY in Kerala is through the LIFE Mission.

Over 5 lakh eligible applicants were shortlisted by the LIFE Mission by 2022. Out of this, over 3 lakh applicants were houseless with land. As of 2022, 2,79,131 houses were completed by the LIFE Mission project in Kerala. 70,454 houses were under the PMAY(U) for the urban areas of the states. 76 housing complexes called LIFE Towers are being constructed throughout the state (Life Mission, 2022).

- ***Tamil Nadu Housing Board (TNHB) Schemes***

The Tamil Nadu Housing Board (TNHB), founded in 1961, functions under the Housing and Urban Development Department, Government of Tamil Nadu. TNHB provides housing to all categories of people in Tamil Nadu. According to reports, more than 50%

of the dwelling units constructed by TNHB have been for EWS. In order to be eligible for a TNHB housing scheme, a person must be a native of Tamil Nadu and above 21 years of age. The applicant should not own any other property or plots through any other state government housing scheme. The income criteria for different flats also vary in the following manner -

Type of Flat	Income per Month
EWS flats	Up to 12,000 rupees
LIG flats	12,001 - 18,000 rupees
MIG flats	18,001 - 37,000 rupees

Table A1.1: Income Criteria under TNHB Schemes

The Tamil Nadu state government has introduced a policy of higher Floor Space Index (FSI) for residential projects catering to the EWS, LIG, and MIG. Under the policy, the FSI for residential projects catering to EWS and LIG groups has been increased by up to 50%, while the FSI for residential projects catering to MIG groups has been increased by up to 15%. This is intended to encourage the development of affordable housing in the state and increase the availability of housing for people in these income groups.

- ***Gujarat Affordable Housing Policy, 2014***

The Gujarat Affordable Housing Policy, 2014, falls under the Mukhya Mantri Gruha Yojana. The objective of this scheme was to make cities and towns in Gujarat slum-free by providing houses for urban people at an affordable rate. The scheme aimed to provide EWS and LIG sections with housing facilities. The scheme prioritises providing basic and social facilities, along with housing facilities. The state aimed to involve both public and private developers in the projects. The parameters set for the housing units under the scheme are as follows:

Parameters	EWS	LIG 1	LIG 2	MIG
Carpet Area (Sq.m)	25 - 30	31- 40	41 - 50	51 - 65
Annual Family Income(Rs.)	Less than 1,00,000	1,00,000-2,50,000	1,00,000-2,50,000	2,50,000-5,00,000

Table A1.2: Parameters of Gujarat Affordable Housing Policy

Under the affordable housing policy, the plots on which affordable categories of EWS/LIG/MIG houses are built will be eligible for FSI up to 3. Private developers were given exceptions from municipal charges and were eligible to receive tax benefits for plots used for the construction of EWS/LIG category houses.

- ***Bihar Affordable Housing and Slum Rehabilitation and Redevelopment Policy, 2017***

It was introduced by the Government of Bihar to encourage the development of affordable housing and slum rehabilitation projects in the state. As per the policy, private developers are required to allocate a minimum of 20% of the total project area or 20% of the total number of dwelling units in a project, whichever is higher, for the EWS and LIG categories. This applies to all housing projects developed on government lands or through public-private partnerships in Bihar. The policy provides various models for developers to undertake affordable housing and slum redevelopment projects, like the direct development model, joint development model, PPP model and slum redevelopment model. Developers are eligible for a 100% waiver on land use charges and building plan approval charges for EWS and LIG components of the project. The FAR was also increased by 0.25 over the standard rates, but not beyond 3.50 for these projects. Additionally, developers may also be eligible for other concessions and incentives, such as a reduced rate of stamp duty, exemption from payment of conversion charges, and fast-track approvals. However, these incentives are subject to certain conditions and eligibility criteria specified in the policy, such as adherence to prescribed construction standards, timely completion of the project, and compliance with all regulatory requirements.

Housing schemes may become subject to political influence, with the allocation of benefits being influenced by political considerations rather than genuine needs or eligibility. There are inadequate mechanisms for monitoring and evaluating the implementation and outcomes of housing schemes, which can hinder effective decision-making and program improvement. There is a need for greater coordination and collaboration between the central and state governments in the design, implementation, and monitoring of housing schemes. There should be clarity on eligibility criteria, funding mechanisms, and implementation procedures. Mechanisms for monitoring and evaluation should also be put in place to ensure effective decision-making and program improvement.

Appendix 2: National Building Code Guidelines

Structure Part	**Guidelines**
Kitchens	• Provision for washing utensils with proper drainage connection • Must open into an interior or exterior open space
Bathrooms	• Must always be above another bathroom or washing space • Must be enclosed by partitions or walls • A mandatory sewage outlet or septic tank • A toilet on terrace is counted in Floor Area Ratio
Basements	• Height should be in between 2.5 and 4.5 metres. • Ceiling height should be between 0.9 and 1.2 metres. • A mandatory ventilation • Waterproof walls and floors • No direct access from the road
Building Sites	• Sites should be away from electric lines. • Master plan and land development rules and regulations of the authority determine the minimum size of the site.
Exits	• Exits are compulsory, should be provided in every building and should be clearly visible. • They should be continuous. • Lifts and revolving doors are not exits. • Exit size or number need to be in accordance with the occupancy load, capacity, travel distance, etc.
Staircases	• Interior staircases must be constructed with non combustible materials only. • One side should be adjacent to exterior wall and completely closed. • Minimum height of handrails should be 100 cm. • Living spaces and stores cannot open up to staircases. • There are specific height and width parameters for interior and exterior staircases. • Chief Fire Officer have to approve the staircase location.
Open Areas	• Every room, inhabited by people should open into an exterior or interior open space or verandah.