



Changing ability to pay for housing into effective demand: Evidence of institutional constraints from the slums in India



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ABSTRACT

Informal land and housing markets operating in the slums of Raipur give further evidence about what was already known: that, slums do not consist of homogeneous households and that some households are capable and willing to pay for their dwelling in the formal market if the institutional constraints are addressed. Then, what are the demand constraints they face? The existing literature about creating an affordable housing market focusses on the constraints in getting credit and mortgages. In our opinion, this is too narrow, for it ignores the institutional setting and the political context in which the slum dwellers are operating. This paper presents the perspective of the slum dwellers, and the barriers they face in accessing formal affordable housing. The constraints have been classified as those relating to housing as a commodity and those related to the process of acquiring the commodity. It uses descriptive statistics from a survey of 211 households conducted in the slums of Raipur, India, along with anecdotal and personal accounts of the slum dwellers gathered through the informal discussions.

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1. Introduction

Squatter settlements and slums in Indian cities are huge and growing. Such informal housing fulfils the shelter needs of the population living there (Marx, 2006; Sandhu, 2004; Berner, 2001; Boudreaux, 2008). Moreover, it has been applauded for its ability to deliver according to the economic capacities of the poor better than the formal sector (Sandhu, 2004). However, the housing conditions in such informal settlements are indisputably poor. They do not offer adequate security or any insurance against the innumerable and constant risks that the people are living in. Marcuse (1992) adds that they can provide only marginally, inefficiently and exploitatively, as disorganised habitation leads to inefficient use of land and cannot deal with the host of problems that require centralised decision-making; they violate sound and necessary planning principles. They also limit capital accumulation and growth (De Soto, 2000). If slum dwellers could move into the formal housing sector, this would improve service access and reduce social stigma (Lall, Suri, & Deichmann, 2005). More importantly, recent research has challenged the conventional wisdom that informal settlements

consolidate and improve housing over time if given implicit recognition by government, is not true for all such settlements. Based on their study of slums in Nairobi, Gulyani and Talukdar (2008) report that most residents pay a high price for low-quality dwellings. They also find that, despite such large payments and a significant history of implicit recognition by government, housing in the slums has not improved and consolidated. In other words, there is evidence that slum dwellers are often stuck in a sub-optimal equilibrium of low-quality but high-cost housing.

So it would be desirable in many cases if there were formal markets in social/affordable housing, either replacing the informal markets or as a supplement to them. 'Formal market' here represents housing which is exchanged freely and with legal certification between suppliers and demanders. Why have such formal markets not arisen? This paper focusses on one aspect of this: are the urban poor able and willing to buy a decent house if it was supplied through a formal market, and if so why does "ability and willingness" not equal to effective demand?

There have been many studies (Bhattacharya, 1998; Mascarenhas, 2010; Singh, 2011; Feedback Ventures, 2006; Mahadevia, Joshi, & Sharma, 2009 and Mukherji & Bharucha, 2011) on the ability of the urban poor in India to pay for a dwelling. However, before the Technical Committee on Slum Statistics published its report in 2010, there was no

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agreement on the number of slums and slum population.¹ It is, therefore, difficult to analyse the existing situation satisfactorily. These studies have used their own definitions following different criteria and objectives. Nevertheless, they conclude that at least a section of the urban poor are capable of and “generally willing to pay for services, provided they receive the kinds of services that they need and regard [the exchange] as good value for money” (*ESF/N-AERUS Workshop - Working group 1, 2000*).

However, that is only part of the answer. For although (some of) the urban poor might indeed be able and willing to buy a decent house, things might be constraining them from converting willingness to pay into effective demand. Boudreaux (2008) states that informal housing is a market response to the institutional constraints that the urban poor face in the formal housing sector. If that is so, then easing or removing those constraints might allow a formal market in affordable housing to arise.

Investigating residential mobility among slum dwellers in Bhopal, India, Lall et al. (2005) show that one in five households succeeds in getting out of a slum settlement and that a major determinant is the household's ability to save on a regular basis. As a result, they recommend down-marketing housing finance to reach the urban poor. This present research was conducted to gain more insight into this: how the urban poor might be able to buy a decent house. The paper presents the perspective of the slum dweller, using descriptive statistics from a survey of 211 households conducted in the slums of Raipur, India, along with anecdotal and personal accounts gathered through informal discussions with them.

2. The selection of the case

Chhattisgarh is among the top three states with a high percentage of slum households to total urban households (refer Fig. 1).

Raipur, its capital, is listed among the top-ten cities in India with a million-plus population having a high proportion of slum households with 39% of its urban population living in slums (Census, 2011). Raipur is also the city where the State has experimented with various interventions to gain private sector participation. The government disbanded the state Housing Board in 2002 to stop what was seen as a market distortion and to allow private builders to service the demand. This did increase the supply of housing, but the private supply was limited to higher income segments.² In 2004, the government re-created the Chhattisgarh Housing Board (CGHB) to focus exclusively on the housing needs of the urban poor.³

CGHB (2007) claims to have created more affordable housing (AH) stock in three years than was created in the region in the preceding thirty years. Since 2008, CGHB has won several national awards⁴ for its performance. However, the housing stock remains grossly inadequate. It has been the first state to introduce zoning laws⁵ that mandated the developers to *allocate 15% of the land for EWS and at least 10% fully developed plots of the prescribed size or, alternatively, to offer constructed*

¹ There was no slum population data available on full count basis. The slum population was estimated by Town and Country Planning Units for 2001 as approximately 62 million. As per UN Population Report (by mid-year 2001), India's urban slum population was estimated at approximately 158 million. There were various other estimates. These data gaps prompted the setting up of the Technical Committee on Slum Statistics to set a definition for “slum” and to provide a set methodology for estimating the slum population and conducting slum census. The Technical Committee on Slum Statistics did not consider housing affordability.

² High Income Group (HIG) and Mid Income Group (MIG)

³ The Economically weaker sections (EWS) and low income group (LIG) as defined by the government of India are herein referred to as the urban poor.

⁴ ASSOCHAM Excellence Award 2014 for its Special Contribution to Low Cost housing, HUDCO award for its remarkable work in fields of environmental management and energy efficiency through green building concept, EPC World Award 2012 for Affordable Housing, HUDCO Award for Best Practices to improve the Living Environment 2011–12

⁵ This law was highly lauded by the GoI who then made it part of the National JNNURM regulations.

houses/flats of the prescribed size for LIG, in every residential colony. Raipur is also one of the 65 pilot cities in India implementing the Government of India's (GoI) Jawaharlal Nehru National Urban Renewal Mission (JNNURM) programme, a massive city modernisation scheme launched in 2005 with a total investment of over \$20 billion over seven years.

This political involvement in the problem of decent housing for poor people makes Raipur suitable for this research.

3. Investigating the ability of the urban poor to buy a decent house

The urban poor in India is divided broadly into two categories: Economically Weaker Sections (EWS) and the Lower Income Groups (LIG). During the fieldwork (January–August 2012), the Government of India had defined a household with a monthly earning of Rs. 2000–5000 (approximately⁶ USD 36–90) as EWS and a household earning Rs. 5000–10,000 (approximately USD 90–181) monthly as LIG. The pilot study indicated that many of the slum dwellers earned well above the LIG limits⁷ and that it was difficult to classify the families according to the given definition because their monthly earnings were variable. It was apparent that the official definition needed revision.⁸ Given these practical difficulties, which the earlier studies had not mentioned, and based on informal discussions, the study defined the groups to reflect the ground reality. EWS was defined as having a family income of less than 6500 (USD 36–118) per month (= Rs. 78,000 per year), and LIG was defined as a family earning Rs. 6501–12,500 (USD 118–227) per month (= Rs. 78,000–150,000 per year). If the household reported that it earned Rs. 6500 in some months and more in others, it was considered EWS; similarly with the LIG. The households had variable income, so they were grouped according to their lowest monthly earning. Meaning, if they earned equivalent to the EWS category in one of the months, and other months as LIG, they were grouped as EWS. Most households in this income ranges live in the urban slums. Therefore, for the survey, households were selected from urban slums in Raipur.

Households were selected from those living in the 21 slums spread across the Raipur Municipal Corporation area. These slums differ in geographical location (see Fig. 2) and therefore in their access to various amenities (in terms of proximity to a hospital, school or railway station, and access to services in the slum). Though most slums have mixed groups, some are divided on the lines of occupation (such as ironsmiths in Lohar para) and/or on the basis of where they migrated from (neighbouring states of Orissa, Madhya Pradesh; or are local *Chhattisgarhians*). To reduce the anomalous effects of such systematic differences, the data was collected from different slums rather than from one slum. In total, 211 households were interviewed in Raipur Municipal Corporation (RMC) area. This survey was conducted as an exploratory study to identify and understand the demand constraints from the perspective of the slum dweller. Although this was an exploratory study and generalization was not an objective, with a random sample of 211 households from 21 slums, the findings can be reported with 92% confidence level and 6% margin of error.⁹ (In addition, about 40 households were interviewed, and when it was discovered that they

⁶ 1 USD = Rs. 55 (as used in calculations).

⁷ There were approximately 20% of the households in the surveyed slums who earned more than the LIG income range considered by the study, and were therefore not included in the survey.

⁸ In November 2012, the Government of India revised its definitions [vide notification: D.O.No.I-14012/59/2005.H-II/FTS-1465] for EWS/LIG. EWS is now defined as a family earning less than Rs. 100,000 per annum. LIG is a family earning Rs. 100,001 – Rs. 200,000 per annum. This is a pan-India definition which is not suitable for all cities in India, however our definition of EWS earning less than Rs. 78,000 per month, and LIG earning Rs. 150,000 per month seemed suitable at the time for Raipur.

⁹ According to the 2011 census, the number of slum households in Raipur is 80,200. The recommended sample size (from Raosoft) to be able to make a generalization for Raipur is 384 hh (@ 95% confidence and 5% margin of error).

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