



DEVELOPMENT PARADIGMS FOR URBAN HOUSING IN BRICS COUNTRIES

Piyush Tiwari, Jyoti Rao
and Jennifer Day

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Contents

1	Conceptualizing Housing for All	1
2	Brazil's Tryst with Housing	21
3	Housing in Russia	57
4	Housing Development in a Developing India	83
5	China's Land and Housing Reforms: An Institutional and Empirical Timeline	141
6	Housing in South Africa	183
7	Toward a Philosophical Evaluation of Housing for All in BRICS Economies	221
	Index	251

List of Figures

Fig. 1.1	Bundle of opportunities (or benefits) of housing; beneficiaries as per income segment; and the providers of housing	12
Fig. 1.2	The relation between stages of life of an individual/ household and their choice of housing as per their financial capacity (low, medium, or high)	15
Fig. 1.3	Conceptual framework for housing for all	18
Fig. 2.1	Urban transformation of Brazil (percent population of total population)	23
Fig. 2.2	Net rural–urban migration (millions)	24
Fig. 2.3	Share of cities in urban population	28
Fig. 2.4	Shifting contribution of metropolitan cities to national population growth	29
Fig. 2.5	Urban annual population growth by urban typologies	31
Fig. 2.6	Average head of household income, 2000 (Reais, R\$)	32
Fig. 2.7	Income pyramid in Brazil	33
Fig. 2.8	Housing shortage 2000–2008	34
Fig. 2.9	Evolution of housing finance system in Brazil	38
Fig. 2.10	Creation of formal jobs	41
Fig. 2.11	Brazil’s housing pyramid	53
Fig. 3.1	Population and demographic trends in Russia (million)	58
Fig. 3.2	Real GDP growth in Russia (percent)	59
Fig. 3.3	Share of housing tenure Russia	60

viii List of Figures

Fig. 3.4	Share in tenure by income quintile in 2006 (percent)	61
Fig. 3.5	Residential housing construction (million meters square)	62
Fig. 3.6	Reasons for dissatisfaction with housing conditions in 2008 (percent)	64
Fig. 3.7	The framework and Russian housing	79
Fig. 4.1	Trend of population increase in different sizes (as per population) of cities and villages in India, 1951–2011	85
Fig. 4.2	Housing shortage in urban India, 1971–2011	89
Fig. 4.3	Housing shortage in rural India, 1971–2011	91
Fig. 4.4	Housing as a bundle of amenities for different income groups	101
Fig. 4.5	Conceptual framework for housing for all in India	104
Fig. 4.6	Increasing share of India's tertiary services sector (at factor cost) to GDP (1950–2013)	108
Fig. 4.7	House price trends as against household income and GDP growth (2007 base year)	110
Fig. 4.8	Trends of household savings, corporate savings, and public sector savings (1952–2012)	111
Fig. 4.9	Diagrammatic representation of housing scenario in India (2011)	112
Fig. 4.10	Trends in percentage composition of MPCE (URP) from 1987–88 to 2009–2010 in India (urban) (Press Information Bureau 2011)	113
Fig. 4.11	Trends in percentage composition of MPCE(URP) from 1987–1988 to 2009–2010 in India (rural)	114
Fig. 4.12	Cycle explaining housing unaffordability as a consequence of reluctant urbanization in India	116
Fig. 4.13	Timeline showing changing political, economic, and social environments in India	117
Fig. 4.14	Current status of the pyramid (or framework) for 'Housing for All' in India	135
Fig. 5.1	China's housing pyramid	174
Fig. 6.1	South Africa's housing pyramid	213
Fig. 7.1	The framework in action for BRICS economies—Brazil	235
Fig. 7.2	The framework in action for BRICS economies—Russia	235
Fig. 7.3	The framework in action for BRICS economies—India	236
Fig. 7.4	The framework in action for BRICS economies—China	236
Fig. 7.5	The framework in action for BRICS economies—South Africa	237

List of Tables

Table 3.1	Housing tenure in different housing affordability categories (percent)	63
Table 4.1	Population in India (2011)	86
Table 4.2	Slum population in India (2001, 2011)	86
Table 4.3	Homeless population in rural and urban India (2001, 2011) (population in millions)	88
Table 4.4	Housing need in 2011	90
Table 4.5	House characteristics across various income groups in rural India (2002)	93
Table 4.6	House characteristics across various income groups in slums and squatter settlements in urban India (2002)	94
Table 4.7	House characteristics across various income groups in urban (non-slum areas) India (2002)	94
Table 4.8	Number of members in household versus number of rooms in house in India (2001)	95
Table 4.9	Defining affordability for various income groups and housing shortage in urban India (2007–2010)	97
Table 4.10	Percentage distribution of households as per size of dwelling unit (number of rooms) (1991, 2001, and 2011)	103

1

Conceptualizing Housing for All

1.1 Introduction

“Adequate housing is necessary for social welfare as it provides protection from weather, a place to bring up families, and a place to work.” Hingorani and Tiwari (2012). However, about a third of urban populations living in developing countries in 2010 were either living in poor housing conditions or were homeless (Tiwari and Parikh 2012). The condition of housing is precarious when we look at the regional distribution across the globe. Those living in poor housing conditions in Sub-Saharan Africa formed about 72 percent of the total population of the region in 2001, in Asia-Pacific about 43 percent, Latin America and Caribbean about 32 percent, and Middle East/North Africa about 30 percent. Though the share of slums in the total population has been decreasing, the absolute number of people living in slums is still growing. The consequences of a lack of adequate shelter are many. One indicator, health of resident children, indicates that children living in slums have a high mortality rate and a very high incidence of disease. For example, in Kenya while the mortality rate among children less than five years old is 112 per thousand

births at the national level, the rate is 151 per thousand births in slums. In some slums the mortality rate is as high as 254 (ibid.).

McKinsey Global Institute's (MGI) report "A blueprint for addressing the global affordable housing challenge" estimates that \$16 trillion will be required for the world to meet the urban housing shortage by 2025 (MGI 2014). For a global economy of GDP \$77 trillion in 2014, which has grown almost ten times over seventy years, this seems to be an achievable target. MGI also outlines the enormous business opportunities that construction of affordable housing would generate for both developers and financiers. Despite this the housing shortage has stubbornly persisted and been ignored, without much of a solution in sight.

Development Paradigms for Urban Housing in BRICS Countries, is an attempt to investigate the challenge of urban housing from an institutional economics perspective. Cities of the developing world, and most famously those of the BRICS (Brazil, Russia, India, China and South Africa), are gaining importance in the global economy as "new engines of growth." These are also the countries which are highly populated, have witnessed high levels of urbanization in short periods, and face substantial housing problems. These countries have adopted different housing development paradigms—as discussed later in this chapter and throughout the book—but the problem with access to decent housing persists. This book is an attempt to promote an understanding of alternative perspectives of urban housing delivery, provisioning of affordable housing, and slum upgrading. The book also offers a critical analysis of affordable housing, slum upgrading processes, options, and institutional linkages in BRICS countries. The role of communities, NGOs and policy makers in the preparation and implementation of affordable housing and slum upgrading has also been examined. The book hopes to provide enhanced access for all participants to debate policy options in a comparative way through the application of a common framework, outlined later in this chapter.

This book, however, does not argue the case for specific causes and policy approaches but rather seeks to clarify the debates and explain the implications of each approach as it applies to specific processes when addressing inadequate housing. The task is multidisciplinary, including economics, political science, constitutional law, urban planning, and other expertise.

1.2 BRICS: The Context for the Book

The BRICS countries of Brazil, Russia, India, China, and South Africa, provide an excellent political, economic, and institutional diversity for understanding how these have played out in delivering housing. Political ideological developments and the trajectories of institutional evolution in the housing sectors have varied among these countries, in some cases it has been slow and others fast. The economic growth in all these countries, though, has been rapid over a short time. Moreover, the economic shift out of agriculture is leading to a transition in the economies of the BRICS countries and the cities are nurturing economic opportunities in non-agriculture sectors like services, industry, and manufacturing. However most BRICS countries have embraced urbanization reluctantly in their development ideologies and hence are unable to demonstrate inspiring examples of “how to seize the opportunities of economic growth that urbanization can provide.” (IIED 2012) The consequence of the resultant unplanned urbanization is these cities are suffering from an infrastructure which is inadequate to support the physical, economic, and social needs of fast-growing urban centers. Most BRICS bear a heavy burden from past failures in accommodating urban population growth equitably and efficiently (*ibid.*).

Prolonged ignorance of the basic needs of an urban society—such as housing, education, infrastructure and other necessities—in BRICS’ cities has started to impact negatively on their economic, political, and built environment. Hesitantly, these countries are acknowledging interdependencies between economic growth and social welfare, where one harnesses the other. In pursuit of maximizing social benefits when allocating limited public capital to various development initiatives, revenue-generating activities (or economic development activities) have taken priority over capital consuming social activities in many countries. Persistently overlooking the need for public housing, schools, health centers, transport, and other social goods, has intensified the shortage of these services.

Developing countries are urbanizing fast and this is leading to an unprecedented increase in their urban populations, despite the unpreparedness of their existing infrastructure to bear more loads. Cities are

dominated by the problems arising from overcrowding, congestion, inadequacy of physical infrastructure, housing shortage, slum formations, income disparity, and unemployment, which are hindering the efficient functioning of these “engines of growth.” Among the most acute problems faced by BRICS countries is a failure to meet the housing requirements of different income segments and age groups, particularly the socially weaker sections—including the poor, young homemakers, and retirees. Adequate shelter is crucial for human survival. The inadequacy of publicly supported subsidized housing is compelling a dependency upon the private market for this basic good (house or shelter) with the outcome that the market is segmenting, or filtering out, those who lack in financial ability.

To gain an understanding of existing housing problems more precisely it is important to know the different economic, social, and political contexts that have influenced the housing environment. While each country will be dealt with in detail in the following chapters, the next sections highlight some of the characteristic features of the approaches BRICS countries have pursued toward socio-economic evolution and how these have influenced housing conditions in urban areas.

Brazil

Adamant urbanization forming segmented cities overfilled with unplanned informal settlements or *favelas*

Brazilian policies resisted urbanization in the 1950s, despite the urbanization rate¹ of 2.5 percent per year, with the urban population growing immensely at an annual rate of 5.6 percent, while the national population was growing at rate of 3.1 percent per annum (IIED 2012). The government feared that poor rural migrants would overwhelm the cities if it facilitated urbanization. An urban population explosion could not be controlled with the government’s non-supportive attitude and lack of urban planning. A consistent ignorance of infrastructure requirements and physical planning did not control urbanization; on the contrary, it led to a haphazard expansion of the cities. Organically grown, unplanned

¹ Urbanization rate is the rate of change in the share of the urban population.

cities reflect a physical segmentation, with the majority of the population inhabiting poorly located and ill-served informal settlements (*ibid.*). The problems of poor housing and a dilapidated infrastructure stemmed from previous urban policies and the resistance of Brazilian governments toward urbanization. Despite this history urbanization has gradually led to economic growth and this realization is slowly improving the policy environment, which has embraced urbanization, particularly in last three decades. Brazil has recently initiated inspiring social innovations to improve the living conditions of the poor, although the fruits of this development have yet to reach the poorest communities.

China

From anti-urban to pro-urban

The Chinese development paradigm also resisted urbanization through a controversial household registration system (*hukou*), albeit at a huge social and economic cost. During the anti-urban Cultural Revolution of 1966–1976 urbanization was actively and successfully resisted. However, after China embarked on market based economic policies in 1978, the link between economic benefits and urbanization was recognized, though the *hukou* system continued. China has sustained a high rate of urbanization through a controlled migration system. A controlled national population growth through the one child policy made it manageable for China to prepare for an increase in urban population. “China’s economic transformation, which began as a rural experiment, soon became urban, involving first a string of coastal cities, then larger urban regions, then inland cities.” (IIED 2012) Local urban governments were given increased authority and the responsibility for raising the economic production of cities, which were the power houses running on global investment and local labour forces. As and when an urban economy needed a cheap labour force, the government loosened its control on temporary rural migration. However, the household registration system continued to deny most rural migrants the rights of urban citizens. China’s stunning economic success is based on “closely aligning local authorities’ official and unofficial interests with market pressures, even when that causes environmental damage or amplifies inequalities.” (*ibid.*) The fear of the Chinese development

model is that urban economies, dependent upon entrepreneurial bureaucrats and developers, would continue to ignore social and environmental agendas and serious intervention would be required to modify the development model to make it inclusive and responsive.

Russia

Huge cost of redeveloping misplaced Soviet cities

Russia demonstrates the heavy influence of a political system on the social, economic and built environment. Single party governance and the centralized system of the Soviet Union gave priority to political and military objectives over social and economic requirements. This led to a geographical misplacement of urban centers and economic activities, which were non-responsive to locational priorities of markets and individuals. The legacy of cities in poor condition comes from the unresponsive planning and governance systems that dominated Russia during the Soviet era, 1922–1991. Non-market decision making left many cities exposed at the end of the Soviet Union and, despite the traumas of that era, its collapse led to a demographic and economic downturn—per capita income temporarily fell by more than a third and urban populations declined for over a decade (IIED 2012). Industrial cities of the Soviet era that had produced goods for the military-industrial complex, or consumer goods that were protected from competition, suffered enormously and their populations shifted to newly developed cities. The spatial restructuring of economic activities and population dislocation is burdening Russian cities with issues of housing quality and congestion, and a basic infrastructure inadequacy.

South Africa

Apartheid fragmentation still dominates urban lives

South Africa learnt a hard lesson from exclusionary urban policies that constructed racially, economically, and spatially segmented cities. The apartheid system dominated the urban environment of South Africa until 1994 when the political system was taken from the white minority

to favour the black population, which had been excluded from the political system and all acts of development. Racial discrimination disrupted and oppressed the lives of black residents and constrained them to urban peripheries, which fractured the cities' physical forms and created separate residential areas for different races, with blacks confined to dormitory townships on the edge of cities and towns, far from jobs and amenities (IIED 2012). The urbanization rate was almost zero when apartheid was at its peak. Post-1994 unprecedented urbanization took place but governments adopted a reactive approach and still overlooked the basic social and economic needs of the previously excluded and ignored population. In the past, political controls kept the fruits of industrialization and urbanization away from the majority population of South Africa and therefore a need for constitutional support was observed. Although legal rights are not yet fully exercisable, due to a lack of political will, and there are insufficient government resources to meet people's basic needs for electricity, water, and sanitation. Inclusive governance, planning, and leadership are expected to gradually integrate the cities and societies of South Africa.

India

With a majority of agrarian voters governments hesitate on urbanization

India is less urbanized than the other BRICS countries, and it is unfortunate that the country has not fully harnessed the economic growth potential associated with urbanization. Non-performance in the agricultural sector, a lack of employment opportunities, and various other push factors of rural living are causing people to migrate to cities. The country is caught up in a vicious cycle of underdevelopment, where a lack of support for urbanization is suppressing economic growth. Lack of public funds has curtailed investment in social infrastructure in urban and rural areas, depriving most populations of access to basic amenities. In a haste toward economic growth, the public sector has channelled its limited resources to large cities, which aspire to become Global Cities so as to attract foreign investment. The middle and low

income segments are unable to meet the rising living standards of large cities and seek refuge in smaller cities or on urban fringes of large cities (called peri-urban locations), which are affordable but only receive a small share of infrastructure investment and thus suffer from an inadequate infrastructure, both physical and economic. The current approach toward urbanization is leading to patchy development at neighborhood and regional levels, thereby segregating the society between the haves and the have nots. In the recent past, several important programs have been introduced to support equitable and efficient urban development. These include the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Rajiv Awas Yojana (RAY) and Prime Minister Housing for All Scheme, although their success has suffered from a lack of synchronization among ruling political parties operating at different tiers of government. Lack of capacity in urban local bodies or municipalities to deliver the programs has also been detrimental to their success. While acknowledging the issues of rural–urban migration, growth in the uneducated or unemployable (in regard to education standard) working-age population, urban poverty, and unemployment, urban policies need to be more inclusive and proactive to prepare cities for rapid urbanization.

The common debate in all developing countries has been whether to deplore urbanization for: deteriorating housing affordability; housing shortages; and the expansion of slums (characterized by poor quality of construction; absences of basic infrastructure services; over-occupancy and other similar problems). Or to welcome the opportunities that urbanization offers: jobs; health care; schools; and opportunities for women. Although it is becoming clear that economies in the developing world are becoming inextricably linked to cities which are urbanizing fast, the challenge has been that the rate of urbanization has outpaced the rate at which housing and basic amenities are being delivered. This poses problems not only for incoming migrants but also those who already live in these cities, as they also face shortages in housing and urban services. *The Global Human Settlement Report* (UN Habitat 2003) argues that “slums and urban poverty are not just a manifestation of a population explosion and demographic change, or even of the vast impersonal

forces of globalization” but a result of “a failure of housing policies, laws and delivery systems, as well as national and urban policies.” There is strong criticism to the existing framework within which the problem of ‘housing’ is dealt. The constitutional, institutional, financial, political and social framework shall together decide the treatment for housing problems (as will be discussed later in this chapter). Even though the fast pace of urbanization and population explosion is posing challenges, these could not be justified as a reason for inadequacy of housing and basic services.

There are a number of alternative development perspectives on meeting urban housing shortages, slums and slum upgrading, and urban management of service delivery that countries have used. Though, in terms of outcome—better housing and basic services—these alternatives may agree, in terms of approach, mechanics, and scope, they can be totally divergent. For example, in the context of this discussion, addressing inadequate housing means dealing with the following perspectives: ecological and environmental, rights, equity and community, state, engineering, users, non-governmental organizations, economic and legal. Each of these perspectives can present an alternative, and often conflicting, approach to achieving an outcome of housing for all.

1.3 Housing as a Bundle of Opportunities

The discussion in this book repeatedly emphasizes the importance of securing housing for all. Although it is well accepted that housing is one of the most primary requirements for human survival, a difference of opinion persists on the approaches that should be adopted for making housing accessible to all segments of society. One view suggests that housing should be a legal right guaranteed by the government (Bratt 2006); whereas another view argues that the market should provide housing and an individual’s capacity should be built up so their ability to purchase increases and they are able to buy a house. It is, however, important to understand that both approaches complement each other. Right to hous-

ing would mandate government intervention in the housing market, which is currently crowding out lower income households. On the other hand, it is also important that the burden on the public sector to subsidise housing is alleviated. Instead, the capability of an individual should be enhanced, which may require subsidies for low income households, through a gradual improvement in the level of education and employment so that individuals strengthen their financial ability and buy a home on their own from the market. As mentioned by Stiglitz and Wash (2002), “in the market, individual’s incomes are related to the ownership of assets and their productivity” (p. 320) and both would improve only gradually with improvements in the social and economic infrastructure of developing countries.

An important debate about housing, which has caused policy dilemmas, is what purpose housing serves: whether it is a necessary (welfare) good, required for individual and societal welfare? Or whether it is a private good, which not only serves consumption purposes but also fulfils investment motives? If housing is a private good then should it be left to the market to deliver? If it is social good then should governments provide? If we apply the private goods definition (being rival and excludable), housing is a private good, but the basic purpose of housing is to provide shelter, necessary for living, which compels the involvement of government in the provision of housing. Strong sentiments are developing to include housing as a constitutional right. Bratt (2006) emphasizes the constitutional obligation of the government to assure housing for all and states that “among the rights that should be guaranteed by government to all individuals is a Right to Housing.” (Bratt 2006, p. 399). Although some may argue that “if housing is guaranteed, the motivation to seek employment and to work toward economic security will be undermined,” (Bratt 2006, p. 400) researchers including Sard and Lubell (2000) present empirical evidence to suggest that there are no negative impacts on the motivation levels of individuals. Rather, that lack of access to secure and stable housing makes it challenging for individuals to search for and sustain employment. On similar lines, Newman (1999) finds that homelessness “increases the difficulty of pursuing education or job training,” (pp. 3–4) and weakens the foundation of economic security (Bratt 2006). The discussion clarifies that housing is an important requirement

for the achievement of economic security, which in turn harnesses social development and growth.

Though housing has the characteristics of a private good, access to housing is considered necessary for living, to the extent that it should arguably be a constitutional right. Housing offers a bundle of opportunities, of which the three major ones are: (i) shelter; (ii) security of tenure; and (iii) financial security. The right to housing is expected to guarantee the first and main purpose, of shelter, whereas the other components, security of tenure and financial security, are optional and are based on an individual's ability to leverage their home as an asset. The cost of housing increases proportionally with the increase in the bundle of opportunities associated with a house. As economies develop and markets mature, opportunities to leverage a house as an asset push up the demand and hence the price. Rising house prices preclude many from accessing decent housing, particularly those in the lower income segment. Government has an important role in facilitating homeownership by providing housing for those who cannot afford it, and by facilitating markets so that they can deliver housing to a large segment of society. The direct involvement of government in the provision of housing is considered necessary for the fulfillment of consumption/shelter requirements, as explained in Fig. 1.1. Although considerable encouragement is given to homeownership the extent of government intervention in guaranteeing it is challenging, not only because subsidies toward homeownership place an extreme financial burden on exchequers, but also for ethical and equity reasons. Is providing homeownership the best utilization of public resources? Or should it be limited to providing shelter without ownership? Which, in effect, means that the government is guaranteeing shelter and security of tenure but leaving the financial security aspect to the individual to strive for. The discussions in the concluding chapter of this book elaborate further on these, using Sen's capability approach.

Housing is a basic requirement and also the "core of family stability," (Sard and Lubell 2000, p. 6) but unlike other basic goods—like food, water and clothing—housing is far more expensive. It is the largest single expenditure for most families (Tilly 2006). All goods are purchased in a private market and therefore "the distribution of income; degree of income inequality between high and low income families; and income

Why 'housing'?	Users	Providers
Financial security Resale Mortgage Rent	Higher income households (majorly constituted by senior households)	Private sector
Security of tenure Freehold Leasehold Shelter	Middle and lower income households (majorly constituted by younger households)	

Fig. 1.1 Bundle of opportunities (or benefits) of housing; beneficiaries as per income segment; and the providers of housing. *Note:* The term leasehold here means renting a property for an agreed (limited) duration of time and freehold means ownership of the property. *Source:* Author

differences by race, gender and age all translate directly into how well different groups are housed” (Tilly 2006, p. 20). Issues related to homelessness, congestion, obsolescence, and poor quality housing are commonly observed among poorer households, for whom access to decent housing is relatively more difficult, compared to other income groups competing in the private housing market. A “survival of the fittest” market puts the poorest segments of society in competition with the richest, who define the price of goods (including housing) in the private market. Although the right to housing does not necessarily ensure automatic housing for all with immediate effect, it does trigger the process for achieving housing for all.

1.4 Definition of Housing

A simple meaning of a house is a physical structure, which provides shelter to its occupants and enables them to perform day to day activities. A house in literal sense may be defined as a decently constructed and efficiently designed physical unit, which has access to basic infrastructure services (including water, power, gas, sewage and drainage, solid waste management, etc.), so as to facilitate indoor living and provide comfort,

safety, and security to the occupants. Economists and social scientists expand the structural definition of housing to include the economic and social security/opportunities that are complimentary to housing. A revised holistic definition of housing could be that it is a composite bundle of opportunities offering physical security, “economic security” (Bratt 2006, p. 400), and social well-being to the occupants.

Note that economic security associated with housing is confined to those who possess the ownership rights of the house, which allows them the right to sell and mortgage. The bundle of opportunities associated with housing varies with the nature of housing tenure (or rightfulness). For example, if A is a homeowner and B is a renter, then the bundle of opportunities for A would be larger and would include the component of financial security; whereas B (being a renter) would have access to secure living but cannot use the house as financial security (due to constraints in the nature of tenure/rightfulness). Thus the bundle of opportunities for A and B vary proportionately with the extent of ownership. Undoubtedly, maximum opportunities are associated with absolute ownership.²

Having said that absolute ownership is most desirable, it is important to understand that housing for all does not necessarily require absolute ownership for all. The discussion above helps in developing an understanding of two distinct roles for housing, which are: (i) housing as a basic consumption good, which serves the necessary need for shelter; and (ii) housing as a financial security or investment tool, as explained in Fig. 1.1. While the investment role of housing is an optional component, chosen by those who are financially capable of participating in market negotiations, the former role of housing (as shelter) is a mandatory component for human survival and is therefore desired by all individuals, irrespective of their financial capacity to pay for the component. In a more direct expression, the former is a basic requirement while the latter is a matter of choice. The investment component of housing has been studied extensively and remains an interesting field of research, which

² Levels of homeownership depend upon the legislative definition of ownership, for example, strata ownership, lease tenure, shared ownership, etc. Therefore the term absolute ownership would have different meanings in different legislatures. For the purpose of this book, absolute ownership means freehold ownership, without any time limit, offering inheritable rights to sell, rent, or mortgage the property.

provides valuable inputs into the housing market. However the consumption component of housing is more important from a social (than from a commercial) perspective and, so far, has been conveniently ignored in those developing countries where the issues of homelessness and poverty are acute. While fully acknowledging the importance of homeownership for the financial stability of a household, it is considered important to throw light on the stages through which households transition toward homeownership. The discussions in this book unravel the bundle of opportunities offered by homeownership and analyze the importance of each component of the bundle to different demographic groups in society and, accordingly, prepare a need-based bundle for each group, responsive to their needs and affordability. These discussions provide the background for future research in identifying gaps on the supply side of the housing equation, reasons for the lack of responsive housing options and choices of bundle.

The gaps from the supply side are wider toward the demands of poorer segments in society and/or toward households that are relatively less capable of paying the actual market price. Despite being a basic good housing is unaffordable (under any tenure) for many households, particularly for the poor, young homemakers, and retirees, and therefore the role of the public sector in the provision of housing may be considered necessary. The next section suggests a conceptual framework for understanding the market, financial, policy, legal and constitutional environments that, when synchronized, could deliver housing for all!

1.5 Conceptual Framework for Housing for All

Every human being needs a house but every individual differs in their requirements. The balance between choice of size of house, its tenure, location, and quality is a function of a household's aspirations, requirements and ability to pay (or affordability). With changing financial situations through different stages of life, a household's housing requirements and responses toward those requirements also change. Figure 1.2 explains five major stages of life at which changes in a household's financial condi-

tion, family situation, and housing requirement are likely to occur. Based on the existing state of housing in developing countries, and theoretical suggestions to cater for the housing requirements of different segments of society, Fig. 1.2 identifies, in a generic sense, the choice of housing for different income groups, arranged in descending order of cost of housing and of household aspirations, and in increasing order of financial feasibility for various income segments of society in developing countries.

The horizontal axis states the five major stages of life when an individual's/household's financial capability and housing requirements are expected to change. The assumption is that the housing requirements of children up to the age of 18 are addressed by their parents and that

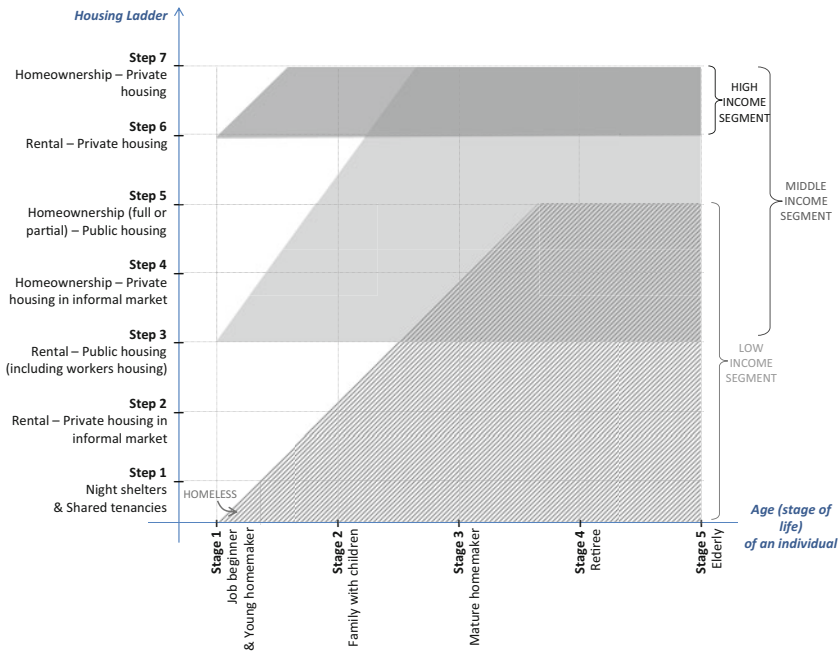


Fig. 1.2 The relation between stages of life of an individual/household and their choice of housing as per their financial capacity (low, medium, or high). *Note:* (i) public housing (rental and ownership) means housing subsidized by the government; (ii) informal housing means a house with unclear status of tenure, mostly slum housing; (iii) worker's housing means housing for employees provided by the employer or a private developer. *Source:* Authors

the need for housing emerges as and when one moves out of a parent's house for education, employment and/or as a young family maker (stage 1). At the first stage of life, when an individual starts earning and building a family, they often have no or very little savings³ from income; their income is low (being a fresh job holder/seeker); and job stability is low (job and location changes are high). Although homeownership is the utopian goal in most societies, for all age groups, across all income segments, it is often very difficult to become a homeowner at this first stage, primarily because: (i) initial downpayment requirements to access formal finance in developing countries is usually high (around 20 percent of the value of the house), and young homemakers often find it difficult to pay the initial deposit amount upfront, even though they may have the ability to pay equal monthly instalments (EMI); (ii) being beginners in the job, young homemakers often have a lower monthly income and higher expenditures (including other loans for education, car, etc.) and thus a lower creditworthiness, as per the credit rating system adopted by formal financial institutions; and (iii) young homemakers are often considered riskier clients because they usually lack the means to demonstrate their creditworthiness due to a lack of credit history. Considering the above challenges related to income, affordability, stability, and access to financial instruments, the housing requirements of young homemakers are usually met by the rental market, both in the formal and informal sectors, depending upon one's financial capability. As shown in Fig. 1.2, young homemakers in the higher income group find it affordable to enter into the formal rental market (step 6) and quickly transit to become homeowners (step 7). However, for the middle income group the first step of the ladder starts at public rental and workers' housing (step 3). The next step of the ladder is expected to be homeownership in the public housing sector (step 5), but due to the inadequacy or absence of affordable public housing, the gap is filled by the informal market, which provides affordable housing at the compromise of: legal tenure; basic infrastructure (power, water, access road, sewage and drainage, solid waste management); and quality of house (structural and design

³There may be cases when young homemakers acquire wealth by inheritance but that does not form part of this general discussion.

quality). The situation is worst for the poorest households, including migrants from rural areas and small cities, who often fall victim to the inadequacy or absence of transit or shared tenancy housing (stage 1) and end up being homeless, or dwelling on streets or in public parks, or other unguarded public places. Due to the dearth of public rental housing (stage 3), the demand for affordable rental housing for the poor has grown and is being served by informal private rental housing market and slums (stage 2) in big cities.

The housing ladder conceptually explains that although homeownership is the end objective for all, the stages of transition differ for different income groups and the ladder is shortest for higher income groups and longest for the poor (Fig. 1.2). In order to achieve housing for all it is important to bridge the distance between the first and the last step of the housing ladder for different income groups. While the higher income group possesses the financial capacity to negotiate in the free market, the poor find it most difficult to meet their housing needs. It is necessary that developing countries cultivate the appropriate policy environment and constitutional support, which would gradually build the bridges and make the transition smoother and quicker, particularly for the poor and middle income groups, who constitute the majority of the population in developing countries.

The discussion above links to the conceptual pyramid/framework of housing for all proposed by Tiwari and Hingorani (2014). A modified version of the pyramid is presented in Fig. 1.3. The final objective of housing for all rests on top of the six layers formed by demographic, physical, policy, financial, and constitutional platforms. The first two layers divide society into three major income groups (high, middle, and low income) and the range of housing choices (in regard to the nature of tenure and cost/rent) to which they have access in reference to their financial capacities. Depending upon whether the buyer's and occupier's financial capacity allows her to negotiate in the open market or not, her housing requirements are either met by the private market or are dependent upon the public sector, which arguably could play a role in providing affordable housing for financially weaker households (Fig. 1.3, layers 3 and 4). Depending on whether the provider or facilitator of housing is the private or the public sector, the cost or rent is market determined or

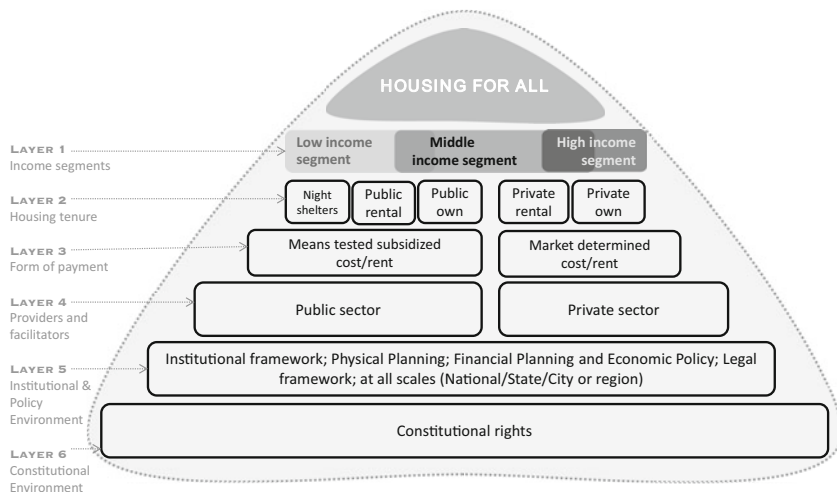


Fig. 1.3 Conceptual framework for housing for all. *Source:* Authors

subsidized. This restricts the choices of the poor to public housing, and with the existing inadequacy of public housing the shortage is met by housing provided by the informal market. As shown in Fig. 1.3, informal housing (at steps 2 and 4) emerges as a filler for public housing required at steps 3 and 5.

The basis for housing for all to be provided by both the public and private sectors, rests on: (i) responsive policy formulation; (ii) functional institutional framework; (iii) proactive physical planning; (iv) accurate financial planning; and (v) clear land titles and property rights (legal environment). Together they form the fifth layer of the pyramid for housing for all, as shown in Fig. 1.3. An approach toward the formation/reinforcement of this layer may differ in different countries, depending upon the attitude of the government toward social welfare, including housing. Under ideal circumstances: (i) there is financial availability from formal institutions (private or public) to suit the requirements of all income segments, so that all home buyers/renters can acquire the financial capacity to buy a house in the market; (ii) the market offers a variety of housing to suit the affordability of all income segments; and (iii) government intervention will not be required. However, in developing countries the market is not developed; home seekers lack financial capacity; formal financial institutions are still evolving to meet the needs of weaker sec-

tions of society; private developers rely on creditworthy clients and restrict their supply to high and middle income segments; land procurement is not easy as land titles are not clear; legal systems are weakly executed; and informal housing markets serve immediate housing needs. In such situations, when the market is not functioning properly due to reasons similar to those mentioned, then the need for government intervention is realized.

The foundation of the pyramid, a constitutional right to housing as argued earlier, is not expected to provide an instant automatic solution to the problem. Rather it activates a government's participation in housing related matters. Constitutional rights obligate the public sector to serve housing requirements, particularly for the poor, and authorizes governments to intervene appropriately and rightfully in housing activities. With appropriate mechanisms for remedy, rights would also provide a mechanism for citizens, particularly at the bottom of the income ladder, to demand decent housing.

1.6 Conclusion

The problem of access to decent housing for all does not have a straightforward solution. Rather, the search for answers leads to a complex web of processes involving market, institutional, financial, legal, economic, demographic, planning, and social systems. Upcoming chapters present various alternative development paradigms for urban housing in BRICS countries—Brazil, Russia, India, China, and South Africa. Together these economies have contributed over 50 percent to world economic growth over the last three years and over 60 percent to urban population growth during last decade. The trend is expected to continue. About a third of the urban population of cities in developing countries lives in slums. A large proportion of the increase in population in those cities is expected to live in slums. There is considerable debate concerning both the causes of slum growth and how best to reduce the extent of poor conditions of housing. BRICS economies present an institutional and geographical diversity, providing a unique opportunity to explore the wide variety of approaches that have been adopted to address inadequate housing, as discussed in the following chapters.

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2

Brazil's Tryst with Housing

2.1 Introduction

Brazil is the fifth most populous country in the world, with a population of 200 million in 2010, and has the sixth largest economy, but it is also among the most unequal countries in the world with most of the wealth concentrated in the south (UN Statistics Division 2006). Despite its rapidly growing economy, in 2009 around 11.8 million people live on less than \$1.25 a day and over 60 percent of those live in the semi-arid north east region (Habitat for Humanity 2016), which faces huge problems with water and long spells of drought.

Brazil is a federal republic composed of 26 states, one federal district (to host the capital), 5,565 municipalities, along with districts and regions. The three tiers of government—federal, state and municipal—form the governance structure of the country. Core political decisions are taken by the federal government. Since the 1988 constitution municipalities enjoy political, administrative, and financial autonomy.

More than 50 million Brazilians (about 25 percent) live in *inadequate housing* (Habitat for Humanity 2016). According to Caixa Economica

Federal, there was a shortage of 9.3 million housing units in 2009, which included demographic housing demand (*demanda habitacional demográfica*, DHDE) and demand generated by precariously located housing units in need of replacement (inefficiently constructed self-built homes in insecure living environments, rented spaces in favelas, and households without toilet facilities/sanitation). The Joao Pinheiro Foundation (JPF) estimated a *housing shortage* of about 7.2 million units in 2009, a lower figure than Caixa Economica Federal's due to the non-inclusion of demand generated by poor quality housing. Fez Ta Pronto argued that the housing shortage is much larger than earlier estimates. JPF also estimated housing shortage by income class, indicating that 90.3 percent of the housing shortage was among households who earn three times less than the *national minimum salary* (which in January 2013 was R\$678), and that one-third of this segment of the population lack secure tenure. Lack of security of tenure is also found among higher income segments, albeit to a lesser extent: 21.2 percent of the population segment with an income in the range of 5 to 10 times national minimum salaries; and 22.5 percent in the segment for income above 10 times national minimum salaries.

This chapter presents a comprehensive review of housing in Brazil and critically analyzes the housing outcomes and institutions using the framework presented in Chap. 1. Past political and economic ideological developments have had a profound impact on housing outcomes in Brazil. The political trajectory, rapid socio-cultural transformation from rural to urban society, economic development, and institutional changes have all contributed to the state of housing. The chapter is organized as follows: Section 2 outlines the stages of urbanization; Sections 3 and 4 present housing needs and players in housing sectors respectively; Section 5 examines the housing finance system and its challenges; Section 6 presents the timeline of housing institutions, policies and programs in Brazil; Section 7 discusses developments in Brazil with regard to housing rights; Section 8 brings together the discussion in the context of the housing framework presented in Chap. 1; and Section 9 concludes.

2.2 Stages of Urbanization

Urbanization in Brazil has been unprecedented—from 36.2 percent in 1950 to 86.5 percent in 2009 (Figs. 2.1 and 2.2). The level of urbanization that Brazil achieved in 1950 was achieved in India in 2011 and in China in 2000. According to the World Bank, “Between 1970 and 2000, the urban system absorbed more than 80 million people ... Cities became the core of economic activity (90 percent of gross domestic product, GDP), with large cities becoming diversified, taking advantage of large markets for inputs and ideas and enjoying high levels of productivity and growth.” (World Bank 2006, as cited in Martine and McGranahan 2010) Urbanization has further extenuated social inequality in Brazil and the cities have been largely unable to plan for such massive urban growth.

In this section, we review urbanization trends, causes, and consequences, particularly on housing and management from 1930 to 1980, when the urban population exploded and also from 1980 onwards, a period that is referred as the late transitional period, due to the political,

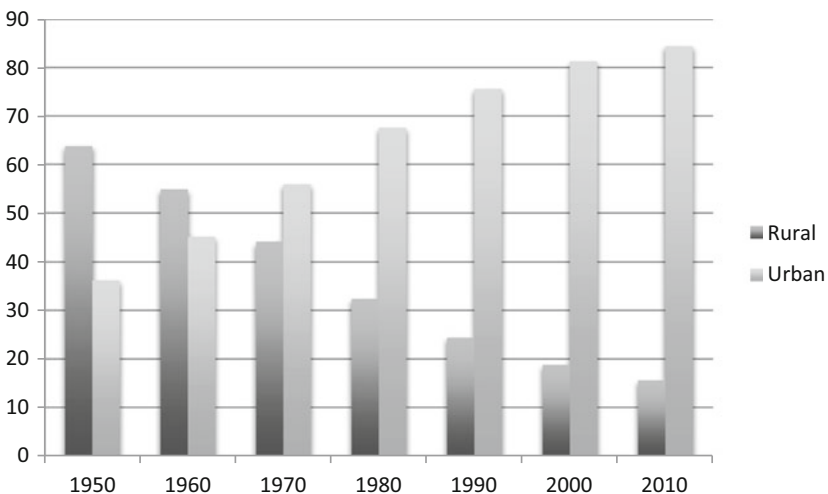


Fig. 2.1 Urban transformation of Brazil (percent population of total population). *Source:* Authors based on data from UNHabitat (2013)

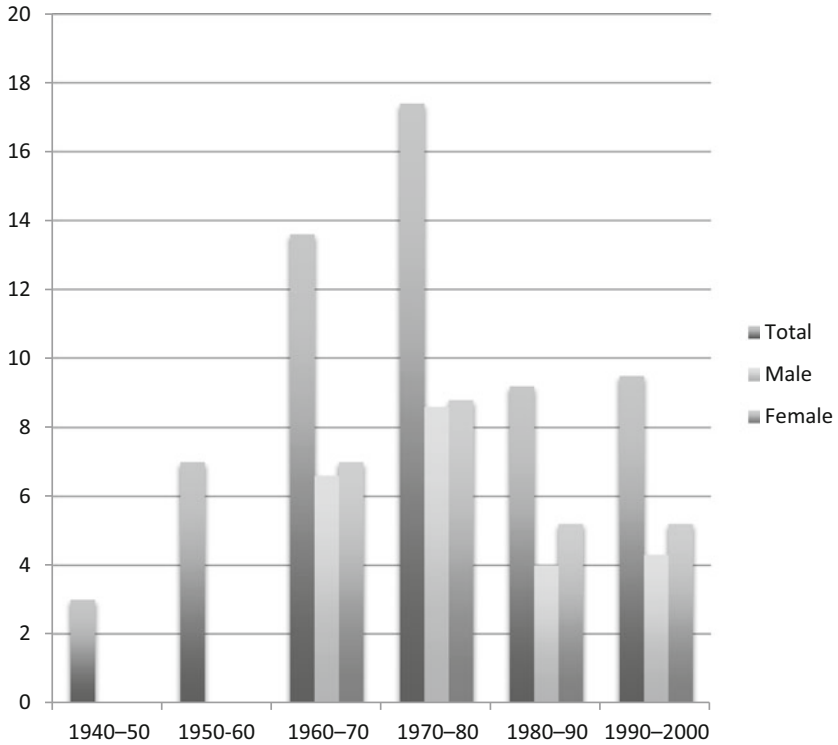


Fig. 2.2 Net rural–urban migration (millions). *Source:* Authors based on data from Martine and McGranahan (2010)

social, and economic changes that defined the decades following 1980. It should be emphasized here that Brazil is a highly diverse country with a stark contrast between the northeast, with its persistent poverty, and the southeast, with a rich ambience. This section presents a macro view rather than dwelling on regional differences, which are certainly important but are beyond the scope of this book.

Urbanization is skewed toward large cities. More than half of the Brazilian population lives in cities with a population greater than one million. In the three centuries prior to the nineteenth Brazil was largely a primary economy, based on wood, gold, diamonds, and rubber extrac-

tion, and the agricultural production of cattle, sugar, and coffee servicing extraction the needs of the colonizers' economies. Colonial masters controlled production, land, and labor. About ten cities served mainly as maritime gateways for export of these goods, with more than 20,000 inhabitants in 1872 (Martine and McGranahan 2010). A domestic marketplace for these goods, and hence cities, could not develop. Early nineteenth-century changes in Europe—modernization of economies, intensification of international commercial relations, and a movement toward the abolition of slavery—had a profound effect on Brazil too (ibid.). The economic cycles—which had depended on the extraction/production of raw materials, on *slavery*, and drew labor into the interior—had to change. The economic cycle depended on coffee and the locus of production shifted to the state of São Paulo, attracting more than four million *immigrant laborers* to Brazil between 1880 and 1930, of which 2.8 million located in São Paulo. This eventually determined the *urban geography* of Brazil (ibid.). The state adapted to the abolition of slavery, which attracted migrants. Further, the introduction of a *wage system* for labor provided a boost to migration from the hinterland to São Paulo and to the establishment of a domestic market. According to Martine and McGranahan (2010), “food production was commercialized, coffee processing mechanized, and railway transport and other urban infrastructure and services promoted”. The Brazilian state started assuming a more direct role in economic affairs around this time, helping to attract immigrants and subsidizing the construction of private railroads (ibid.). Rio de Janeiro became the center of political power and São Paulo became the economic center, together establishing the base for the dominance of the *Rio–São Paulo axis*.

Decoupling the Brazilian economy from primary goods happened in 1929 with the global economic crash that crippled the *coffee economy* and the riches it had generated. Given that the basic conditions were in place, this led to another wave of economic dynamism and urban concentration through industrialization. By 1950, 36 percent of Brazilians lived in cities, which was high compared to Asia or Africa where urbanization was still below 20 percent (Martine and McGranahan 2010).

2.2.1 Brazil's Urban Explosion: 1930–1960

Conditions during the first half of twentieth century accelerated demographic growth: the collapse of the coffee economy; the 1929 global economic crisis; the conservative approach of the military regime toward agriculture; a debt crisis triggering import substitution policies; the stimulus of wartime production during the World War II; and state intervention in key sectors such as transportation and communication. These all resulted in an intense process of urbanization that lasted more than half a century. Earlier migrants to São Paulo, who came as agricultural laborers, turned their endeavors to the industrial and service sectors after the collapse of the coffee economy.

The state took an active role in the economy by investing in the transportation infrastructure to connect the fragmented regional markets, and in improving social conditions in cities. This facilitated inter- and intra-region migration concentrating people in large cities. By 1940, of the 31 percent of Brazilians who lived in cities more than half lived in 50 urban centers in Brazil and one-third lived in the state of São Paulo (Martine and McGranahan 2010). Intense migration caused housing shortages and deteriorating basic amenities but also led to political mobilization. As discussed later in this chapter, an initial response to meet the housing demand generated by urbanization came from the private sector as rental housing. The government intervened in the market in various ways fearing exploitation by the private sector but this also caused shortages.

While World War II curtailed international migration, domestic migration from rural to urban areas continued during the 1930s and 1940s. This, coupled with higher rates of natural demographic growth, led to an upsurge in the urban population. As noted by Martine and McGranahan (2010), “between 1940 and 1950 an estimated 3 million migrants moved to towns and cities from rural areas, equivalent to 10 percent of rural population in 1940. The number of cities with at least 20,000 inhabitants rose from 51 to 80, while the urbanization rose to 36 percent in 1950.” Further, “high rates of natural increase caused a dramatic upsurge in Brazil’s total population, which grew from 33 million in 1930 to 70 million in 1960 ... generating a large pool of potential migrants to the cities.” (ibid.) The *land tenure system* in rural Brazil,

inherited from colonial times, was either skewed toward large land holdings or small subsistence land holdings, both conducive to out-migration.

Rising wages in cities, the stagnation of income opportunities in rural areas, differential lifestyles between urban and rural areas, coupled with an improved transportation infrastructure reinforced city living, which resulted in about seven million people (21 percent of the rural population) moving to cities and towns in the 1950s. Government policies reinforced migration to cities, such as the construction of a planned regional capital, Goiania, in 1937, and the channeling of migration flows to the center-west region in the 1940s (Martine and McGranahan 2010).

The intertwining of economic and political processes, such as: an import substitution policy and its electorate patronage; the creation of a national market (establishing a regional development agency, *SUDENE*, with a mandate to integrate the densely populated and impoverished northeast into the economy); the relocation of the capital city from Rio de Janeiro to Brasilia in the interior; favored rural–urban migration and concentrating the population in industrial areas (Martine and McGranahan 2010). The number of cities rose from 85 to 154 during the 1950s and 1960s.

2.2.2 Centrally Planned Urbanization: 1964–1985

The next two decades were marked by political and social transformations that began with the *military takeover* of 1964. Their development ideology was based on *central planning* and *technocracy*, which focused on “technical improvements to agriculture and industrial production while maintaining the previous highly stratified social structure through rigid control over social movements.” (Martine and McGranahan 2010) As development continued to spread across less-developed regions through progress in transport and communication, the motivation for migration grew. The new Brazilian government introduced *Green Revolution* technologies, promising to modernize agricultural production through productivity and providing subsidized credit to adopt these technologies (*ibid*). The problem, however, was that these policies favored large landowners since no redistribution of land was carried out, which further

alienated small farmers whose lands were bought, sometimes purely speculatively. Conditions such as these had negative social impacts leading to a massive *rural exodus*. At the beginning of the 1960s the rural to urban migrant population comprised 35 percent of the rural population which increased to 42 percent of the rural population in the 1970s. An important characteristic of Brazilian migration is that there is a higher number of female than male migrants (Fig. 2.1).

The urban pattern that emerged was highly skewed toward large cities. In 1940 the share of 500,000+ population cities in urban population was 54 percent, and by 1980 this share increased to 62 percent (Fig. 2.3). The share of other cities declined, not because they did not grow but because they moved into a higher population category. The number of 500,000+ cities grew from 3 in 1940 to 33 in 2000.

Unable to cope with the huge surge of urbanization, the government response was to control urbanization and population concentration. Measures such as roadblocks to urbanization, fiscal measures to integrate urbanization policies, efforts to steer migration towards undeveloped hinterland such as the Panama frontier, center-west and Amazon regions did not yield much. Urbanization continued unabated until 1980.

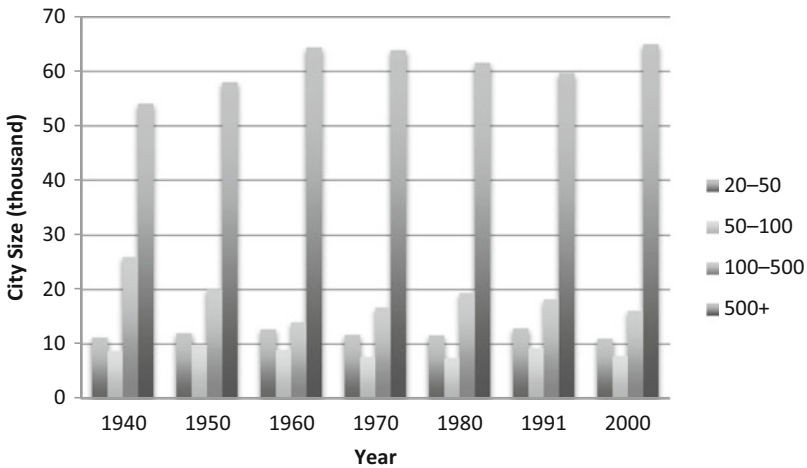


Fig. 2.3 Share of cities in urban population. Source: Authors based on data from Martine and McGranahan (2010)

2.2.3 Post-1980s Decline in Urban Concentration

The 1980s saw a surprise fall in rates of urban growth, as indicated in the 1991 census. Cities of all sizes grew at far lower rates than in previous decades. Though urban populations grew during the 1980s and 1990s due to natural population increase and the number of cities continued to grow, the growth was confined to urban peripheries of larger cities. The contribution of nine metropolitan cities to national population growth, which reached 41 percent during 1970–1980, declined to 30 percent in the subsequent decade (Fig. 2.4). The share of São Paulo in population growth declined from 17 percent in 1970–1980 to 10–11 percent in 1980–2000. Other large cities, Rio de Janeiro, Curitiba, and Recife witnessed a growth in their contribution to national population growth during 1991–2000.

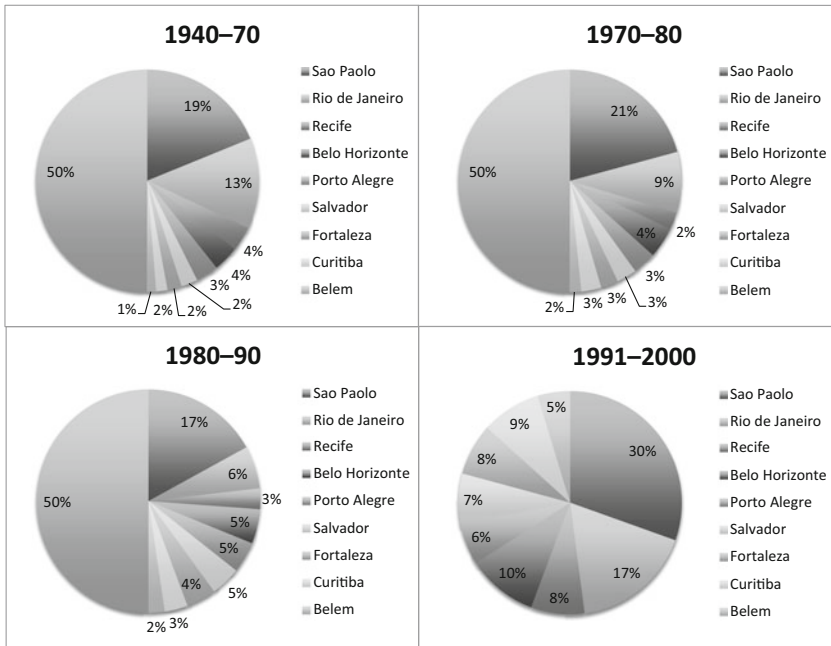


Fig. 2.4 Shifting contribution of metropolitan cities to national population growth. *Source:* Authors based on data from Martine and McGranahan (2010)

Martine and McGranahan (2010) attribute three factors to the *decline in urban growth*—declining fertility, the extreme economic crisis that began in late 1970s, and a de-concentration of economic activity from São Paulo to other locations.

The decline in fertility rate from 6.3 in the mid-1960s to below replacement levels of 1.8 in 2006, reduced the pool of potential migrants from rural to urban (Martine 2010). High economic growth between 1968 and 1974 could not be sustained after two worldwide oil crises during the 1970s which left Brazil with a huge international debt. The country plunged into a prolonged period of recession. The dire economic situation had significant negative social impacts in terms of rising unemployment, poverty, and inequality. Large cities were worst affected. The average growth in the 1990s was even slower than in the 1980s. This curtailed the flow of migrants to cities or even reversed it as, in the absence of employment opportunities, skilled industry workers in southeast Brazil moved to rural areas in the northeast to try their luck with farming. Emigration to other countries, which had not been a phenomenon, began to emerge.

The *de-concentration of São Paulo* began in the 1970s. Large cities in the state were becoming congested and economies of scale were turning into diseconomies. The military regime, for geopolitical reasons, offered subsidies to encourage the occupation and integration of the entire country by creating and protecting industrial zones in different regions (Martine and McGranahan 2010). New transport and communication infrastructure connecting various regions was put in place. Crippling infrastructure in São Paulo, the rising cost of land and labor, a deteriorating quality of life, the rising power of labor unions, and the imposition of environmental controls motivated industrialists to locate their subsidiaries or move their production completely to internal regions of Brazil. This reversed the trend of urban growth. Between 1940 and 1970 the urban population in the São Paulo metropolitan region grew by 5.6 percent annually, while Brazil's urban population was growing at 4.5 percent annually. From 1980 to 1990, the annual growth of the urban population in the São Paulo metropolitan region was 1.9 percent compared to 2.6 percent in Brazil.

Two important spatial consequences of the urbanization phenomenon in Brazil that had an impact on housing conditions have been: (i) a *spatial shift* of urban population growth to the peripheries of metropolitan cities

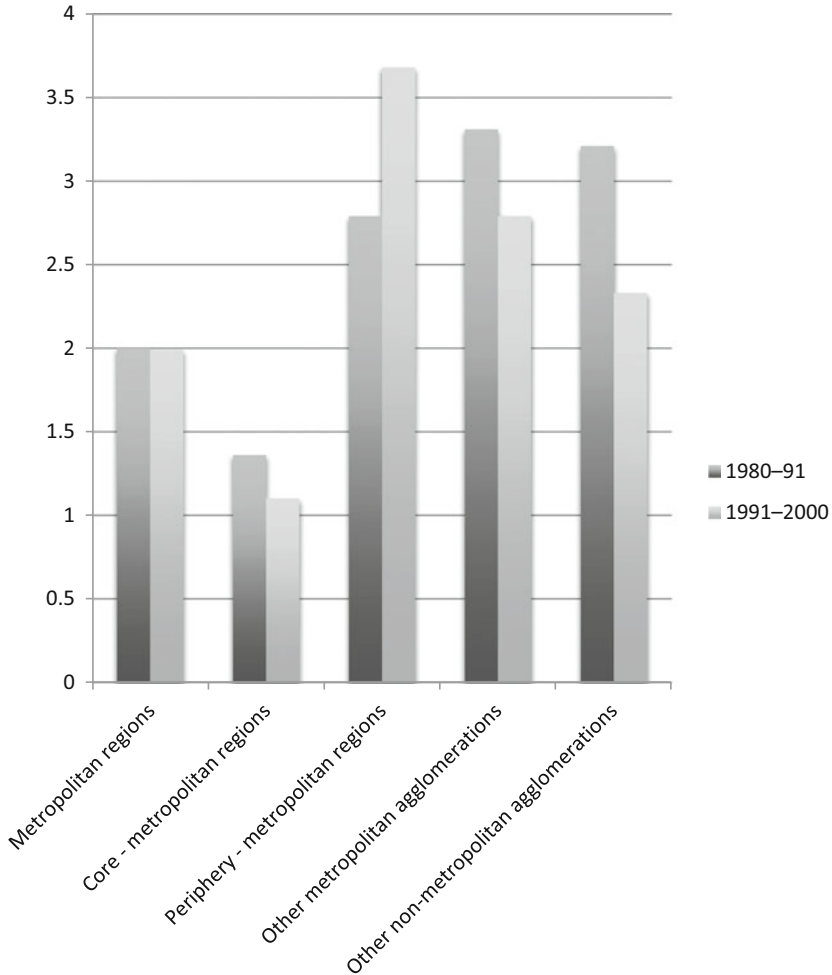


Fig. 2.5 Urban annual population growth by urban typologies. *Source:* Authors

and other metropolitan agglomerations; and (ii) a growing disparity in income between core and peripheral metropolitan regions.

Figure 2.5 presents the annual growth rate in urban populations for different urban typologies and Fig. 2.6 presents the average income of households in the core and periphery of metropolitan regions.

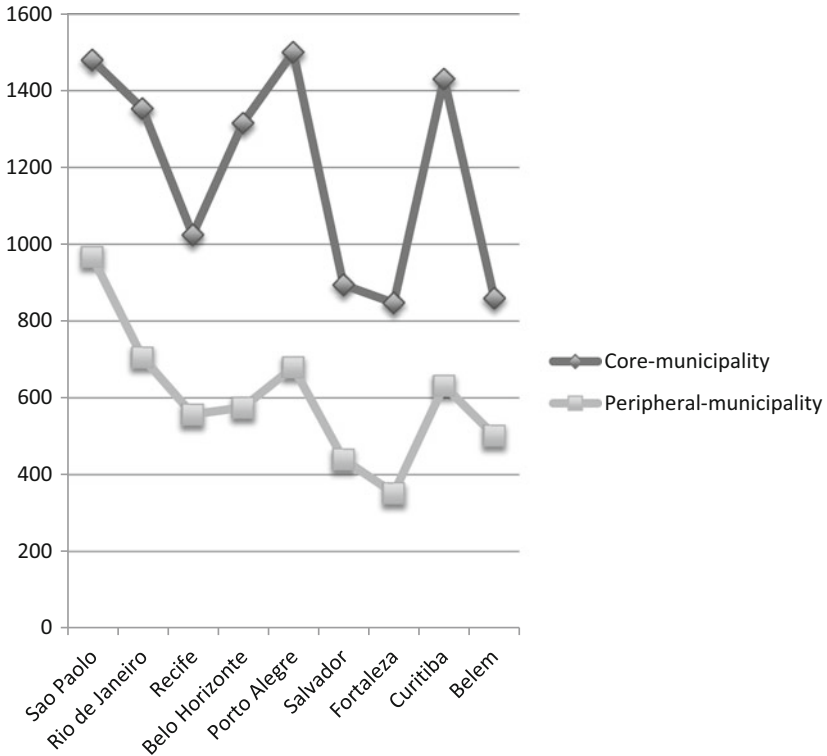


Fig. 2.6 Average head of household income, 2000 (Reais, R\$). *Source:* Authors

2.3 Housing Needs

According to the 2010 national census, of the 57.6 million households, 86.5 percent lived in detached homes and the rest in apartments. In 2010, 73 percent of households owned their homes, 18 percent lived in rental housing and the rest in shared accommodation. The shift to homeownership has been a response to government policies, as discussed earlier.

Housing affordability is a major challenge in Brazil. It is estimated that not more than 30 percent of households in urban areas can afford to

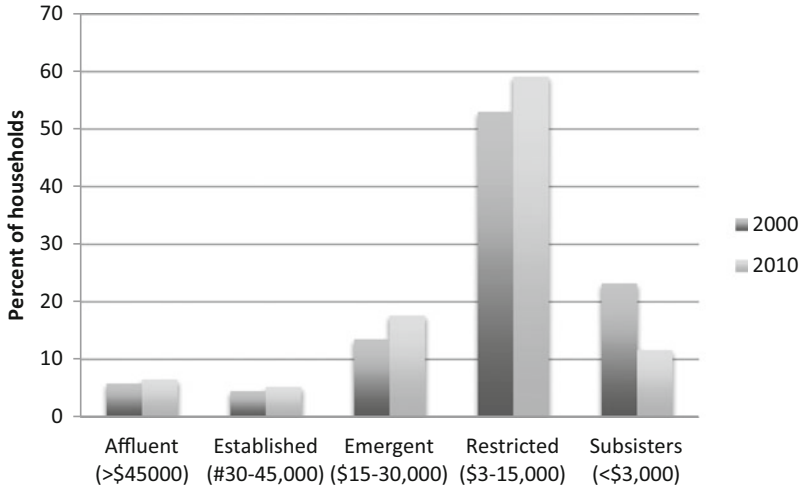


Fig. 2.7 Income pyramid in Brazil. *Source:* Authors based on data from Cunha et al. (2013)

access housing in formal markets. Cunha et al. (2013) estimate that there are 29.2 percent of households who earned more than US\$15,000 per year (Fig. 2.7). Though there was a growth in income compared to 2000, when about 24 percent of households were in this category, buying a house is still a distant dream for most households.

The shortage of housing is quite a problem in Brazilian cities, where, on the one hand, a large number of houses stand empty in the core of cities bought as a consequence of speculative real estate activities, while on the other, there are millions of households who lack housing (Cavenaghi and Alves 2008). Estimates of the *housing shortage* vary a lot due to a lack of data and differences in definitions. However, as discussed earlier, the shortage is between 7 million and 9 million, depending on the source. Figure 2.8 presents the housing deficit over the 2000–2008 period. The figure indicates that the shortage has remained fairly stubborn between 7 million and 8 million units during the 2000–2008 period.

Most of this shortage is concentrated among low-income households. According to the World Bank (2006), about 1 million new households

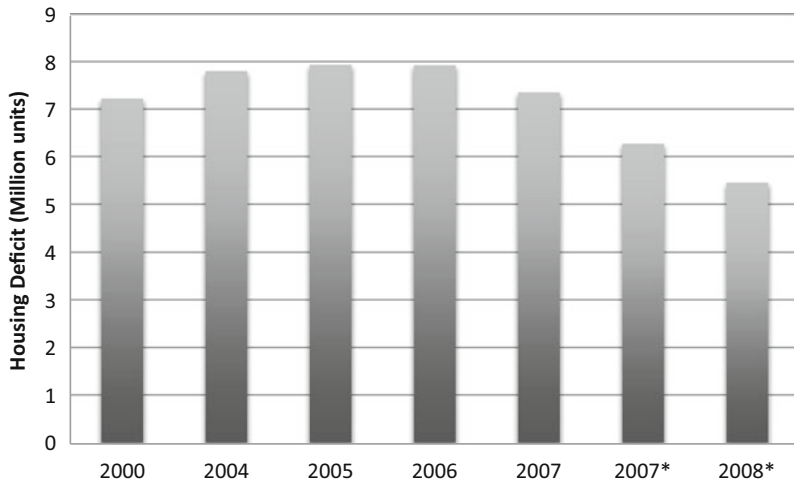


Fig. 2.8 Housing shortage 2000–2008. *Note:* * The estimates for 2007 and 2008 are based on new methodology that does not include households who are in cohabitation and have not declared their intention to establish new homes. The number of such households in 2007 was 1.08 million. *Source:* Authors based on data from UNHabitat (2013)

are formed each year in Brazil, and the formal housing sector builds 300,00 to 400,000 new housing units per year. The unmet requirement is fulfilled through *self-construction* and *informal housing markets*. The geographical locus of housing construction activity and the income group it targets do not match the locations where housing is required or the income groups in which shortages exist (Torres et al. 2008). All the construction activity by the private sector in São Paulo has been aimed at higher income groups. In the absence of formal mechanisms for accessing affordable housing, the poor have resorted to building makeshift dwellings wherever they can—on lands with unclear title, hillsides, riverbanks, and unsuitable locations—creating favelas (precarious settlements with no infrastructure or services, generally located near city centers) or slums.

Brazilian cities have three types of slum: *corticós*, *favelas*, and *loteamentos*. *Corticós* are tenement-style slums in collective buildings, found in degenerated parts of city centers. *Favelas* are informal housing that exist on unsuitable locations. *Favelas* proliferated after the 1970s in São

Paolo. *Loteamentos* are informal housing and are a major source of access to housing for poor urban dwellers. These are built on lots bought from alleged landowners who do not have formal title to the lands as these plots don't meet zoning regulations. According to a report from UN-Habitat, 26.9 percent of the urban population lived in slums in 2009. Though the population living in slum-like conditions has reduced since 2000, when 31.5 percent of population lived in slums, this is still a major concern facing cities and their administrators in Brazil. Rapid urbanization, the rich–poor dichotomy, urban planning practices that neglected or contributed to urban fragmentation and the socio-spatial exclusion of the poor, and an exclusionary pattern of land distribution have all contributed to the exclusion of the poor from housing markets and has led to the formation of slums.

The tenement price in slums is not cheap. Abramo (2003) discussed the relationship between a household's residential mobility and the operation of informal housing markets in the slums of Rio de Janeiro. The author argued that the price of houses in slums was high in comparison to the formal housing market as the informal housing market in slums is relatively inelastic. The problem is compounded since households living in slums are unable to access housing in the formal market due to their informal labor status, which excludes them from the *formal housing finance* market.

Biderman (2008) examined the impact of land regulations in municipalities in Brazil during 1991–2000 and concluded that the regulations that constrain land supply and increase the cost of land in formal markets contribute to increases in informal housing. Another study by Lall et al. (2006), examining the effects of land use and zoning regulations on housing supply and slum formation across Brazilian cities during 1980–2000, found that housing supply in the Brazilian formal housing market was inelastic, which limited formal housing supply adjustments in response to increases in demand and contributed to slum formation.

Brazil has at least seven million vacant housing units, almost the same as the housing shortage, of which 70 percent are in urban areas located in the southeast of country. São Paulo has about 1.33 million vacant units (UNHabitat 2013). These houses have remained outside the purview of housing policies as a solution to meet housing shortages.

The National Housing Plan projects that 35 million housing units would be required during between 2008 and 2023. This requirement includes the existing shortage of about seven million units. Additional demand will arise due to a natural growth in the population and also to replace the *favelas*.

2.4 Key Players in Brazil's Housing Sector

The federal government is responsible for the planning and implementation of public policies and also controls the main funds for housing (the *Brazilian Savings and Loan System, Workers Severance Fund, CAIXA*). It is also responsible for providing housing subsidies. *The Ministry of Cities* is responsible for elaborating guidelines, setting priorities, and defining strategies for implementing the *National Housing Policy*. The Ministry also manages, monitors, and evaluates policies and programs formulated with public agencies involved in urban development. The Ministry of Cities is supported by deliberative councils. These councils are important instruments for the democratic management of the *National Urban Development Policy* and play a consultative role. Various social stakeholders participate in the decision making on housing and urban issues through deliberative councils (UNHabitat 2013).

States and municipalities are subordinate to the federal government. Since the 1988 constitution, municipalities are responsible for implementing various urban programs, including housing. These programs are delivered either on their own by municipalities or by joining with another level of government. Municipalities are responsible for preparing and implementing master plans and housing plans.

Caixa Economica Federal (CAIXA) is the federal bank that has been the major provider of housing finance, besides its other activities. CAIXA accounts for 73 percent of housing credit in the country.

Other important organs of the institutional structure for housing in Brazil are the non-governmental (NGO) and community based organizations (CBO). These organizations have played a very important role in Brazil and have been responsible for the urban reform movement, which led to the enactment of *housing as a right* in the constitution. They also

opposed the market-oriented models of housing and urban development. NGOs and CBOs have also participated in housing provision for low income households with the help of governmental credit facilities and programs.

Historically, the private sector has provided housing for higher- and middle-income groups, particularly in cities. However, in recent years they have also begun to cater to lower income households by building affordable housing.

2.5 Housing Finance System

Mortgage penetration in Brazil is small (four percent of GDP in 2010), much smaller than in the other emerging markets studied in this book, except for Russia (India—mortgage penetration is 8 percent of GDP; China—12 percent of GDP; South Africa—30 percent of GDP). Though mortgage penetration has increased significantly from 1.3 percent in 2004, this is too low by any standards to make any meaningful impact on housing access. The lending market for housing is dominated by public sector institutions that account for about 73 percent of loans. The rest is provided by private sector institutions. Warnock and Warnock (2012) attribute the small size of the housing finance system to: the country's legal system, which provides little protection for borrowers or lenders (restricting the number of housing loans that can be made); a less informative *credit information system*, which disregards negative information; an onerous and time-consuming *property registration system*; the remnants of an unstable macroeconomic environment, which has made private sector financial institutions highly conservative in lending. Private sector lenders have not lent more than is required by law. Regulations require that private sector financial institutions set aside a small portion of savings to fund housing loans.

The housing finance system in Brazil that has existed since the 1960s, comprises the *National Social Housing System*—with a focus on low-income households—and the *National Market Housing System*—which targets higher income groups that can be served by the private sector. The resources for these two systems come from the *Workers Severance Fund*

(Fundo de Garantia do Tempo de Servico, *FGTS*) and the *Brazilian Savings and Loan System (SBPE)*. The FGTS is a compulsory contribution from employers as insurance for their employees who lose their jobs without just cause. The evolution of a housing finance system and the number of houses financed by the FGTS and the SBPE are presented in Fig. 2.9, which depicts the development in three phases—establishment, consolidation and stagnation. These phases coincide with the economic phases of the country. Key regulatory and institutional developments are also indicated.

A housing finance system was established in 1964 with the creation of the National Housing Bank. In 1966 funds for housing finance were allocated from the FGTS after a law was passed to index housing debt. ABECIP was launched in 1967 to channel mandatory SBPE funds for housing on a fair and equitable basis. Between 1964 and 1970 the housing finance system was being established. By 1970, a total of about one million housing units were financed through the housing finance system and savings and loan system. The period 1971–1980 was a high economic growth era in Brazil. The economy grew by 8.7 percent year on

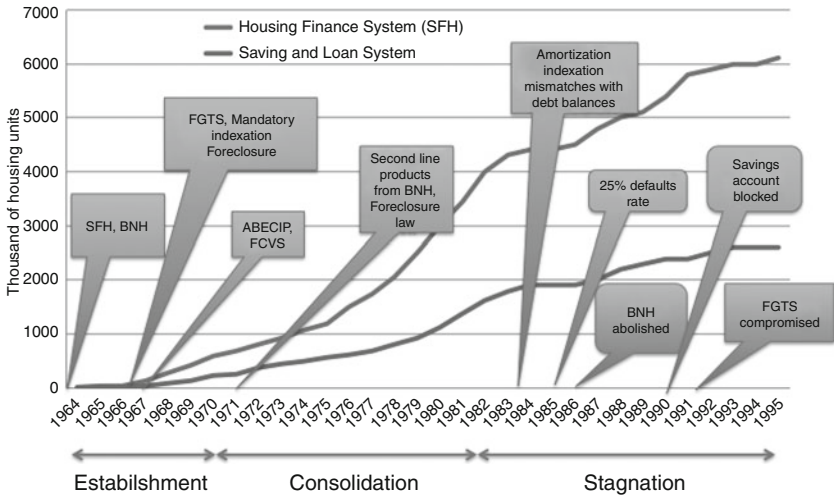


Fig. 2.9 Evolution of housing finance system in Brazil. Source: Authors based on ABECIP (2010)

year. During this period the number of houses financed increased substantially. The *National Housing Bank* financed two million units during 1979–1982. In 1971, as economic growth was lifting people out of low-income brackets, the National Housing Bank developed second line products to meet the requirements. The period saw the establishment of a *foreclosure law* to protect borrowers.

During the 1980s, with an economic slowdown, problems with the housing finance system began to emerge. In earlier years, to protect borrowers against mortgage payment increases higher than wage increases, the National Housing Bank instituted a *wage equalization plan* in 1967 (Martins et al. 2011). The plan ensured that adjustments in loan repayments could not be higher than wage increases. Due to the high and unpredictable inflation faced by Brazil has, a *system of indexing wages and debts* was introduced. However, there was a risk to borrowers that increases in payment due to indexed debt could be higher than increases in indexed wages due to different indices used for wages and debts and the timing of their adjustment, leaving borrowers exposed to macroeconomic fluctuations. The wage equalization plan protected borrowers, though it meant that there might be some unpaid principal at the end of the loan period. A *wage variation compensation fund* was set up to cover any remaining debt (ibid.). This fund was abolished in 1993 after a provisional measure, the *wage commitment plan*, was instituted to limit the debt balance adjustment to wage variations.

The system, though novel, did not contribute much to increasing the finance for housing. During the period of macroeconomic imbalance, which lasted for a large part of the twentieth century, the loan account of households was imbalanced due to the wage equalization plan. Though covered by the wage variance compensation fund, the imbalance accumulated on the financial institution's balance sheet as a non-performing housing loan to be paid by the government. The economy was in the doldrums. Defaults on housing loans rose as high as 24 percent in 1985. In 1990, a new law was passed to protect mortgagors against foreclosure in a period of high inflation and a housing market crisis. Though this excluded the housing finance system its indiscriminate application by the judiciary hindered the foreclosure of mortgages and discouraged new loans (Martins et al. 2011). Various economic stabilization plans

instituted during 1987–1990 did not yield many results. The Workers Severance Fund was compromised by 1991 commitments. Consequently growth slowed in the financing of housing units by the housing finance system.

A series of measures taken by the government under the new stabilization plan, *Plano Real*, finally managed to curb the inflationary trends faced by the Brazilian economy, which returned to the growth path during the 2000s. In 2009, 0.67 million houses were financed through FGTS and SBPE, compared to 0.27 million units in 2004. The challenge, however, is that the abolition of the National Housing Bank has taken away a dedicated source of finance for low-income housing, although even when National Housing Bank was lending, low-income housing had a share of only about one third.

2.6 Timeline of Housing Institutions, Policies and Programs in the Context of Political—Economic Transformation

Brazil is the sixth largest economy in the world in terms of GDP. After a prolonged period of economic turbulence, which arguably began in the 1980s, Brazil returned to high economic growth from the early 2000s. Government-led development, with a significant increase in public investment generally and investment in infrastructure programs in particular, has generated a direct demand for labor (UNHabitat 2013). The unemployment rate has been slashed by half, to about six percent in 2011, compared to 2003 levels and certain sectors like construction have contributed to the creation of formal jobs (*ibid.*). The formal sector employment in Brazil grew substantially during the 2002–2011 period (Fig. 2.10).

The informal economy has decreased from 21 percent of GDP in 2003 to 18 percent of GDP in 2009. During the period 2000–2010 per capita income rose by 45 percent. The spectacular and stable growth in the economy led to a large income mobility of households in Brazil. Since 2003, 23 million households have been lifted out of the lowest income class with per capita income lower than half the national minimum wage

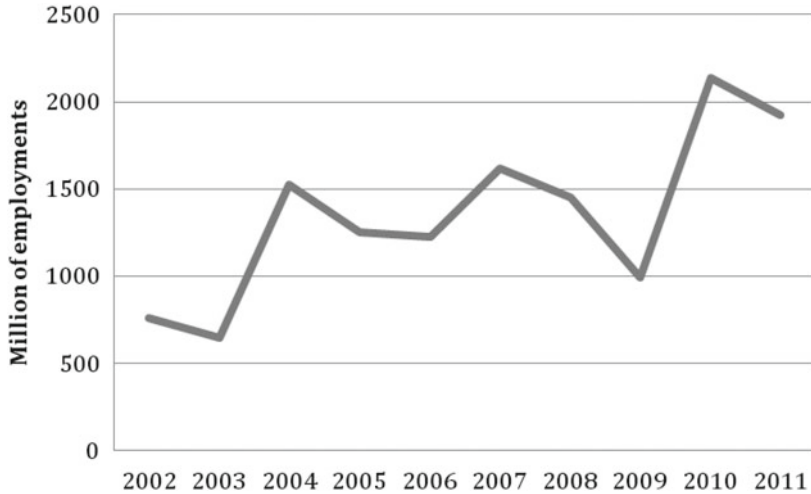


Fig. 2.10 Creation of formal jobs. *Source:* Authors based on data from UNHabitat (2013)

and 50 million households joining the middle class. The period also saw a reduction in inequality, a problem that Brazil battled for decades (UNHabitat 2013).

Despite the economic progress of Brazil since 2000, 26.9 percent of the population lives in informal housing in cities. A number of institutions, policies, and programs have been enacted to address this housing problem, which we review in this section to contextualize the housing shortage challenge that Brazil faces today.

2.6.1 Emergence of Private Rental Housing: 1900–1930

Pre-1930, before the global economic crisis, the Brazilian economy was characterized by agriculture and natural resources. As discussed earlier the economy was based on a series of agricultural cycles that served the raw material requirements of Portuguese colonizers. The last major agricultural cycle was the coffee economy, which shifted the axis of economy to São Paulo and gave birth to the city's economy and a wave of migration,

many migrants in low-income households who would engage in the coffee economy. These new city dwellers required housing and the private sector offered different types of rental houses. These houses, called *corticós*, were tenements in poor quality buildings and lacked sanitary standards—as described earlier. The institutional importance of *corticós* was that these were the first type of housing that Brazilian cities offered residents and rental was the first type of tenure established in urban areas. However, the global recession that followed left the economy in a poor state as world prices for coffee plummeted and the export market collapsed. This, however, ushered in a period characterized by a shift in economic priorities.

2.6.2 Homeownership and Rent Control: 1940–1964

The 1930 political revolution had abolished the old republic and ushered in a new state dictatorship. After a transitional period in which centralizing elements struggled with the old oligarchies for control, a coup in 1937 established the New State (Estado Novo) dictatorship (1937–1945) (Hudson 1998). This was the first time that national government engaged in economic planning.

The period that followed changed the development paradigm from an export-oriented agriculture model of growth to industrial development. A consequence of the policy shift was heightened rural–urban migration, as discussed earlier, the result of which was a housing crisis in the cities. This forced the government to intervene in the housing sector. Initially government tried to regulate the rental housing market by introducing stringent standards for construction, hygiene, and a legal apparatus for tenant security (UNHabitat 2013). In 1942, however, the rent control act, the *Inquilinato Law*, was enacted and froze rents. Margins that private investors had in the rental market reduced, which discouraged the development of rental housing. The political intention in controlling the rental market was to incentivize affordable housing that was more favorable for industrial development (ibid.). By the mid-1940s, rental stock accounted for 75 percent of housing in Brazil, a trend that was reversed in later decades.

Government responded to changes in the private rental market by setting up the first national agency, *Fundacao da Casa Popular* (FCP), in 1946 to stimulate the provision of new housing and to finance infrastructure and building materials. However, due to a lack of resources, the contribution of FCP to financing new housing construction was limited.

The World War impacted negatively on the development efforts. Though the economy engaged in war related production, generally, industrial activities suffered due to the war and also due to deteriorating infrastructure and transportation. Economic growth during the 1940s stagnated to four percent year on year. The country, however, was experiencing profound economic, political, social, and cultural changes as the development path witnessed a sudden shift from the traditional reliance on agriculture (*ibid.*). Export substitution policies for industrialization and economic self-reliance as a political ideology resonated with voters. The military regime was overthrown in 1945 to give way for democratic government.

Exports during the world war had generated foreign-exchange reserves, which facilitated an easing of trade restrictions. However, the trade liberalization was short-lived as the currency was overvalued due to the fixed foreign-exchange rate that was established in 1945. The fixed-rate regime continued until 1953. High inflation and a strong domestic demand, led to sharp increases in imports. The performance of exports was sluggish, which developed into a balance of payments crisis.

Pessimism about the future of Brazil's exports and a fear that the crisis would have a negative impact on inflation made the government impose exchange controls. The new democratic period of 1945–1951 was economically and socially turbulent, which brought the former dictator back to power in 1951, though as a democratically elected government. A system of *import licensing* which prioritized imports of essential goods and inputs (fuels and machinery) and discouraged imports of consumer goods was instituted. These policies unintentionally providing protection to the domestic consumer goods industry, which became inefficient. The economy continued on a downward spiral in terms of growth, renewing debate on the country's social, political, and economic path. Migration to cities continued but both the rental housing market (due to rent con-

trol) and the ownership housing market (due to a lack of resources for housing for low income households and a lack of incentives for the private sector to address housing needs for middle and lower income households) failed to meet the housing needs. *Favelas* continued to emerge in cities like Rio de Janeiro.

During the second half of the 1950s a new government took charge under the leadership of *Juscelino Kubitscheck de Oliveira* (JK). Under JK's leadership the development focus shifted to economic growth centered on industrial promotion, albeit at the cost of socially inclusive and publicly debated policies. Key economic policies of the previous regime, import substitution of consumer goods, continued. The implication of these policies was that during the 1950s the Brazilian economy expanded at an annualized rate of 7.5 percent and the annualized industrial growth was 11 percent. While the policies were achieving economic growth, society witnessed increased ideological polarization and a growing discontent with democratic institutions. The strategy, however, left a distorted legacy. Resulting growth led to significant growth in imports. The foreign exchange policies, however, did not facilitate growth to the same extent as imports. Moreover, a large influx of foreign capital in the 1950s resulted in huge foreign debt.

2.6.3 1964–1980

In 1964 this paved the way for a *military coup* and the beginning of “twenty one years of authoritarian rule and encroaching exclusionary economic policies.” (Ioris 2014) The Brazilian economy slowed down its between 1962 and 1967. The average rate of growth of GDP declined to 4.0 percent and so did industrial growth which declined to 3.9 percent. The economic slowdown resulted partly from distortions caused to the economy since the 1940s. The political troubles negatively affected expectations and prevented the formation of a coalition to back the introduction of stringent measures to control inflation and the balance of payments crisis. This hindered the removal of obstacles to growth. After the 1964 coup the military regime dealt firmly with opposition to a military agenda of change. The ideology of the military government was to transform

Brazil into a modern capitalist economy and a military power. A series of reforms were implemented aimed at reducing inflation, removing some of the distortions caused by import substitution industrialization, and modernizing capital markets. Incentives to direct investment, domestic and foreign, were introduced. The foreign-exchange system was reformed to tackle the balance of payment situation. A mechanism for *periodic devaluations of the currency* was introduced. Measures were also taken to attract foreign capital and promote exports. The government enhanced public investment in country's infrastructure and to develop state-owned basic industries.

The consequence of these reforms, coupled with improved conditions in the world economy, led to spectacular growth and GDP rose by an average 11 percent year on year during 1968–1973, led by industry that grew by 13 percent year on year. This was the period of external trade expansion and populist policies.

Lack of decent housing was becoming a major challenge in cities. In 1964, the Government created the national housing system (Sistema Financeiro de Habitacao), which put housing on the government's political agenda for the first time. Urban living was politicized as an ideal for well-being and owning a house was social compensation for Brazilians. The foundations for a *dream of homeownership* were laid and households in all income groups aspired to become homeowners. *The rent control law* of 1942, which discouraged the development of rental housing, indirectly promoted homeownership. The *National Housing Bank* (*Banco Nacional de Habitacao*) managed the national housing system with funds from the FGTS, the workers severance fund, and from the SBPE, the Brazilian savings and loan system (UNHabitat 2013). The National Housing Bank financed four to five million housing units during 1964–1986 (Bolaffi 1992). However, only 33.5 percent of housing units financed by the bank were for low-income households (i.e. households earning wages up to three times national minimum wage) (UNHabitat 2013).

The oil shock of 1973 crippled the world economy and Brazil also suffered from deterioration in its terms of trade. As discussed earlier, exports suffered due to an overvalued currency. Brazil continued to pursue a high-growth policy. Furthermore, it adopted import substitution indus-

trialization and of economic diversification policies for growth. This strategy raised Brazil's import requirements substantially, worsening its current-account deficit further. The current account was financed through foreign debt. Thus, despite the world recession, Brazil maintained a high growth rate. Between 1974 and 1980, the average annual rate of growth of real GDP reached 6.9 percent and that of industry was 7.2 percent.

A large current-account deficit and foreign debt strained public resources. Resources allocated to public housing programs were scarce. Rising land prices in cities, pushed more and more people into informal housing.

2.6.4 1980–2000

The National Housing Bank was dissolved in 1986, which marked an end to the continuity of housing policies. The Bank was merged with the government's savings bank, *Caixa Economica Federal* (CAIXA). As a commercial bank CAIXA was driven by objectives such as a return on capital investment and the goal of financial stability, which were counter productive for the development of social housing.

In Brazil, the second oil shock of 1979 further worsened the terms of trade, rising interest rates deteriorated the balance of payments and increased foreign debt. Government continued to borrow, mainly to service the debt, and tried ineffectively to maintain high growth. Foreign debt became an acute problem. The policies to address these problems (reduction in imports and increase in exports) came at the cost of growth. In 1981 GDP growth reduced to 4.4 percent. The 1980s was a decade of stagflation, low economic growth, which led to intervention by the International Monetary Fund. The decade is also called the lost decade in Brazilian economic history. By the end of the 1980s the economy had to deal with bankruptcies, which then led to a comprehensive stabilization plan.

Three heterodox economic shocks to curb inflation were instituted. These were the *Cruzado Plan* (1986), the *Bresser Plan* (1987), and the

Summer Plan (1989). The Cruzado Plan put in place a general price control, a wage readjustment and control, readjustment and control on rents and mortgage payments, a ban on indexation, and a control on the exchange rate. The immediate effect of this plan was that inflation became almost zero and economic growth surged upwards. However the wage adjustments were too large and this raised aggregate demand and created inflationary pressures. The other plans also had similar fates as, despite their differences, they all attempted to freeze prices to combat inflation without specifically instituting a thorough reform of the public sector.

The strengthened autonomy of local governments took place in 1988 as a response to the centralized exercise of urban policies during the military regime from 1964 to 1985. This virtually locked the public sector in a disequilibrium. The decentralized constitutional arrangement transferred large portions of tax revenues from the federal government to state and municipal governments, without requiring them to provide additional public services. With less revenue and more responsibility, the federal budget experienced growing deficits. In addition, several subsidies were obligated by the legislation. The first post-military rule government elected with popular suffrage was led by President *Fernando Collor de Mello* in 1990, whose government was faced with problems of hyperinflation and inherited a bankrupt public sector. The new government introduced a stabilization plan. In addition reforms aimed at removing restrictions on free enterprise, increasing competition, privatizing public enterprises, and boosting productivity were introduced. However, an unstable political environment did not help in gaining support for the plan. Liquidity freeze and the disenchantment in industry, who were not consulted during the formulation of the program, led to an erosion of confidence in government. GDP continued to decline. The real GDP declined by 4 percent in 1990, grew by 1.1 percent in 1991 before declining again by 0.9 percent in 1992.

In 1992, after the impeachment of Collor de Mello on corruption charges, Vice President *Itamar Franco* was sworn in as President. He appointed Fernando Henrique Cardoso to be in charge of a new stabilization plan (the Plano Real). The new plan had three stages: the introduction of a balanced budget; a process of indexation (prices, wages, taxes, contracts, and financial assets); and the introduction of a new currency,

the *real*, pegged to the dollar. The Plano Real has been successful in reigning in inflation after several failed attempts.

Attempts to introduce balanced budgets and public sector reforms meant that in the mid-1990s the responsibilities for social housing programs were transferred to the *Ministry of Social Welfare*. There was also a move toward decentralization and a transfer of responsibilities from national to local governments (Valenca 1999). Recognizing the limits of public sector resources in addressing informal housing by replacing it with formal housing, alternative-housing programs began, such as the regularization of informal settlements.

The constitutional right to housing promulgated in 1988 in the federal constitution and a requirement on the part of municipalities to deliver on those rights, has led some local governments to design and implement laws for the regularization of informal settlements. *FUNACOM-FUNAPS* (Fundo de Atendimento a Populacao Moradora em Assentamento Subnormal) in São Paulo (1989–1992) is one such program of housing provision that combined cooperative principles and organized social movements for housing (Denaldi 1994).

2.6.5 The Twenty-First Century

The twenty-first century began with a stable Brazilian economy and a new President, *Luis Inacio Lula da Silva* (*Lula*) who was elected to power in 2002 and reelected in 2006. The economy began to grow more rapidly. During 2004–2008, the economy made an average annual growth of 4.8 percent and then in 2010 at a higher rate of 7.5 percent.

The Lula government brought the agenda of housing for poor into focus. In 2003 the *Ministry of Cities* was formed to deliver on the *City Statute*, described later. In 2005 a bill to set up a *social housing national fund* and system was approved by popular demand from an urban reform movement. The objective of the fund and system was to provide housing to those who could not afford it without subsidy. In 2007 an acceleration growth program was launched, which included huge investments, some using money from the Workers Severance Fund, to be allocated to heavy infrastructure (road, rail, ports, airport, and river transport), energy

infrastructure, and social and urban infrastructure (water, sanitation, urban energy, housing, and a metro system). At the beginning of 2009 a new program, *Minha Casa, Minha Vida* (My House, My Life), was launched. As discussed later, this program was meant to deliver housing projects for various income groups with private sector participation.

2.7 The Right to Housing

Brazil has supported many international conventions that have enshrined a right to housing. To begin with Brazil voted in favor of the *Universal Declaration of Human Rights*, which expressly states that every person has the right to adequate standards of living, including housing (UChicago International Human Rights Clinic and Nazdeek 2014). Furthermore, the Brazilian government has signed and ratified every one of the core human rights treaties that recognize the *right to housing* (ibid.).

In Brazil, a civil society mobilization for urban reforms started in 1970s, which has consistently promoted changes in legal and institutional frameworks toward a new urban order (UNHabitat 2013). Most prominent of these was the 1988 revision of the federal constitution, which led to the establishment of a forum for urban reform. The forum had key role in drafting a proposed charter on *Rights to the City* in an effort to spread the notion that every citizen has the *right to an adequate standard of living* (UChicago International Human Rights Clinic and Nazdeek 2014).

In terms of constitutional rights, the federal constitution of Brazil, promulgated in 1988, recognizes the right to housing as a fundamental right in article 6. Article 5 of the constitution states that the infringement of rights and liberties is punishable by law, making housing rights justiciable (UChicago International Human Rights Clinic and Nazdeek 2014). Furthermore, articles 1 and 3 are “concerned with the eradication of poverty and substandard living conditions.” This instrument requires all municipalities to create a “master plan” to serve as the “basic legal instrument for urban development and property ownership.”(ibid.) Introduction of articles 182 and 183 on the social functions of private property and of the city focused on land development and urban man-

agement. The legal-institutional regime that followed ensured that housing issues became an integral part of urban policy. The constitution endorsed the autonomy of municipal governments resulting in a federation structure that is the most decentralized in the world (Fernandes 2007).

The regulation of articles 182 and 183 of the constitution led to the enactment of the *City Statute in 2001*, a landmark achievement in Brazil related to the housing and urban sectors. The statute paved the way for a new legal and political paradigm for urban land use and development control. In 2003 the Ministry of Cities was created, which filled an institutional vacuum in urban policy that had been there since the end of the military regime. The Ministry is responsible for the construction and acquisition of new housing units and slum upgrading.

The City Statute provides guidelines for infrastructure development in areas occupied by low-income populations, the regularization of land titles, neighborhood impact and the creation of *zones of special interest*. The four guiding principles of the City Statute are: the use and social function of private property; tenure regularization of property used for social purposes; urban development and redevelopment of the benefits arising from the urbanization process and democratization of urban management; and the right to housing (UNHabitat 2013). The property rights are subject to its social function, defined in the master plan. Since the City Statute is legally binding on municipalities, many of the former informal tenure types have been formalized (UChicago International Human Rights Clinic and Nazdeek 2014).

There is evidence, in terms of court decisions, that point to land regularization. For example, in 2000 the Court of Rio Grande do Sul unanimously accepted a petitioner's claim to urban adverse possession and in 2003 the same court permitted the property regularization of an irregular settlement, holding that the conditions of the settlement were quite permanent as "the inhabitants had established a sewage network, a water system, streets, electricity and some properties had been paying taxes to the municipality." (UChicago International Human Rights Clinic and Nazdeek 2014). UChicago International Human Rights Clinic and Nazdeek quote another case where the court recognized the importance for municipalities to abide by the international treaties that Brazil had

signed and provide the right to housing. *The National Institute for Colonization and Agrarian Reform* (INCRA) has the power to expropriate land that it deems is not fulfilling its social function and there is data to suggest that courts typically have upheld the state's expropriation except in cases where land is held by an indigenous group (ibid.).

A number of policies and initiatives have emerged from the City Statute. *The Zone of Special Social Interest* (ZEIS) originated from article 4 and permits municipalities to designate areas of land where different regulations govern the use and occupation of land and property. Once an area is designated as ZEIS, it permits people to obtain legal titles by buying, adverse possession, donation, leases, and concessions from government. Since the constitution and the City Statute allows people to bring popular initiatives on urban matters to government, residents of slums can bring initiatives to declare their community as ZEIS. A number of slums have been regularized using ZEIS. In Bela Horizonte, as UChicago International Human Rights Clinic and Nazdeek reports, the Jardim Filadelfia slum was designated as ZEIS by the municipality, which helped in the legalization of land titles for over 750 families. As of 2004, over 11,835 families living in informal settlements had received legal titles to their land (ibid.). Recife, Rio de Janeiro, and São Paulo are other cities that have adopted ZEIS.

The constitution and the City Statute confirm another important right, urban adverse possession. If an individual possesses land adversely (i.e. possesses an area of up to 250 square meters, for five years, without interruption or opposition, and does not own any other urban or rural property), she can bring urban adverse possession to the court. Individuals have successfully brought suits to protect their adversely possessed plot of land. Urban adverse possession can also be brought by communities and individuals can gain title to the land as a group.

Two other innovations present in Brazilian cities are the formation of *citizen housing councils* and the *movement of homeless workers*. Through housing councils members of public have a direct role in the urban development process. These councils debate budgetary proposals and housing policies and present proposals to municipalities on how municipal funds should be allocated. The movement of homeless workers is an important initiative for housing reform across Brazil, which requires the identification

of abandoned rural land or urban plots and a mobilization of a mass of homeless individuals to occupy the site. There are many such occupied sites across Brazil, often supporting hundreds of families (UChicago International Human Rights Clinic and Nazdeek 2014).

In 2009, following the global financial crisis, the Brazilian government launched a large social housing program targeted toward low and middle income families called *Minha Casa, Minha Vida* (My House, My Life) in which federal government committed to building one million houses. The program provides direct subsidies for developers and subsidized mortgage interest rates for households. The interest rates are tied to household income. The largest bank, CAIXA, committed to providing loans at attractive interest rates to buyers and builders. The program counts on the offer of huge investments and subsidies. The investments are allocated proportionately to states, according to official housing shortage figures, so that the benefit goes to 40 percent of those earning up to three times the national minimum wage, 40 percent of those earning three to six times the national minimum wage, and 20 percent of those earning six to ten times the national minimum wage. However, the irony is that 82.5 percent of the country's housing shortage is among households earning up to three times the national minimum wage (Valenca and Bonates 2009).

The program, however, is facing a challenge. An evaluation of the *Minha Casa, Minha Vida* program by UNHabitat (2013) indicates that "very few cities have been able to employ the mechanisms to control land speculation and improve the mechanisms to secure serviced and well located land for social housing." Further, UNHabitat (2013) states that "this is partly due to a lack of technical capacity but, more significantly, such challenges remain at the political level, as the legal and institutional reforms have not been in step with the renewal and reinforcement of social mobilization." There are other problems with the structure of the program, such as, it emphasizes new construction for homeownership as the main response to housing shortage. Moreover, it is based on flat subsidies that ensure households are able to afford these houses but location and transportation costs are not taken into consideration in the design of the program. Valenca and Bonates (2009) have criticized the operational structure of the program as they point out that rather than addressing the

housing shortage it was formulated to promote economic growth. Hence the program is outside the purview of the social housing national system and fund and its mechanisms for social control and participation (ibid.). The program is to be delivered largely through private sector participation, a measure that was justified as avoiding delays due to endless procedures adopted by government institutions. The utilization of a market mechanism to deliver the program, though laudable, is yet to yield results.

2.8 Brazil's Housing Pyramid

Brazil's housing pyramid as it is in 2016 is shown in Fig. 2.11.

What is important here is that there is a large amount of informal housing in urban areas, where most Brazilians live. The bottom four layers of pyramid are now well established through a range of institutional structures backed by the right to housing and the City Statute. The Ministry of Cities at federal level and empowered and autonomous municipalities at local level are responsible for delivering these rights. There are a range of providers and facilitators serving various segments

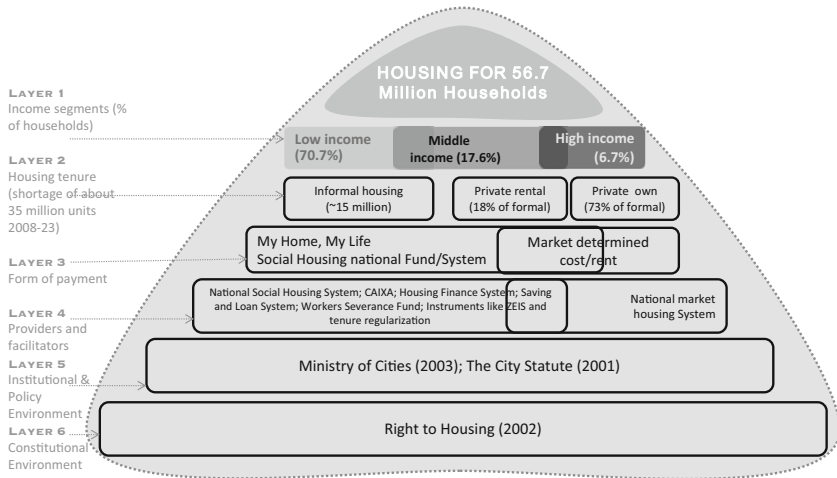


Fig. 2.11 Brazil's housing pyramid. Source: Authors

related to land and finance for housing and subsidized programs, such as *Minha Casa, Minha Vida*. Historically, market based institutions for housing finance have not delivered due to various regulatory constraints, such as archaic foreclosure laws. Market rental housing markets have not functioned due to rent control acts. These have caused distortions in the housing market and the formation of informal housing.

2.9 Conclusion

Brazil has an existing shortage of seven million housing units and a large proportion of households live in informal housing, adding further to this shortage. Historically, the economy has faced a high rate of urbanization and macroeconomic upheavals hindered focused attempts to address housing problems. Though there were a range of institutions, programs, and policies set up as early as the 1960s, they struggled to deliver due to a lack of resources and technical and legal capacity. Profound changes in the country's institutional arrangements happened during the 2000s, after economic stability returned. Brazil built on its institutions, in some cases renewing their focus and in others dismantling them as they did not serve their purpose.

What is important in the case of Brazil is that the country's institutional capacity in housing provision, a development of housing programs, and supporting legislation at state and municipal levels have improved over time. Ample progress has been made, starting with the new constitution in 1988, then with an amendment that made housing a constitutional right in 2000, the City Statute of 2001 (a federal law that regulates the constitution on urban issues including housing), the new Ministry of Cities set up in 2003, the new master plans for 1,500 municipalities (as required by The City Statute), the setting up of the social housing national system and fund in 2006.

This chapter concludes by sharing the optimism of Valenca and Bonates (2009) that in Brazil "new programs allocating subsidies for the poor have been set up. Legal, technical and institutional capabilities have been promoted and improved so that popular participation now plays a greater role in the proper allocation of funds for the poor. All these

measures ensure that the social housing policy may now more strongly contribute toward enhancing living conditions in the country, acting as a redistributive channel by diminishing economic and social inequalities in the country.”

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3

Housing in Russia

3.1 State of Housing in Russia

The challenge faced by the housing market in Russia is not one of quantity but of quality. The population of Russia in 2013 was 143.7 million. During the *Union of Soviet Socialist Republics (USSR)* era, the state provided one apartment of 60 square meters per household (Michigami 2011) and households were guaranteed the *right to occupation, and rents and utility charges* were set low. In the post-USSR era, as discussed later, private ownership of housing began, the state retracted from housing development, which was left to the markets to provide. Supply lagged behind demand, causing a shortage of, and long waits for, housing and overcrowding as people were forced to live temporarily with other households (ibid.). However, the population plateaued after peaking in 1992 and the demographic structure is undergoing a transition. The fertility rate has declined and the population is aging, with nine percent population above 60 years old (Fig. 3.1).

Seventy-three percent of Russians live in cities. Urbanization and an associated large urban population has been attributed to industrialization policies (McGranahan and Martine 2012). The direction of migratory

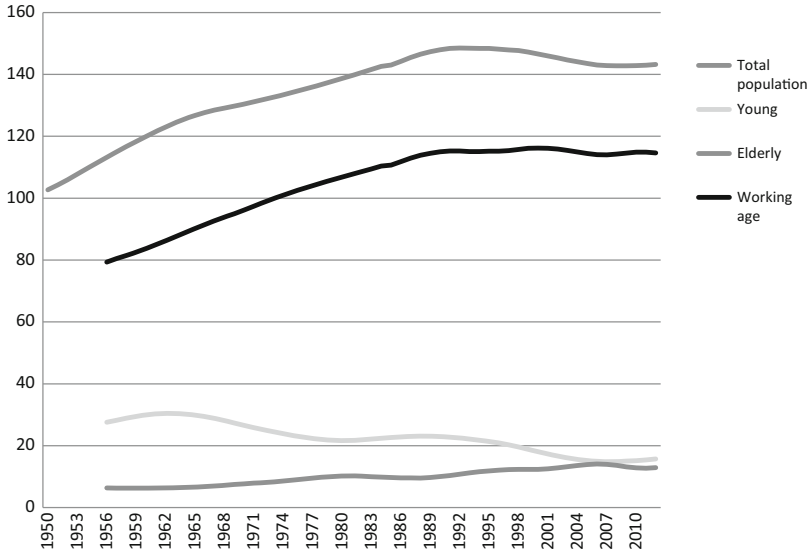


Fig. 3.1 Population and demographic trends in Russia (million). *Source:* OECD (2015)

flows were determined more by the planning objectives of the former USSR's command economy, rather than by the labor markets or economic factors (ibid.). A consequence being that, due to rapid urbanization, housing and essential services became a major challenge for Russian cities. In fact, an *internal passport system* was implemented to control the flow of migration.

Housing stock in Russia increased from 2.4 billion square meters in 1990 to 2.8 billion square meters in 2002 (UNECE 2004) and 3.36 billion square meters in 2014 (Rosstat 2015). This implies that the average dwelling space per person has increased from 16.4 square meters in 1990 to 23 square meters in 2014 (Rosstat 2015). As is discussed later, although the state provided housing during the pre-reform period, post-reform it promoted private ownership and the development of a housing market.

The economic structure of Russia is dependent on natural resources, particularly oil and gas. Following a long spell of low or negative growth

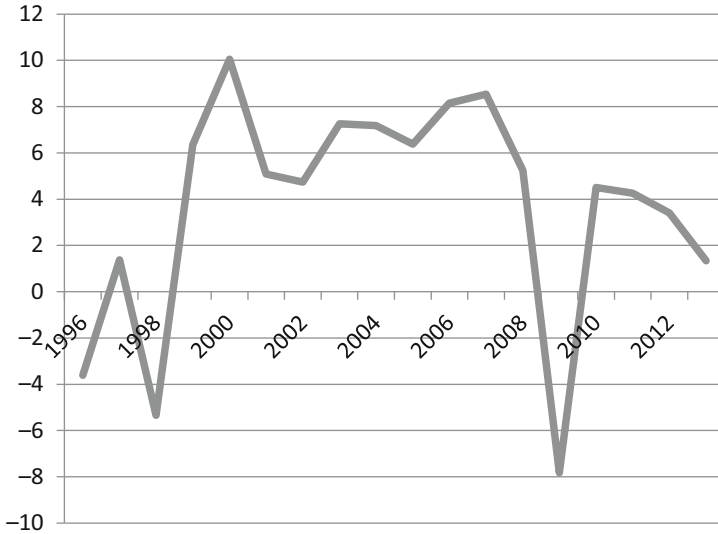


Fig. 3.2 Real GDP growth in Russia (percent). *Source:* OECD

after the disintegration of the USSR between 2000 and 2008, the Russian economy witnessed high growth (Fig. 3.2). This period also witnessed high capital inflows, tax reforms, the setting up of a stabilization fund to absorb windfall gains from high oil prices, and prudent monetary and fiscal policies (Sprenger and Urosevic 2011). Post-2008 the economy slowed down due to the global financial crisis (GFC), which reduced capital inflows to the country and created a fall in oil prices. Politico-economic developments over the last few years have further weakened the economy. The 2014 terms of trade shock, a tense geopolitical situation and ongoing international sanctions on Russia have put further pressure on the economy (World Bank 2015). Private investment is declining rapidly as capital costs have risen and consumer demand has slowed. The drop in consumer demand was driven by a sharp contraction in real wages, which fell by an average of 8.5 percent in the first six months of 2015, illustrating the severity of the recession (ibid.). This forms the current economic climate within which housing markets in Russia are operating currently.

During the 2000s the house prices in Russia have increased substantially, which made Russian housing market as one of the most unaffordable in the world (Sprenger and Urosevic 2011). House prices in primary markets almost doubled during 2001–2009. Although house price growth has slowed since 2007 due to a slowing down of the economy, they are still beyond the affordability levels of most Russians and secondary markets for housing have developed. The rise in house prices was sharpest in the capital city of Moscow, where house prices rose more rapidly in the secondary than the primary market. Sprenger and Urosevic (2011) present data that shows house prices rose sharply in 2006—much beyond the growth rate of wages—and that GDP, construction costs and inflation and were largely led by Moscow and St Petersburg. Michigami (2011) suggests that the reasons for such sharp increases in prices were the inflow of foreign capital, the launch of new housing loans, and the expansion of public housing loans. The figures also indicate that the prices of resold houses are higher than for new houses because they are already equipped with facilities such as kitchen and bathroom fixtures, while new houses are generally sold as a bare shell (*ibid.*).

The *tenure* structure in Russia (Fig. 3.3) indicates that by 2006, 70 percent of houses were owner occupied and the share of social rental housing was down to 26 percent. After 1990 social rental housing was gradually

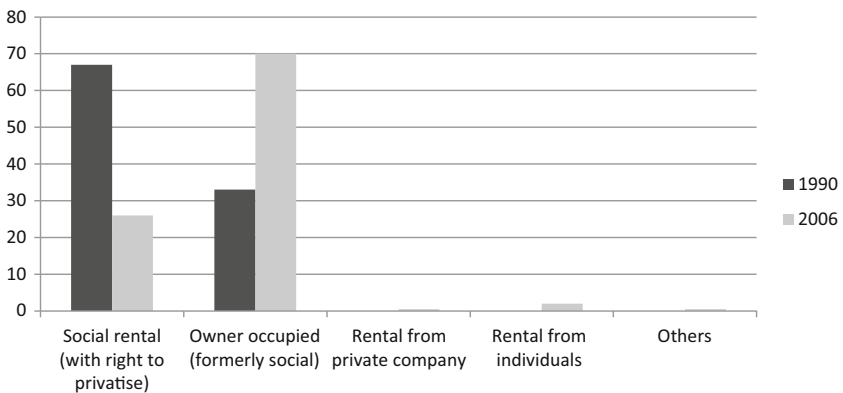


Fig. 3.3 Share of housing tenure Russia. *Source:* Authors based on data from Hamilton (2006)

privatized. Of the houses that were privatized, nearly half have been privatized free of cost, 40 percent have been bought by private citizens and the rest belonged to cooperatives and other legal entities (UNECE 2004). By 2014, total housing stock was about 3.36 billion square meters, of which 83 percent is privately owned and 17 percent is under municipal and state ownership (Rosstat 2015).

An interesting feature of the Russian tenure structure is that the distribution of income quintiles living in each of the tenures is very similar for the first four income quintiles. However, the top income quintile has quite a high share in ownership and market rental housing tenures (see Fig. 3.4).

Post-reforms, the stock of *social housing* reduced drastically. There is no social rental housing or stock managed for social purposes (ibid.). The subsidy that is available for households to purchase housing is also limited to selected income groups.

Figure 3.5 presents the dynamics of residential housing construction in Russia. Most has been concentrated in Moscow where the construction per capita is many times the national average. Another distinct feature of the residential construction market in Russia is the seasonality, as the number of houses commissioned in the fourth quarter of the year is

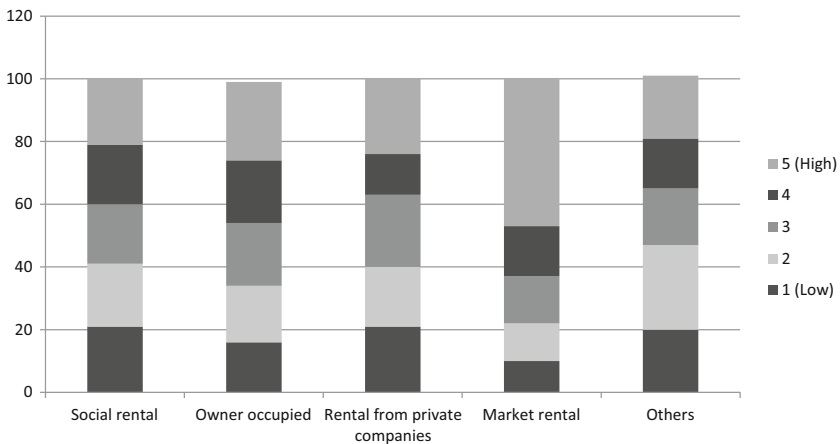


Fig. 3.4 Share in tenure by income quintile in 2006 (percent). Source: Authors based on data from Hamilton (2006)

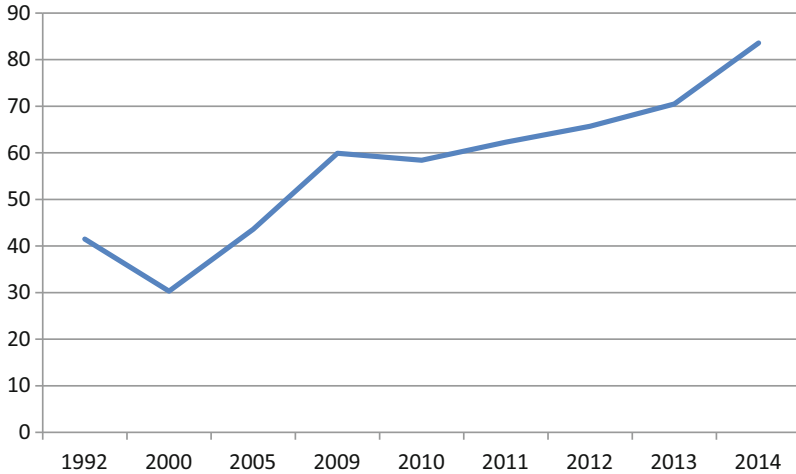


Fig. 3.5 Residential housing construction (million meters square). *Source:* Based on data from Rosstat (2015)

quite high largely due to the nature of financing new residential construction. Due to limited availability of *bank finance* for construction, builders finance it through the direct equity contribution of future homebuyers. Bank credit has typically been utilized for financing land purchases but, given that land does not serve as collateral, bank financing is short term (Sprengr and Urosevic 2011). Moreover, there have also been cases of fraudulent construction companies, which have further hampered the supply. After the financial crisis, developers were finding it difficult to obtain short-term loans, which further reduced the new supply of housing (ibid.) putting pressure on house prices.

Hamilton (2006) argues that for new entrants in Russia *affordability* is a major issue. Only the top 30 percent of households by income can afford either market rental housing or market ownership houses. The ratio of the price of an apartment of 100 square meters to annual GDP per capita is 140, which is extremely high when compared with the UK and the US, where the ratio is 46 and 35 respectively (Sprengr and Urosevic 2011). Since 2004, the Russian government has implemented an affordable housing policy called *Affordable Housing to Russian People*. The goal of the policy is to achieve a housing price to income ratio for

Table 3.1 Housing tenure in different housing affordability categories (percent)

House price to income ratio	2003	2006	2008
Less than 3 years	12.6	12.8	16.1
3–5 years	19.6	16.6	15.6
5–10 years	28.5	28.5	40.7
More than 10 years	39.3	42.1	27.6

Source: Author's based on data from Michigami (2011)

Russians of three, implying that the house price for a standard house of 54 square meters for a standard household of three persons should not exceed three times household income (Michigami 2011). Table 3.1 illustrates that for only 16 percent of households in Russia the house price to income ratio was less than or equal to three in 2008. Almost 40 percent of households in Russia needed five to ten years of income to buy a standard home and 27 percent needed more than ten years of income. The table indicates that affordability has improved over time, particularly after 2006 due to a rise in incomes and the stabilization of house prices after the GFC in large cities but still housing is unaffordable to two-third of the population.

While the quantity of houses is not a concern in Russia, *quality of houses* is. There is a shortage of good quality houses and where they do exist they are unaffordable to a large proportion of Russians. Housing dating back to the USSR era has deteriorated over time. Figure 3.6 presents reasons for dissatisfaction with current housing, based on a survey conducted in 2008. Almost 28 percent of households indicated that their house is in need of small or major repairs.

According to Kosareva and Tumanov (2011), the housing stock in Russia is old, with 42 percent of stock built prior to 1970 and 53 percent during 1971–1995. Only five percent of the stock has been added since 1995. Many Russian houses lack amenities with 61 percent of housing stock equipped with amenities. In 2008, 72 percent of housing stock had water pipes, 73 percent had proper sanitation, 82 percent were heated, 66 percent had a bathtub or shower, and 64 percent had a hot water supply. The volume of dilapidated housing in 2008 was about 3.2 percent of the total stock, an increase of 3.1 times over 1990. Kosareva and Tumanov (2011) estimate that 61 percent of Russians are dissatisfied with their

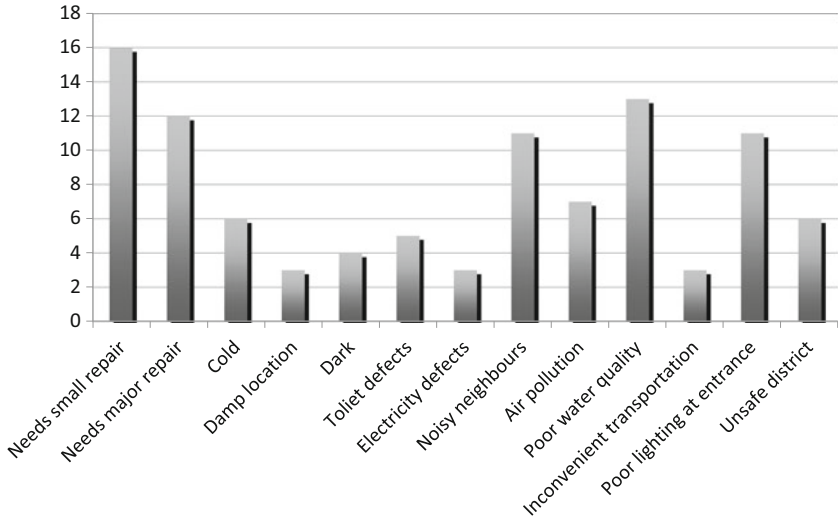


Fig. 3.6 Reasons for dissatisfaction with housing conditions in 2008 (percent). *Source:* Based on data from Michigami (2011)

housing conditions and every fourth family resides in a dwelling that is in a bad or extremely bad condition. In 2008, 22.8 percent of households had less than 13 square meters of space per capita, 40.2 percent of households considered that the number or size of rooms in their apartment did not meet normal dwelling requirements (*ibid.*). An estimated 46 percent increase in housing stock will be required to satisfy the overall housing needs of Russians (*ibid.*).

3.2 Russian Slums—The Problem of Dilapidated Houses

Slum is not the appropriate term for housing problems in Russia. As discussed above, every Russian has a house but many are in a deteriorated state. In his paper Krashenninokov (2003) places deteriorated housing in Moscow in four categories: squatter flats, which are an outcome of incorrect use arising from illegal subletting; shabby houses, which have resulted from inadequate maintenance; communal flats, which were conceived as

temporary accommodation for workers; and primitive first generation industrial houses, which are a legacy of the former USSR period and now fall short of modern building codes.

According to Krashenninokov (2003), the occupants of squatter flats in Moscow are those low-income households who migrated to Moscow after *perestroika* in the 1990s but could not buy a house. The city authorities did not have experience of dealing with poor immigrants. These households ended up finding temporary insecure tenure, usually without registration, in squatter flats. There are also illegal migrants from China and Ukraine who occupy these houses. Shabby houses are the temporary shelters and dormitories built in and around industrial zones in the middle belt of Moscow. These were built after World War II to address the shortage of housing that followed the war. Now, industrial zones, which lie in the middle belt of the city, are most “ineffective in land use, irregularly built and ecologically dilapidated territories of the city” (ibid.). People who are living in shabby houses are low-income households. They can neither buy flats nor can they privatize them. They are migrants from other locations to Moscow, who do not possess a *registration* and are unable to afford better housing. They are waiting to be included in the queue for housing improvements, which is quite long. In 2003, an estimated 600,000 people were in the queue for improving their housing conditions. Annually, on average about 10–20 percent of people in the queue are able to improve their housing condition. There are about 696 such dormitories in Moscow and all of them are in a bad condition. When the old shabby buildings are marked for demolition, households are given new flats. These abandoned buildings stand for many years and usually get occupied by homeless people, who constitute about 0.1 percent of the population (ibid.). *Communal flats*, or shared housing, are located in the historic part of Moscow. These houses, built in the 1930s and 1940s, are designed to house a family per room or per flat with families sharing a kitchen and other premises. There are about 151,000 communal flats in Moscow housing more than 318,000 families (ibid.). Outdated first generation housing are typically five-storey buildings and make up about a third of Moscow’s housing stock. These buildings were constructed en masse between 1955 and 1970 using pre-fabricated building materials. A number of programs are designed to resettle people from these houses.

3.3 Contextualizing Housing within Russia's Economic and Institutional Transition

One of the defining features of Russian reform has been that "collectivist" institutions were completely destroyed while western institutions could not take root (Popov 2010). The consequence has been that the capacity of the economy to withstand shocks, as happened during the transformation period of 1989–1998 and after the 2007 GFC, has been weak. During 1989–1998, Russian GDP fell by 55 percent of the pre-recession 1989 level. The economy recovered during the 1998–2007 period at an average GDP growth of seven percent per year, but during 2008–2009 GDP fell by about nine percent due to a collapse of oil prices and capital outflow, far worse than US, European or Japanese GDP (ibid.).

The reforms not only led to the disintegration of the USSR but also of its institutions. The Soviet state, which had provided universal free health care and education, and had a relatively low crime rate and corruption, crumbled. According to an estimate the proportion of the shadow economy, which was merely 10–15 percent of GDP rose to almost 50 percent in the 1990s (Popov 2010). These *inequalities* rose (from a Gini coefficient of 26 percent in 1986 to 42 percent in 2011) and crime rates increased (ibid.), life expectancy fell and mortality rates increased (ibid.).

The post-reform industrial structure has changed considerably due to policies which aimed to reallocate capital from non-competitive to competitive industries (Popov 2010). The problem was, however, that the shock therapy these policies followed in their implementation caused the output from non-competitive industries to reduce to almost zero, while the growth of output in competitive industries was constrained due to a limited availability of investment (ibid.). The 1990s witnessed a rapid deindustrialization and a shift in the economy toward resource based sectors. The share of sectors such as fuel, energy, and metal in Russian industrial output increased from a pre-reform level of 25 percent to over 50 percent by the mid-1990s. The deceleration in economic growth of the 1990s was halted during the 2000s when *Putin* was elected president and *Medvedev* was appointed first deputy prime minister in 2005. The Putin-Medvedev policies reversed the across-the-board liberalization policy of

their predecessors. This led to the revival of Russian economic growth, an increase in government revenues and expenditure, and an accumulation of foreign reserves.

The biggest impact of this fast-paced reform was on institutions, which collapsed. The state was unable to perform traditional tasks such as collecting taxes, constraining the shadow economy, ensuring *property and contract rights*, and the maintenance of law and order in general. The fall in government expenditure during the early transition period led to the collapse of institutions and a fall in economic output (Kolodko 2004). The ability of the state to enforce contracts and property rights fell substantially (Popov 2009) as the new democratic institutions to guarantee property rights, contracts, and law and order did not develop as soon as previous authoritative institutions were dismantled (Popov 2010).

Trade in property required that ownership rights were transferred from the state to the individual, since all land and buildings were state controlled under the former communist regime. This raised the issue of restitution, whereby individuals who had owned property before the communist era had that property returned to them or their heirs. Identification of the appropriate heir posed a problem. Further problems with the *restitution of rights* were that properties contained multiple occupants during the communist regime and that many of these properties had been modified or refurbished by the occupants (Tiwari and White 2010). Proving previous ownership was problematic in many cases. Russia did not formulate a restitution policy, instead property was transferred from the state by transaction. In the case of housing, with the adoption of the *1992 Law on the Fundamentals of Federal Housing Policy*, occupiers were given the right to ownership of the apartment they were occupying. This also meant that the responsibility for management and maintenance were also transferred to the new owners (Kollegova 2011).

Parsa (1995) identifies three phases in the evolution of markets in former communist countries in Europe. The first phase, during the early 1990s, saw the liberalization of prices and the privatization of real estate assets. This allowed a mechanism for market rent to be established. The 1992 Law on the Fundamentals of Federal Housing Policy laid the foundation for a program of rent increases and allowed state employers to evict tenants who defaulted on rent payments (Kollegova 2011). Property

asset values rose. The mid-1990s witnessed foreign occupiers entering the market, which caused a rise in rent and capital values. The third phase, during the late 1990s, saw the establishment of a domestic occupier and investor market. There was turbulence in the market but property developers did not find the operating environment (currency control, profit repatriation, etc.) to be constraining. The scale of property development that followed was phenomenal, particularly in and around Moscow. By 2006 investors from over ten countries were active in Russia, although the property market in Russia is still predominantly domestic (Tiwari and White 2010). As discussed later, loans for housing were also denominated in US dollars. Though, after the GFC the share of foreign currency loans and foreign investment has declined.

The effect of institutional transition on housing has been immense. The provision of housing, which is a right in the Russian constitution, played an important role in achieving the communist state's social, political, and economic goals, as discussed later. With the weakening of institutions, even though housing remains a right, the accessibility and affordability of housing has become a major concern.

3.3.1 Status of Housing in Russian Constitution

The constitution of the Russian Federation guarantees all citizens a right to housing, but housing shortages and the poor condition of housing prevailed for many, particularly after the disintegration of the USSR and the marketization of housing.

Article 40 of the Russian constitution provides that “no one may be arbitrarily deprived of housing. Further, housing is provided free, or at an affordable cost, to low income or other citizens indicated in the law who require housing from state, municipal, or other housing stocks, with norms prescribed by law” (Konst 1993).

Prior to Gorbachev's economic and political reforms which emphasized “the concept of respect for rule of law,” socialist principles prescribed the principles of housing law. Socialist principles controlled all means of production and government was responsible for ensuring every citizen received adequate public services. To safeguard political power and apprehensions about private monopolies, private ownership of property,

including housing, was not permitted. In the Soviet Union, an elaborate system of administrative law and social legislation provided the state with monopoly power and also ensured the smooth functioning of the country's planned economy (O'Leary 1994). Law was merely an instrument to fulfil the state's economic goals, and those goals that reflected the government's economic and political agenda were the ones that were advanced (ibid.).

The framework of civil law, the *1962 Principles of Civil Legislation*, also contained guidelines on housing. This legislation was later codified and expanded in 1964 by the *Civil Code of the Russian Federation*. These laws were normative in nature, implying that they were broad rules codified as law. The hodgepodge nature of these laws continued to regulate housing until 1981 when the *Principles of Housing Legislation* (Housing Principles) were adopted (O'Leary 1994). In 1982 the *RSFSR Housing Code* was passed, which outlined specific guidelines for the distribution of housing, standards for unit size and condition, tenants' rights and responsibilities, and government regulation of privately owned housing (ibid.). Post-reform, in 1992, the *Principles of Federal Housing Policy* (1992 Housing Principles) were passed. Though a right to housing continued to exist, market concepts like rent rises and subsidies were introduced.

In Russia, there is a quagmire of institutions that possess the power to make laws related to housing. While the basic framework of housing law is defined by federal law, ministries and departments of national government, local authorities, and certain cooperative and social organizations are also allowed to issue normative acts which carry the force of common law (O'Leary 1994). Executive agencies responsible for registering and allocating housing may also promulgate legally binding rules. These rules can differ from locality to locality and are often unpublished, which sanctions discriminatory action by housing officials (ibid.).

Tenant rights are strong in Russia and it is impossible for the state to evict a tenant once the tenant acquires housing. Even in those rare circumstances when the state does evict a tenant, they are required to provide alternative living accommodation. Eviction without relocation is only possible where the tenant is in gross violation of their duties under the lease. Tenants also have such rights as subletting, exchange of dwelling units, to hold on to the property if sent abroad to work, and so on.

3.3.2 Tenure Structure and Residency Registration

There were four tenures that comprised the housing stock in the former USSR and were later inherited by Russia after the USSR's disintegration: state housing, socially-owned housing, cooperative housing and private housing. The majority was social housing, in the early 1990s, consisting of housing owned and allocated by local governments, ministries, state committees, and departments. In 1994, through a federal law “on the privatization of the housing stock in the *Russian Federation No 26-FZ*” and the “*Housing code of the Russian Federation No 188-FZ*”, the privatization of housing and land began. A large proportion had the ownership transferred to the occupants. Socially-owned housing is owned by cooperative organizations, trade unions, and other social organizations. *Cooperative housing* is owned by house-building cooperatives and the dwellers in cooperative housing are usually socially elevated households who can pay more for housing. Individual housing is privately and independently owned, though subject to compliance with the provisions of the housing code (O’Leary 1994).

While the Russian constitution guaranteed a right to housing, the right of choice was not available until recently. A citizen's legal residency was determined on the basis of their possession of *propiska*—the legal right to live at a particular address (O’Leary 1994). Citizens were allowed only one *propiska*, which they were required to surrender on departure from one location, and had to obtain a new one at a new location. The system of *propiska* posed a problem as individuals wishing to obtain it had first to offer proof of obtaining a house (Pipko and Puccizzrelli 1986). Due to the severe housing shortage, one had to first move in with relatives or sublet an apartment at a non-regulated rent and also had to obtain employment with organizations that provided employee housing (*ibid.*). Even after obtaining housing, the process of obtaining *propiska* was time-consuming and bureaucratic.

The government used *propiska* as a mechanism for migration control in metropolitan areas. Authors such as Kartashkin (1991) have argued that it interfered with the constitutional guarantees for work and education and discontent grew post-reforms, which led President Yeltsin to

sign a decree in 1993 concerning the right of citizens to choose their place of residence. This replaced *propiska* with a much diluted system of registration with the local government office (O’Leary 1994).

3.3.3 Evaluation of Right to Housing Guarantees

The *right to housing* in Russia has been interpreted by successive governments as their responsibility for allocating a separate dwelling unit to each family. The extent of the government’s involvement in the sector demonstrates its importance in advancing their political and economic objectives. Until 1993, the right to housing created a number of dependable guarantees, including: the development and upkeep of both state and socially owned stock; assistance for cooperative and individual building; fair allocation of housing; and low charges for rent and utilities (Konst 1992).

The problem with such an ambitious view of the right to housing in Russia has been that the demand for housing has always outstripped supply. Due to a shortage of government investible funds and a lack of investment in maintenance, the quality of housing deteriorated. Housing maintenance was carried out by state property management entities subsidized by the government, whose funds were severely curtailed after the reforms. Rents were not sufficient to meet the maintenance expenditures. The new supply was also constrained due to: limited availability of capital for constructing new houses; technological backwardness; flawed methods for determining demand; and corruption in allocating funds for construction (O’Leary 1994).

The Soviet model allocated housing on the basis of square meters required per person. This often meant that apartments were to be shared, often between unrelated families. The magnitude of the problem was such that the Soviet Government Construction Committee in 1988 estimated that to achieve a separate dwelling unit for each family the number of housing units would have to increase by 50 percent. In terms of quality, Kosareva et al. (2011) estimate that 50 percent of urban housing stock is considered substandard by housing code measures. Moreover, 50 percent of urban and 90 percent of rural housing stock lacked some or all of the

standard amenities, such as drainage, heating, indoor plumbing, and hot water or gas (*ibid.*).

Post-reform, while guaranteeing the right to housing, the government changed its policy stance by recognizing that some of the burden of providing housing should be shared by the private market. This led to increased availability and creativity in: options for financing housing; autonomy in design and structure; legislation securing rights for individual homeowners and housing cooperative residents. It also spurred public interest in tenures such as cooperative and individual housing (O’Leary 1994).

Another issue with implementing a right to housing has been fairness in housing distribution. Housing in Russia is distributed according to a formula for social norms, which computes the size of unit that a family needs on the basis of household composition. However, due to shortages in housing availability, people remain on waiting lists for years before receiving adequate housing. At the beginning of 1990, an average of 23 percent of families and individuals in the Soviet Union were on a waiting list (O’Leary 1994). The conditions of households in inadequate housing was far from good as they lived in overcrowded apartments or alternative accommodation—such as barracks, log huts, trailers, dormitories, and basements—while they waited for improved living conditions (*ibid.*). An informal system of tenure also emerged as a consequence, the subletting of vacant rooms.

Other systems—such as the allocation of housing on a preferential basis to those with political, academic, or other social connections to the government—existed which circumvented waiting lists but disregarded fairness in the distribution of housing.

3.3.4 Rents and Service Charge for Utilities

Both the Soviet and Russian constitutions guaranteed low rents and low utility charges. Consequently, rents in Russia have not increased since 1928. According to Andrusz (2002), the combined cost of rent and utility charges was between one and three percent of household income in 1992. The low rent regime has been affirmed by article 40 of the Russian Federation Constitution, which mandates that “housing is provided free or

at affordable cost to low income and other citizens indicated in the law who require housing.” (O’Leary 1994) The realization by the Russian government that low rents and utility charges have become unsustainable led to a program of staged rent and maintenance fee increases from 1994 (ibid.).

3.4 Perestroika and Privatization

Two laws that paved the way for broad changes in legal thinking in Russia were: (i) *1988 amendment* establishing the *Constitutional Supervisory Committee* with the role of ensuring the constitutionality of acts of legislative and quasi-legislative organs, though the Committee did not have the power to deem laws unconstitutional or repeal them, they could suspend legislation that violated a citizen’s civil and human rights; (ii) *1987 Law on Appeals*, which allowed citizens to appeal the unlawful actions of court officials, defence and security officials, and other state actors (O’Leary 1994), which law put a check on the arbitrariness of government actions.

3.4.1 Impact on Housing Sector

One of the consequences of Gorbachev’s perestroika and the housing reform was that the financial and administrative burden of managing the huge amount of state housing stock was transferred from central government to municipalities and private entities. In 1988, government legalized the sale of state apartments to private individuals. Privatization proceeded slowly initially but accelerated rapidly in the spring of 1992. Subsequent sales faced two challenges: (i) the good stock was already sold; and (ii) residents did not perceive much difference between ownership and rental, while rental housing guaranteed tenant security against eviction. Another important policy change was that government’s role in the housing market started to shift from provider to facilitator. The emphasis on housing cooperatives and individual housing tenures with government assistance increased.

Privatization not only changed economic and legal structures but also led to changes in public attitude. Though the government ownership of

housing stock did not change that quickly, the ownership of housing and its maintenance was transferred to municipal governments. The new responsibility was overwhelming for municipal governments as they had neither the financial resources nor the capacity to undertake these roles. In 1991, a law to give discretion to local governments to privatize housing stock was passed. Subsequently the law was amended to allow local governments to also transfer home maintenance responsibilities to owners of privatized units.

The Russian Federation is making other efforts to encourage privatization of state housing stock and the development of a private housing market by: encouraging auctions of units in newly completed buildings; the establishment of informal real estate markets; apartment exchanges; and the establishment of a housing finance system. Article 58 of the Russian constitution enacted in 1992 did not eliminate the state-guaranteed right to housing but it expanded the conditions under which that guarantee would be fulfilled (O'Leary 1994). In addition, amendment to article 12 of the constitution removed the restriction on an individual's right to own and sell land (*ibid.*). The housing principles adopted in 1992, while reiterating the right to housing, stated that these rights could be fulfilled through various mechanisms including: offering subsidies rather than direct provisioning; involving the private sector; and permitting private ownership. The principles also stipulated incremental rent rises and maintenance fee increases.

Despite the changes that the legal amendments of 1992 brought about, the fundamental problems of inadequate housing, poor quality, and queuing for state provided housing continued to plague Russian housing markets. The private development market was in a nascent stage of development. Many developers were fly-by-night operators and the construction quality was poor.

3.5 The New Housing Code

A new *Housing Code* was adopted on March 1, 2005. In a departure from previous policies, the new code restricted the right to social housing to those who could not buy a house on their own, with affordability

determined on the basis of income and asset ownership. The size of a social rental house is determined on the basis of norms for minimum area for residential premises. The social rental contract is written with all members of family, which secures the right for members of a family to stay in the same house even if the household head dies. If a household buys a house, they lose their right to social housing. Non-payment of rent for six months without valid reason, damage to the property, use of property for any other purpose than residential, or violating the rights of neighbors, are the conditions under which a social renter can be evicted. The new code has reduced the rights of tenants compared to earlier laws, particularly in the case of the demolition of a building for improvement.

Another important issue that the state has tried to deal with is the potential waiting list by instituting a Federal target program called “*Housing in 2002–2010*”. Under this program, a new national project “*Affordable and Comfortable Housing for Russian Citizens*” has been initiated. The role of the state has changed from provider to facilitator. Moreover, the new code has opened up the possibility for the supply of social housing to come from providers other than the state (Kollegova 2011).

The dissolution of the USSR in 1991 brought about changes with regard to the federal–local municipalities power balance. The *RSFSR of 1991, No 1550-1*, on local self-government articulates that supplying citizens in need of housing and the management of housing and communal services is the responsibility of municipalities. This was further refined in 2003 through *articles 14 and 16 of the Federal Law No 131* “on general principles of local self-government in the Russian Federation”, which defined the role of local government as including: provision of living quarters to low-income households in need of better housing; organization of construction and maintenance of municipal housing stock; and facilitating housing development (Kollegova 2011). The housing code of 2005 further sharpened the role of local government. Municipalities are responsible for municipal housing stock, the recognition and registration of low income citizens in need of housing, and the provision of social housing to the needy (ibid.). The problem with this transition of roles is that it has not been accompanied by fiscal transfer from federal government to municipalities, who lack the resources to implement social

housing policy even though they have allocated 40–60 percent of their annual budgets for housing construction. Moreover, monopolization of social housing in the hands of municipalities has reduced the effectiveness of overall management of municipal housing stock (ibid.). Despite decentralization of power to local levels, there is significant dependency by municipalities on higher levels of government.

A priority national project for affordable housing within the “*Affordable and Comfortable Housing to Russian Citizens*” was launched in 2006 with the aim of creating an affordable housing market. An evaluation of the project between 2006 and 2008 indicates the following (Kollegova 2011):

- housing funds in the Russian Federation grew by 5.5 percent
- provision of housing per capita increased by 4.9 percent
- annual housing construction increased by 40 percent
- number of families in queues declined by 21 percent.

3.6 Housing Finance

Prior to the reforms, the role of the housing finance system was to fulfill the objectives of the housing policy and consisted of distributing budget resources for the construction of state-owned housing—distributed free of charge to people on the waiting lists who wanted to improve their living conditions (Tumanov and Zhelezova 2013). State investment in construction of housing was about 80 percent in 1987 and the rest came from households and the private sector (ibid.).

Like the market for private housing, mortgage lending market in Russia is also new. In 1997–1998 the legal framework for the development of mortgage finance and the *State Agency for Housing Mortgage Lending (AHML)* were established. The mandate for AHML is to pursue state policy to make housing more affordable and provide equal opportunities for citizens to access mortgage finance (Tumanov and Zhelezova 2013). Since then a number of banks have also started offering mortgage finance, the main providers being state-controlled banks. The five largest

banks—all owned by the state—accounted for 47 percent of mortgage lending in 2008 (Sprenger and Urosevic 2011).

The mortgage market grew at a rapid pace during the first half of the 2000s, however, the global financial crisis of 2007 hit the mortgage market severely, to the extent that some banks even were planning to completely abandon lending for housing in 2009. The slowdown in the global economy led to a fall in oil revenues and a reversal of capital flows in Russia, which slowed down the housing and mortgage lending markets. The banks in Russia had relied on external short-term borrowings as a mechanism to raise resources for lending. This channel of funding was severely affected after the crisis. By the second half of 2008 many Russian banks were facing a serious liquidity crunch (Sprenger and Urosevic 2011). The market that had slowed down after the financial crisis, has since recovered. Total outstanding housing and *mortgage loans* (in both domestic and foreign currencies) have increased from 125 billion roubles in January 2006 to 3.6 trillion roubles in December 2014 (Bank of Russia 2014). The share of mortgage loans has remained at just 25 percent of total consumer loans. The share of mortgage loans in a foreign currency has reduced from 40 percent in 2006 to just about four percent by the end of 2014 (Bank of Russia 2014). Russians are generally prudent borrowers. The percentage of delinquent housing and mortgage loans (overdue for more than 180 days) was about 5.19 percent of total outstanding loans in February 2010. In December 2014 the percentage of delinquent loans was merely 1.74 (Bank of Russia 2014). The market for refinancing mortgage loans has not developed much and the financial crisis further hampered its growth.

The contribution of mortgage finance to household portfolios of housing finance is small. In Moscow, Russia's most developed market, only 30 percent of transactions in 2008 in primary and secondary markets involved mortgage finance (Sprenger and Urosevic 2011). The number of institutions involved in primary and secondary markets has reduced. During the first half of 2009, there were 1,108 credit institutions that extended their housing load, and about 729 credit institutions extended their mortgage loans, to 923 and 715 respectively by July 2014 (Bank of Russia 2014). The number of credit institutions involved in refinancing secondary mortgage loans has been around 25 (*ibid.*).

The mortgage penetration in Russia is just about seven percent of GDP. Michigami (2011) suggests that high interest rates have limited the penetration of mortgages. Zavisca (2010), however, argues that mortgages have not been accepted culturally as an instrument for facilitating access to homeownership. According to Zavisca, “Russians are outraged by interest payments and uncertain ownership of a commodity they consider to be a basic right. In short, even if mortgages become more affordable in Russia, the market will not emerge until mortgages gain cultural legitimacy.”

3.7 Housing within the Framework

The housing problem in Russia is not of quantity but of quality of housing stock, particularly of social housing. Nearly 80 percent of the stock is in a dilapidated condition. Moreover, the design of these houses does not meet the needs of the elderly or persons with special needs. Figure 3.7 illustrates the application of the *framework* from Chap. 1 to the current Russian housing situation.

The key point that the framework illustrates is that the remaining privatized social housing, which was largely built prior to 1995, is contributing to the poor quality of housing and the transfer of responsibility for maintenance by municipalities to homeowners has not done much to improve their condition. Households, despite the rise in their income levels, are unable to undertake the redevelopment or improvement of these houses. The supply and take up of new housing has been slow and the private sector developer model is yet to mature. Housing finance systems, though in place, are yet to take root. Mortgages, as a mechanism to help households buy a house, are still to enter the cultural psyche of households. The institutions, policies, and constitutional environments are all now in place, after 2005, to deliver on housing for all as presented in Fig. 3.7. The right side of the pyramid—particularly layers 4 and 5 which deal with the functioning of private sector systems to deliver on housing as a marketable good—needs to develop and deepen further.

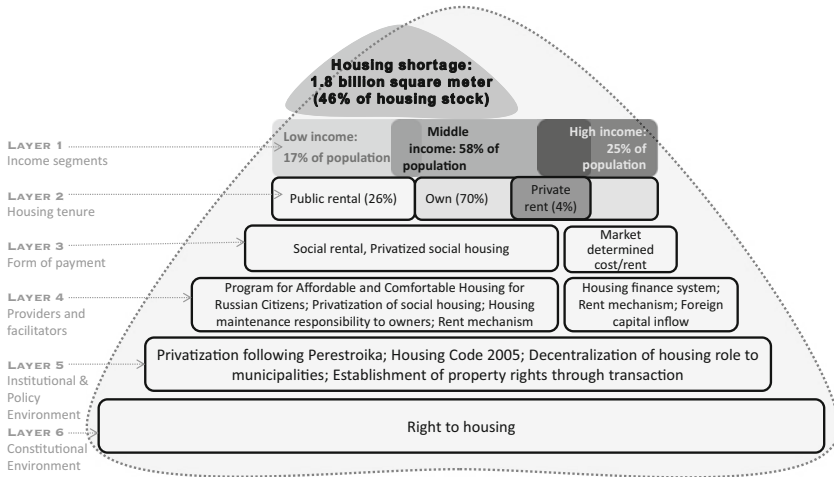


Fig. 3.7 The framework and Russian housing

3.8 Conclusion

Russia has approached housing from the perspective of a constitutional right, implemented with the very strong involvement of the government. During the pre-reform period, the government took on the responsibility of developing, allocating, and maintaining housing. The state became the largest landlord and allocated housing on a subsidized rent basis, which did not rise. Besides taking on the responsibility to house citizens, the state also used housing to meet their social, political, and economic objectives, which meant as a tool for controlling migration, incentivising some citizens over others, as a means of reducing dissidence and crime, developing the community, and reducing inequality. A range of institutions were developed to enable the government to deliver on these rights. An evaluation, however, suggests that this approach led to very rule-book type implementation which caused inadequacy in housing availability, a lack of privacy among dwellers in the same unit, a deterioration in the quality of living space, and an unsatisfactory level of amenities.

Reforms that followed perestroika, in the 1990s and later, led to economic and political liberalization. A major consequence of these reforms was that the institutions that had emerged during the communist regime started to crumble while the institutions of a market economy had not yet taken root. The privatization and restructuring of the economy that took place left the government starved of finances. While the right to housing remains a constitutional obligation, government has started to take a more liberal view of its implementation by allowing private ownership, facilitating the development of housing finance, and involving the private sector in the development and maintenance of housing stock.

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4

Housing Development in a Developing India

4.1 Introduction

The economic growth model of India since 1990 has been criticized for its lack of social inclusiveness and sustainability (Tiwari et al. 2015). Despite high economic growth over the last two decades, the majority of urban and rural areas are suffering from poor quality and inadequate physical and social infrastructure. In a haste to achieve world-class standards for its major cities, there is considerable compromise in the existing built environment and basic infrastructure (physical, social, and economic) requirements of smaller and medium sized cities and towns. Sporadic development activities and the geographical spread of major cities are the outcome of a concentration of public investment in these cities. The development model of large cities has been less accommodating of migratory rural populations, who are usually less educated, unskilled, and lack financial resources, at least during initial periods after migration. Despite being less inclusive, big cities have been magnets for the population from rural areas and small cities because of the dearth of infrastructure and economic opportunities in the hinterland and smaller towns. These world-class cities were neither planned for this huge load of

population nor were they anticipated as being home to poor migratory populations. Cities as creators of wealth for India, contributing the majority of GDP growth, have become inequitable in the distribution of wealth among rich and poor. The divide between rich and poor in cities is so stark that it is revealed in all aspects of living, more so with regard to housing access and quality.

The literature views housing as welfare and an economic good and the definition is not confined to the four walls, which provide security for the inhabitants, but to homeownership, which guarantees economic security and social well-being through associated property rights.

This chapter is an inquiry into the housing environment in India and begins by presenting a picture of existing housing conditions, followed by a discussion on the political, economic, and social environment of the country since independence in 1947, which formed the context within which the housing sector evolved. With reference to the housing framework discussed in detail in the first chapter, sections in this chapter explain four major layers of the housing pyramid, which are: (i) housing requirements of different segments of the society; (ii) the fiscal environment; (iii) the policy environment; and (iv) the constitutional environment. The final layer of the Indian of housing pyramid, and its shortfalls, reveals its cracks, as discussed in the concluding section.

4.2 Scale of the Housing Problem

The problems related to access to housing, and its causes, are manifold: worsening affordability; declining homeownership rate; delayed age of homeownership; burgeoning urban slum population; homelessness; housing supply shortage; housing market segmentation; and so on. These issues play out far more intensely in urban than in rural areas, due to the unavailability of developable land and higher land prices, whereas in rural areas land is not scarce and therefore homelessness created by a housing shortage is not acute. However, the quality of construction and access to basic services has been a serious concern in rural areas and in smaller cities, as will be discussed later. While various programs and policies have considered upgrading the quality of housing stock in rural areas,

relatively higher attention at policy level has been paid to urban housing shortages, but without much success. Urbanization is a very recent phenomenon in India, with only 31 percent of the population living in urban areas (Census 2011a) and a slow urbanization rate. In terms of absolute numbers though, the urban population in India is equivalent to half of the Europe population. Geographically, almost two-thirds of India live in villages and peri-urban areas. In 1951, 83 percent of the population was rural and after six decades, the rural share is still as high as 69 percent (Planning Commission of India 1951b). The pattern of population growth indicates that the maximum increase in population during the last six decades has been in smaller cities and large villages at the verge of urbanizing, while big cities have almost been stagnant in their share of urban population, as shown in Fig. 4.1 below.

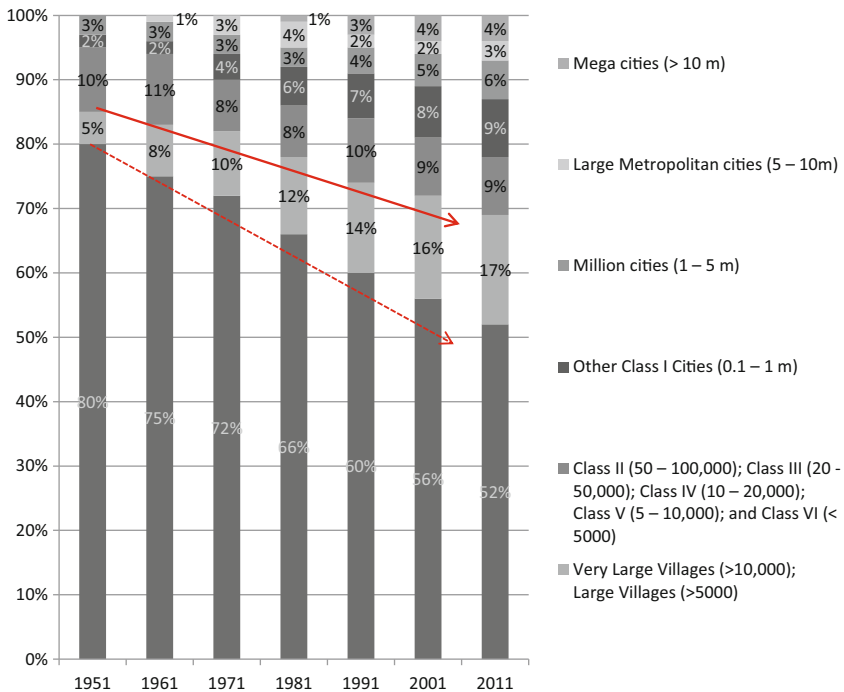


Fig. 4.1 Trend of population increase in different sizes (as per population) of cities and villages in India, 1951–2011. *Source:* IHS

Table 4.1 Population in India (2011)

	2011 (millions)	Decadal increase (2001–2011)
India—total population	1,210.6	17.7 %
India—urban population	377.1	31.8 %
India—rural population	833.5	12.3 %

Source: Census (2011a)

Table 4.2 Slum population in India (2001, 2011)

	2001	2011
Slum population (%) ^a	23.5	22.4
Slum population (absolute)	52,371,589	65,494,604
Slum households	10,150,719	13,920,191
Average household size	5.2	4.7
Slum population decadal growth rate (%)	14.7	25.1
Urban population ^b	223,111,858	291,838,124
Urban households	43,556,155	62,792,741
Average household size	5.1	4.6
Urban population decadal growth rate (%)	–	30.8

Source: Census (2001b) and Census (2011a)

^aSlum population expressed as percentage of total population of towns reporting slums

^bUrban population of towns reporting slums

With a population base of approximately 1.21 billion people, the decadal growth rate of population in India during 2001–2011 was 17.7 percent and the growth rate of urban population was 31.8, as shown in Table 4.1 (Census 2011a).

If we assume that total population growth at national level is primarily due to natural growth and the increase in migratory population share is minimal at national level, then the national average decadal population growth rate of 17.7 percent is the natural population growth rate. In this scenario, if urban areas containing slums are growing at an exceptionally high rate of 30.8 percent (Table 4.2) the reasons, besides natural growth, include: (i) expansion of urban boundaries and inclusion of villages at urban fringes into existing cities/towns; (ii) conversion of big villages into towns; and (iii) the migration of rural populations into urban areas. The mention of these reasons for popula-

tion increase is to emphasize that although the urban population increase is mainly due to a natural population increase, the share of migratory population has been significant and is increasing consistently.

Moreover, the slum population has been increasing 1.4 times faster than the national population. It is, however, important to note that the growth in slum population is lower than the growth in the urban population of cities that contain slums. This means that since the major population influx is to smaller cities/towns (Fig. 4.1 above), a small proportion of new migrants are able to be accommodated in formal housing, which is still affordable in smaller towns compared to big cities, which is reducing the formation of new slums in smaller towns. The growth of population in slums during 2001–2011 (25.1 percent) is still higher than in the previous decade (14.7 percent), even though the overall share of slum population has reduced by one percent. The rate of increase in slum populations is above the natural population growth rate and hence we cannot ignore that existing slums are growing and accommodating newcomers, primarily rural migrants who move to big cities in search of work. It is interesting to note that million-plus cities, which house about 11 percent of the country's total population, have been home to approximately one-third of the slum population (Census 2011b). Having said that, one may also consider the reduction in slum population that has happened due to changes in the classification of a few slums, which were upgraded to formal housing under government schemes proposed in the tenth and eleventh five-year plans (2007–2012).

4.2.1 Housing Requirement

The homeless population in India is 1.77 million which constitutes approximately 0.15 percent of the total population. Looking at the size of the country (1.21 billion population) as supposed to the homeless population, the scale of housing problems may look small in India. However, in addition to issue of homelessness, it is necessary to consider the need to replace houses in bad physical condition (i.e. old and

Table 4.3 Homeless population in rural and urban India (2001, 2011) (population in millions)

Year	Rural		Urban		India	
	Homeless	Total	Homeless	Total	Homeless	Total
2001	1.16	742.30	0.78	286.31	1.94	1,028.61
2011	0.83	833.46	0.94	377.11	1.77	1,210.57
Increase/ decrease	-0.33	91.16	0.16	90.80	-0.17	181.96 (17.7 %)

Source: Kumuda (2014)

dilapidated), as well as the ones which offer substandard living conditions (i.e. high level of congestion inside the house), so as to calculate the actual shortage of housing stock, as shown in Table 4.3. The problem of housing shortage has been analyzed separately for rural and urban areas so as to explicitly bring out differences in the causes of shortage and policy-level responses to deal with the problem. For example, the condition of houses' physical structure is of much more concern in rural than in urban areas, where the issue of congestion-caused shortage becomes important.

The figure below shows trends in urban population increase, accompanied by the changing scenario in housing stock availability and increases in housing shortage. It is disappointing to note that despite numerous housing policy interventions every five to ten years, the housing shortage has persisted, as shown in Fig. 4.2.

The amount of housing stock in urban areas has been increasing at a faster pace than the increase in the number of households and therefore the shortage should have been expected to reduce over time, on the contrary we observe that the housing shortage has been increasing in proportion to an increase in the number of households and was highest in 2011, with an estimated requirement of 18.78 million housing units (Planning Commission of India 2012), which Tiwari and Parikh (2012) estimate to be 21.87 million (Table 4.4). Tiwari and Parikh (2012) include an additional requirement for housing to convert three million non-durable houses into durable houses. The increase in the housing shortage is a pile-up of obsolete and dilapidated housing stock from previous decades that has not been upgraded. As can be

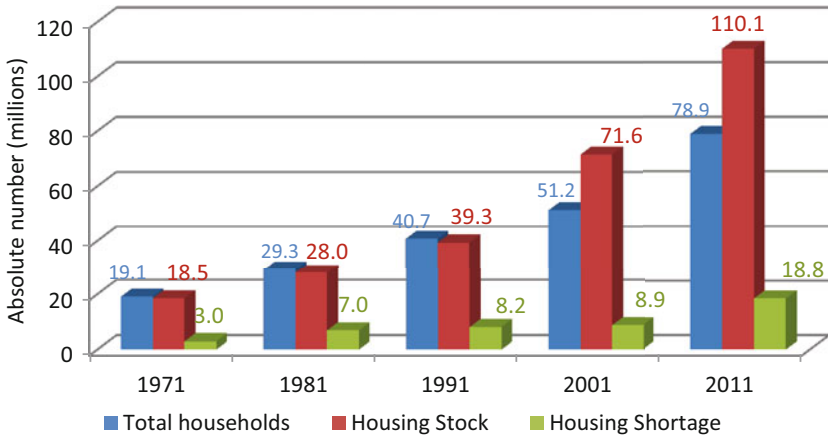


Fig. 4.2 Housing shortage in urban India, 1971–2011. *Source:* Census (2011a), CGG (2003), NBO (2012), Planning Commission of India (2012, p. 336). *Note:* *while the urban housing shortage at the start of the tenth five-year plan (2002–2007) was 8.89 million, the total number of houses required cumulatively during that period was assessed at 22.44 million. Under the twelfth five-year plan (2012–2017) the Technical Group on the Estimation of Urban Housing Shortage has estimated a shortage (2012) of 18.78 million dwelling units in urban areas.

seen in Table 4.4, 27 percent of the shortage in urban areas is due to the existence of physically unfit structures (non-durable + obsolete) and it is astounding to know that 69 percent of the housing shortage in urban areas is caused by congested living conditions. This poses questions on the quality of housing in India. Even though there is continuous supply of new housing stock in the market, there is shortage of affordable housing. To explain further, Tiwari and Rao (2016) argue that the demand for housing is created by the lower and middle income segments and the development industry is amendment to provide luxury housing. The market is fragmented and lacks responsiveness thus leading to low absorption and high vacancy rates (Tiwari and Rao 2016).

The housing shortage in rural areas is far more acute (in absolute figures) than in urban centers due to the scale of India's rural population. Of the 69 percent of India's total population who live in rural areas,

Table 4.4 Housing need in 2011

Factors in assessing housing shortage	Calculation	Rural housing shortage (million)	Urban housing shortage (million)
Number of non-durable houses in 2011		10	3
Shortage due to congestion	Congestion factor ¹ × number of households	10.86	15.09
Shortage due to obsolescence in 2011	Obsolescence factor ² × number of households	7.18	2.84
Homeless population		0.83	0.94
Total		28.87	21.87

Total housing shortage (urban + rural): 50.74–51 million units

Source: Author's calculation; Tiwari and Parikh (2012)

17 percent (28.9 million) are in urgent need of houses, (Tiwari and Rao 2016) as shown in Fig. 4.3.

Housing shortage in rural areas has been almost stagnant (except in 2011), though the number of households doubled in the past four decades (Tiwari and Rao 2016). This indicates that with availability of land in rural areas, house construction is easier, though the quality of construction has always been questionable (Tiwari and Rao 2016). As per estimates of Tiwari and Parikh (2012), 59 percent of the shortage in rural areas is caused by the bad condition of the physical structure (non-durable + obsolete) and 37 percent is due to congestion, which is

¹ Congestion factor: the ratio of households that are residing in unacceptably congested conditions, from physical and sociocultural viewpoints (i.e. married couples sharing the room with other adults, etc.) was worked out using NSS results—65th round. The number of households requiring a separate dwelling unit on account of congestion comes to 14,986,312 (18.42 per cent congestion rate from NSS was applied to the estimated population on 1.3.2012 based on Census 2011 and intercensus growth rate) (National Building Organisation 2007, p. 354).

² Obsolescence factor: non-serviceable units (0.99 million as per Census 2011) taken out of housing stock. All bad houses, excluding those that are less than 40 years old (1.39 per cent NSS 65th round results) and all houses aged 80 years or more (1.43 per cent—NSS 65th round results) constitute the obsolescence factor (2.27 million). The estimated figure regarding the same works out at 3.26 million as on 1.3.2012 (National Building Organisation 2007, p. 354).

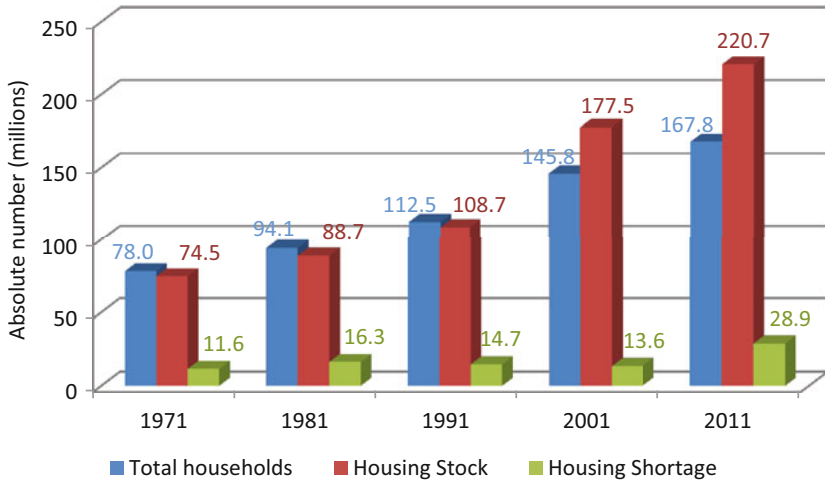


Fig. 4.3 Housing shortage in rural India, 1971–2011. *Source:* Census (2011a), CGG (2003), NBO (2012), Planning Commission of India (2012, p. 336), Tiwari and Parikh (2012). *Note:* *while the urban housing shortage at the start of the tenth five -year plan (2002–2007) was 8.89 million, the total number of houses required cumulatively during that period was assessed at 22.44 million. Shortages in rural areas are calculated by subtracting urban shortage from total shortage. Rural housing shortage, however, is estimated to be 28.9 million by Tiwari and Parikh (2012).

opposite to the scenario observed in urban areas where congestion is a bigger challenge than quality (Tiwari and Rao 2016).

As estimated by Tiwari and Parikh (2012), estimate the housing shortage of 51 million units in India and an additional 113 million units will be required if semi-permanent houses are to be replaced. This would mean that 67 percent households in India do not have access to decent housing (Tiwari and Rao 2016). Over and above the four major factors causing housing shortages—(i) congestion; (ii) obsolescence; (iii) non-durability; and (iv) homelessness—the problem of lack of access to basic services—electricity, water and sanitation—increases the challenge of providing decent housing (Tiwari and Rao 2016). Even after 70 years of independent planning and policy formulation, 53 percent of 246.7 million households do not have access to drinking water in their premises, 53 percent do not have toilets, and 33 percent of households do not have access to electricity

(Tiwari and Rao, 2016). The dilapidated condition of housing facilities and basic services in India are not only hampering the social and fiscal growth of households but are also clogging up the country's engine of economic growth and it is alarming to observe an increase in the scale of these problems caused by a dearth of implementable plans and policies.

4.2.2 House Area and Congestion

The constitution of a healthy built environment begins with the provision of a decent house with adequate space and privacy. Large household size and lower household income compels the toleration of congested living environments. Unaffordable house prices further aggravate the problem. Usually one room is shared between two to three users (average size of a house is two rooms and average household size³ is 4.9 persons) (Census 2011a), depicting congested living conditions. Housing conditions have not changed much and instead have deteriorated further with a shrinkage in house size and an increasing number of persons sharing rooms (Tiwari and Rao 2016). To delve into the issue further we will analyze housing characteristics—such as, average house size (area and number of rooms), persons per room, average size of a room, and house area per person—across various income groups in rural, urban, and slum areas, as shown in Tables 4.5, 4.6 and 4.7 below.

In rural areas, the problem of congestion is serious, particularly among poorer households (refer Table 4.5). As we move up the income ladder (MPCE class of INR 525–615 or higher), the level of congestion reduces below 2.4 (Tiwari and Rao 2016). A similar situation is achievable in urban areas for the MPCE class of INR 775–915 or higher (Table 4.7) and for MPCE class of 1120–1150 or higher in urban slums (Table 4.6) (Tiwari and Rao 2016). This indicates that although the overall average number of single room users in rural areas is 2.7, which is a higher congestion level as supposed to the urban average of 2.3, it is easier (financially) to access decongested housing in rural areas than in urban areas. The situation in urban slums is worst where privacy is scarce.

³ Average size of households = total population/no. of households (MOSPI M. o. 2011, p. 182).

Table 4.5 House characteristics across various income groups in rural India (2002)

MPCE class	Average household size	Average house area	Average number of rooms ^a	Persons per room	Average room size ^b	House area per person
0–225	6.4	30.48	1.7	3.7	9.08	4.76
225–255	6.0	31.01	1.8	3.4	9.08	5.17
255–300	5.9	35.75	1.9	3.2	9.70	6.06
300–340	6.1	33.51	1.8	3.5	9.46	5.49
340–380	5.7	35.89	1.8	3.1	9.59	6.30
380–420	5.1	35.00	1.8	2.8	9.46	6.86
420–470	5.6	37.63	1.9	2.9	9.18	6.72
470–525	4.7	37.26	1.8	2.6	9.48	7.93
525–615	4.5	39.95	1.9	2.4	9.58	8.88
615–775	4.3	44.79	2.1	2.1	9.86	10.42
775–950	4.0	47.28	2.2	1.8	9.30	11.82
>950	3.3	55.28	2.4	1.4	9.72	16.75
All classes	5.1	38.21	1.9	2.7	9.52	7.49

^aThis includes only living rooms (please see footnote on average house area for definition of living room, other rooms and veranda)

^b30 % circulation space is subtracted from average house area to calculate average room size⁴

Source: NSS (2002, pp. 41–42, A 208); Author's own calculation

Another method for gauging the level of seriousness of the problem of congestion would be to analyze the table below, which highlights that 48.7 percent of rural households with four members live in single room houses, similar to the condition of 37.8 percent urban households. When the majority of households in India are four to five member households it is alarming to observe that 76.9 percent of five member rural households and 68 percent urban households live in dwellings with two or less rooms (Table 4.8).

There is no perfect formula to derive the adequate size of a dwelling unit but, despite that, it is not difficult to comment upon the inadequacy of space available to the lowest MPCE classes, especially in slum areas where an individual gets only approximately 4.9 square meters of space in a house to perform all household activities, like sleeping, cooking,

⁴Average house area = Area of Living Room + Area of other rooms + Area of Verandas NSS (2002) defines 'living room' as "a room with floor area (carpet area) of at least 4 square metres, a height of at least 2 metres from the floor to the highest point in the ceiling and used for living purposes" (p. 14). 'Other rooms' included rooms which do not satisfy the specification a living room or were not used for living purposes.

Table 4.6 House characteristics across various income groups in slums and squatter settlements in urban India (2002)

MPCE class	Average household size	Average house area	Average number of rooms ^a	Persons per room	Average room size ^b	House area per person
0–300	6.0	28.70	2.5	2.4	6.26	4.78
300–350	5.3	21.77	1.4	3.7	7.81	4.11
350–425	5.2	22.51	1.6	3.3	7.43	4.33
425–500	5.1	19.14	1.3	3.8	6.84	3.75
500–575	5.8	20.55	1.4	4.1	7.19	3.54
575–665	5.0	19.99	1.3	3.9	7.10	4.00
665–775	4.4	20.49	1.3	3.3	7.03	4.66
775–915	4.1	18.15	1.2	3.3	6.58	4.43
915–1,120	3.2	17.71	1.2	2.6	7.38	5.53
1,120–1,500	2.7	18.69	1.2	2.2	7.61	6.92
1,500–1,925	3.0	28.00	1.6	1.9	8.60	9.33
>1,925	2.8	41.43	1.8	1.5	8.36	14.80
All classes	4.6	20.85	1.4	3.3	7.19	4.53

^aThis includes only living rooms (please see footnote on average house area for definition of living room, other rooms and veranda)

^b30 % circulation space is subtracted from average house area to calculate average room size

Source: NSS (2002, pp. 41–42, A 208); Author's own calculation

Table 4.7 House characteristics across various income groups in urban (non-slum areas) India (2002)

MPCE class	Average household size	Average house area	Average number of rooms ^a	Persons per room	Average room size ^b	House area per person
0–300	5.9	34.50	1.8	3.3	7.97	5.85
300–350	5.9	28.95	1.7	3.5	8.07	4.91
350–425	5.6	28.29	1.7	3.4	7.77	5.05
425–500	5.4	31.74	1.9	2.8	7.80	5.88
500–575	6.0	31.50	1.8	3.4	8.02	5.25
575–665	5.0	32.24	1.8	2.7	7.47	6.45
665–775	4.6	33.50	1.8	2.6	7.56	7.28
775–915	4.4	34.43	1.9	2.3	7.58	7.83
915–1,120	3.9	37.76	2.0	2.0	7.80	9.68
1,120–1,500	3.7	44.27	2.2	1.7	7.91	11.96
1,500–1,925	3.5	47.64	2.2	1.6	8.19	13.61
>1,925	3.1	62.92	2.7	1.2	9.31	20.30
All classes	4.5	38.58	2.0	2.3	7.99	8.57

^aThis includes only living rooms (please see footnote on average house area for definition of living room, other rooms and veranda)

^b30 % circulation space is subtracted from average house area to calculate average room size

Source: NSS (2002, pp. 41–42, A 208); Author's own calculation

Table 4.8 Number of members in household versus number of rooms in house in India (2001)

Number of members	1 room or no exclusive room		2 room		3 room		More than 3		Total	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
1	72.3	66.9	18.7	19.8	5.2	8.1	3.8	5.2	100	100
2	62.1	52.8	25.8	26.5	7.1	12.3	5.0	8.4	100	100
3	55.5	44.5	28.7	29.7	9.3	15.7	6.5	10.1	100	100
4	48.7	37.8	31.2	31.3	11.4	17.9	8.7	13	100	100
5	44.4	36.4	32.5	31.6	12.9	17.7	10.2	14.3	100	100
6–8	35.9	31.6	33.2	31.2	15.9	18.5	15.0	18.7	100	100
>9	19.4	18.5	25	23.2	20	20	35.6	38.3	100	100

Source: Census (2001a)

bathing, and storage of food and clothes. It is important to note here that the average space for an individual in the lowest MPCE class in rural areas is 4.76 square meters, which is comparable to that in slums where it is 4.78 square meters, though the overall average house area per person is considerably higher in rural areas (7.5 square meters) than in slums (4.5 square meters), implying that the living space available to the poorest of the poor is no different in a village than in a slum. The situation improves in rural areas as we move up the income ladder. There have been many programs to address housing needs of the poorest in urban areas but without much success. It should, however, be easier to improve housing conditions for the poor in rural areas as land procurement for housing development is less challenging there. A problem, however, arises due to a lack of interest among private developers for building houses in rural areas and therefore the onus lies with public agencies who have been reluctant producers of housing stock, as discussed under earlier sections.

Another interesting observation is that although the average house area available per person is lowest in urban slums (4.5 square meters), second lowest in rural areas (average 7.5 square meters) and highest in cities (8.6 square meters), the actual picture only emerges when rural and urban housing conditions are compared across similar MPCE classes (Tiwari and Rao 2016). This comparison reveals the fact that housing is still much more spacious, especially for higher income groups, in rural areas than in urban areas. For example, average house space for an individual in MPCE class INR 775–950 in rural areas is 12 square meters, whereas

in urban areas it is eight square meters for a comparable MPCE class INR 775–915. As discussed earlier, even though the size of housing unit is usually larger in rural areas, there are problems of poor construction and design; obsolescence; and the use of non-durable building materials and these together reduce the availability of ‘decent’ housing stock.

Congested living is primarily seen as an outcome of large family sizes and lack of affordability for decent quality housing, and most importantly the lack of formal affordable housing choices, such as public rental housing, which is totally absent in the Indian market. This has compelled households to acquire substandard houses available at cheaper/affordable prices for rental and ownership purposes. Combining the results of the two housing characteristics—the number of persons sharing a room and the house area available per person—we observe that a decent living environment is available to rural MPCE class of INR 525 or above whereas a similar standard of living is achieved by urban MPCE class of INR 775 or above and slum MPCE class of INR 1,120 or above. A decent quality house is relatively more affordable in smaller towns and rural areas than in large cities, and a household is able to access a better standard of housing in a smaller town or village than in big urban centers, where a similar standard of housing is far more expensive. In addition, we observe that the informal housing market is cheaper only for substandard quality housing stock and a better quality house in informal market is much more expensive than in the formal market.

4.2.3 House Affordability

Affordable housing refers to any housing that meets some form of affordability criterion, prime ones being: (i) income level; (ii) size of dwelling unit; and (iii) fraction of expenditure made toward housing (as seen in Table 4.9) (Tiwari and Rao 2016). In India, the Ministry of Housing and Urban Poverty Alleviation (MHUPA) provides guidelines on the affordability criteria and the construction of such housing according to income group. A recent report by the Deepak Parekh committee (2008) under the MHUPA, argues that the amount an economically weaker section (EWS) or lower income group (LIG) household should spend monthly

Table 4.9 Defining affordability for various income groups and housing shortage in urban India (2007–2010)

	Defined/desired affordability		Affordability status in 2010				Housing unit shortage in various income classes (millions, 2007)
	Affordability (1): house price (rent/EMI) as percentage of monthly income (%)	House size (sq m)	Affordability (2): ratio of house price to annual income of household	House price* (rent/EMI) as percentage of monthly income (%)	Ratio of house price* to annual income of household (in 2010)	Number of households in various income classes (millions, 2007)	
Income group	Monthly income of household (in INR, 2010)	House size (sq m)					
Below poverty line (BPL)	≤2,690		5	2	266	76	21.81
Economically weaker section (EWS)	539–3,300	21–27	20	3	217	62	
Lower income group (LIG)	3,301–7,300	28–4041–60	30	4	98	28	27.57
Middle income group (MIG)	7,301–14,500	61–112	30–40	5	49	14	16.92
Higher middle income group (HMIG)	25,829 (avg.)		30–40	5	28	8	
Higher income group (HIG)	85,152 (avg.)	>112	30–40	5	8	2	

Source: Wadhwa, Affordable housing for urban poor (2009, p. 3); JLL (2010, p. 14); MHUPA (2013, p. 4); Author's own calculations

on housing should not exceed 30 percent of their monthly income. The cost of affordable housing should be no more than the home loan that monthly installments (EMIs) of 30 percent of the household gross monthly income could provide and the carpet area for affordable housing should be between 300 square feet and 600 square feet. Similarly, to arrive at affordability levels for the middle income group (MIG), the house cost should equal the loan amount for which the EMIs do not exceed 40 percent of the household gross monthly income and the carpet area of the house should be around 1,200 square feet (Tiwari and Rao 2016).

Later it was realized that the housing needs of the population below poverty line (BPL) shall also be considered and the criteria was therefore revised by Wadhwa (2009). The new definition proposed an expenditure of five percent of annual income as an affordable cost for housing for BPLs. Wadhwa (2009) brought down the figure on housing expenditure from 30 percent to 20 percent of annual income for EWS to be in an affordable range. For LIG and MIG households, the expenditure share of income for the purposes of defining affordable housing was retained at 30 percent and 40 percent respectively. The Deepak Parekh gave an ambitious definition of “adequate shelter” that should be available at affordable cost, this included: “adequate privacy; adequate space; physical accessibility; adequate security; adequate lighting, heating and ventilation; and adequate basic infrastructure” (Deepak Parekh Committee 2008, pp. 7). While affordable housing guidelines aim to provide decent housing for all, practical implementation of these guidelines has been found to be challenging and programs to supply affordable housing missed fulfilling all three criteria together, especially for lower income groups where the gap between household income and house price is extremely high.

In the absence of housing rights in India, the lowest class of homeless and below poverty line⁵ population has struggled to find decent shelter.

⁵In 2011–2012, for rural areas the national poverty line using the Tendulkar methodology is estimated at INR 816 per capita per month and INR 1,000 per capita per month in urban areas. Thus, for a family of five, the all India poverty line in terms of consumption expenditure would amount to about INR 4,080 per month in rural areas and INR 5,000 per month in urban areas. These poverty lines would vary from state to state because of interstate price differentials. (Planning Commission 2013, p. 2).

Lack of adequate shelter makes them vulnerable not only to physical weather conditions but also exposes them to inhumane living conditions. The gap between living condition and decent shelter is wide for this lowest income class (BPL) which constitutes approximately 22 percent of India's population, of which 14 percent live in urban areas and 26 percent live in rural areas (Planning Commission 2013, p. 3). With their income constrained to the extent that BPL households cannot even afford to pay for adequate food, it is really challenging to fill the gap for a house, especially when it could be as wide as between homelessness and homeownership. Wadhwa (2009) defines affordability as a fraction of income which can be spent on housing and assumes that BPL households can afford to pay up to five percent of their monthly income as rent or equal monthly installment (EMI) for housing (Table 4.9). This amounted to INR 134 in 2009 when average market rent in tier I cities⁶ was calculated to be INR 7,148⁷ for a house unit of 300 square feet, which is nearly 53 times higher than what BPL households can afford. The situation is only slightly better for EWS and LIG classes, for which the average market rent of INR 7,148 is 13 times and seven times, respectively, than what they can afford to pay for housing. Even MIG households are unable to afford a small unit of 300 square feet and thus housing is observed as affordable only to approximately 16 percent of the population belonging to higher middle income and higher income groups, as shown in Table 4.9 (JLL 2010, p. 14).

The data presented above tells us that there is no one formula or metrics that programs should follow that can help in achieving housing for all, or rather adequate shelter for all. There is a need to address the problem through a range of different types of housing solutions which offer a variation in size of house, structural quality, infrastructure services, and tenure types so as to meet the requirements of various income groups (Tiwari and Rao 2016). So far, the policy approach has been to provide or facilitate homeownership and accordingly the definition of affordabil-

⁶Tier I cities include Mumbai, National Capital Region (NCR) of Delhi, Pune, Hyderabad, Bangalore, Chennai, and Kolkata.

⁷The figure is calculated by the author by deriving market rent from the Economic Times newspaper section. Rent is assumed to be 3.5 percent of house cost.

ity has taken into consideration only the house size, for example, as per Ministry of Housing and Urban Poverty Alleviation (MHUPA) an affordable house is defined as “dwelling Units (DUs) with carpet area between 21 to 27 sq. m. for Economically Weaker Section (EWS⁸) and 28 to 60 sq. m. for Lower Income Group (LIG⁹) (LIG-A: 28–40 sq. m. and LIG-B 41–60 sq. m.)” and the sale price of these houses is left at the discretion of states (MHUPA 2013, p. 4). Looking at the market price for a house of 21–27 square meters, targeting to provide homeownership to the EWS segment while keeping it affordable would mean that almost 95 percent of the cost of house would have to be subsidized (Tiwari and Rao 2016). Tiwari and Rao (2016) write that “this huge gap between affordability and the actual market price of a house is further widened due to the absence of formal financial instruments for lower income classes who lack accumulated or inherited wealth to pay for an initial down payment.” Moreover, they do not have the capability to pay the monthly installments required to service loans. “Thus the aim of housing for all becomes unachievable and there is no surprise that most housing programs have failed to provide ownership to the target income class and have ended up serving as an alternate investment option for higher income groups.” (Tiwari and Rao 2016).

A house is much more than a structure of four walls providing protection from outdoor weather conditions. Other amenities also form part of housing and this bundle of amenities provides safe, secure, and healthy living conditions for its residents. Major amenities associated with housing include: access to basic services; a degree of privacy; good quality of physical structure; hygienic living conditions; secure tenure; access to social amenities; and financial assets. Like any other good, a house also increases in cost in proportion to the number of amenities attached to it. For example, a shared dormitory with public tap as the only source of water will be of less value than a private house with a water connection inside the premises. On a similar note, monthly rent on a rental house will be lower than the user cost of homeownership because of differences

⁸EWS: having an annual household income up to INR 100,000 (MHUPA 2013, p. 5).

⁹LIG: having an annual household income between INR 100,000 to 200,000 (MHUPA 2013, p. 5).

in the rights that these tenures bring with them. This example helps in understanding that although ownership is the most preferred tenure, it is important to facilitate access to a decent living environment irrespective of the bundle of property rights associated with a house. This discussion is important for understanding the concept of affordability, which changes for different income groups as they differ in their expectations of a house and associated bundle of amenities. For example, for a homeless population, the provision of shared accommodation with a very basic infrastructure might serve the immediate requirement of protection from outdoor climate and harsh weather conditions. For slum dwellers, having access to some kind of housing, irrespective of it being temporary or permanent, authorized or unauthorized, the prime need is for security against evacuation or relocation, and for provision of infrastructure services like water, sanitation, power, and access roads. Adequate shelter to all requires a wide range of housing tenures to suit household income and affordability. These would range from shelter homes or transit housing for BPLs, to public rental housing for EWS households, to public ownership housing for LIGs and lower MIGs (Fig. 4.4).

As discussed earlier, the figure above explains housing as a bundle of amenities, all of which are not achievable by all income groups. A transition toward homeownership, by progressing one stage at a time, is what is practically implementable. This would require policy intervention, micro-level planning with public participation, the introduction of financial instruments suiting the requirements of lower income groups, and economic planning to build the financial capacity of this majority segment of society.

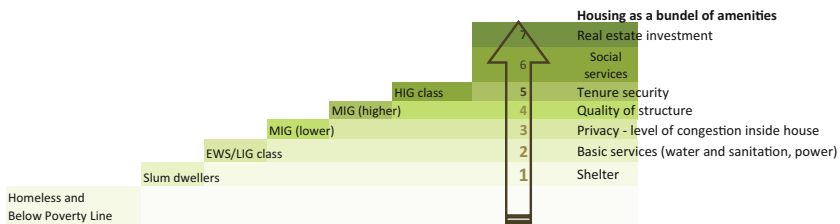


Fig. 4.4 Housing as a bundle of amenities for different income groups

4.2.4 Demand Versus Supply

The majority of those households in need of better housing—either due to homelessness, or due to the dilapidated physical condition of their current homes, or due to congested living conditions—are primarily from economically weaker sections (EWS¹⁰) or lower income groups (LIG¹¹). Thus there is a huge demand for small rental and ownership affordable housing. As per MOHUPA (2010) the urban housing shortage toward the end of the tenth five-year plan (in 2007), was estimated to be 24.7 million housing units, out of which 99 percent of the housing shortage was pertaining to households in the EWS and LIG groups (MOHUPA 2010). The share of housing required by EWS and LIG of the total Indian housing requirement was more than 95 percent in 2012 (Planning Commission of India 2012).

On average, a rural household occupies 38 square meters of floor area and an urban household 39 square meters. The poorest households in the lowest monthly per capita consumption expenditure (MPCE) class in rural areas occupy 31 square meters floor area on average, and in the urban slums the average floor area per household is 29 square meters (NSS 2002, pp. H1, H2). The average size of house (floor area of rooms and veranda) varies substantially between income classes in rural, urban, and slum areas (NSS 2002).

As per the housing conditions prevailing in 2001, which had not changed much in 2014, we observe that 67 percent to 73 percent of households in India are living in houses with no exclusive room per couple, or have one or two rooms for an average household size of 5.4 in rural and 5.1 in urban areas, as per Census 2001. The share of none to two room occupiers (Table 4.10) has gradually increased since 1991. In 1991, 71.1 percent of households were living in houses with none to two rooms, while in 2001 the proportion increased to 71.6 percent, and in 2011 it further increased to 72.7 percent with a major increase in the no exclusive room category (MOSPI, www.mospi.nic.in, 2013).

¹⁰EWS: income up to INR 5,000 per month (MOSPI, Ministry of Statistics and Programme Implementation, 2014, p. 355).

¹¹LIG: income between INR 5,001–10,000 per month (MOSPI, Ministry of Statistics and Programme Implementation, 2014, p. 355).

Table 4.10 Percentage distribution of households as per size of dwelling unit (number of rooms) (1991, 2001, and 2011)

Size of dwelling unit	1991	2001	2011
No exclusive room	0	3.1	3.9
One room	40.5	38.5	37.1
Two rooms	30.6	30	31.7
Three rooms	13.9	14.4	14.5
Four rooms	7.1	7.5	7.5
Five rooms	3.2	2.9	2.6
Six or more rooms	3.9	3.7	2.8
Unspecified number of rooms	0.9	–	–
Total (percentage)	100	100	100

Source: MOSPI, www.mospi.nic.in, 2013

Despite the huge requirement for affordable housing for EWS, LIG, and lower MIG classes, the market has been reluctant to supply houses that cater to this demand and most of the houses that are produced are two to three room houses, which usually meet the consumption, affordability, and investment requirements of higher income groups (HIG), and to some extent of middle income groups (MIG). While the housing stock has grown at a faster pace than the number of households, the homeownership rate in cities has not increased and has been almost stagnant or fallen slightly, from 62.8 percent in 2006 to 61.5 percent in 2008 (MOSPI, www.mospi.nic.in, 2013). This indicates a lack of absorption of new stock, which is primarily due to the mismatch between consumer requirements and the goods produced. To explain further, for a majority of the population (almost 84 percent of the total population), available housing in the market is not affordable. It is not uncommon to see EWS and LIG size units being purchased by MIG and HIG consumers, primarily for investment purposes.

Considering the average family size to be five in India, a house with two to three rooms is definitely desirable, but at the same time it is not affordable. It has been challenging to meet both the requirements of adequate house size and affordable house price at the same time. And therefore it has been difficult to derive a perfect formula that best fits the house size and house price requirements of economically weaker groups. Demographically, EWS households are usually larger in family size and their requirement is for a larger house, but lack of affordability precludes

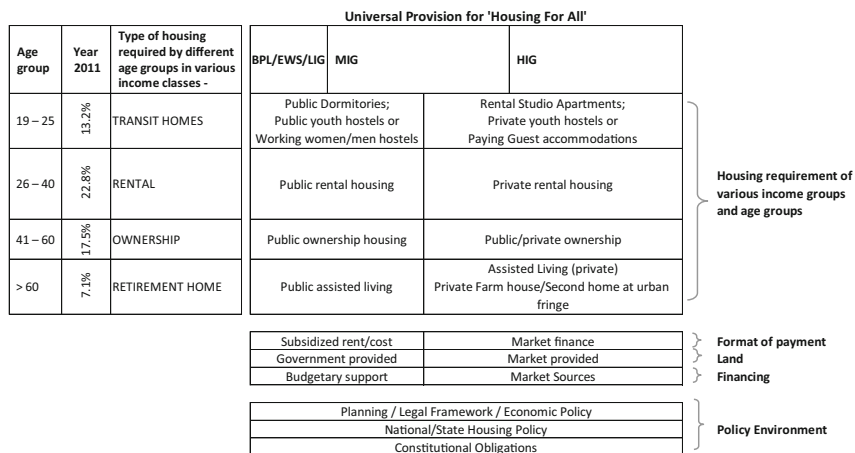


Fig. 4.5 Conceptual framework for housing for all in India. *Source:* Authors

them from all available housing options in the market. To quote the data, the average household size of the lowest MPCE class (INR 0–300) is as big as six members (5.9 to 6.4 for rural, 6 for urban slums and 5.9 for other urban areas) and the requirement for space for households of this size is the highest among all MPCE classes whereas their capacity to pay is the lowest (NSS 2002, p. 41). On the other hand, higher income classes have been observed to have small family sizes of three to four members (NSS 2002, p. 41) and their affordability to pay for a good quality of life, including adequate housing is high. This leads to overconsumption of housing among the rich and severe under consumption among the poor.

A conceptual framework for understanding the housing requirements of households across various income groups, conditional on affordability at different stages of household lifecycles is presented in Fig. 4.5. The approach toward housing for all is divided into five major steps involving: an understanding of housing requirements of various income groups across age-groups; format of payment expected from target consumers; procurement of land; financing the project; and a policy environment conducive to obtaining housing for all. In order to understand the type of house required for a household, we have tried to categorize lower, middle, and high income households in four major age groups. We assume that households in the 19–25 years age group are new settlers who may not have families and are

usually there for the temporary purpose of work or study. For those who can afford to pay for unshared space of good quality, the preferred choice would be furnished studio apartments or hostels where they can park themselves for the duration of their stay in the city. For young poor migrants, public transit homes, like shared dormitories or youth hostels are totally absent in our cities and this forces them to seek affordable housing options in slums and in informal housing markets. As and when these new settlers progress toward family formation and are in the 26–40 year age group, they seek privacy and move to unshared space, which is usually a rented house. Newly formed families usually lack accumulated wealth, unless inherited, and are more likely to be financially incapable of owning a house. Therefore this age group is more likely to seek rental options in the form of subsidized public rental housing than in fully furnished/semi-furnished private rental housing for affordability reasons. As can be seen from Fig. 4.5, the 26–40 year age group forms 23 percent of India's population (Census 2011a) and therefore the demand for rental housing is huge. The housing market offers private rental housing but the demand for public rental housing remains unmet. Those poor who get crowded out from the rental housing market find shelter in slums. This is leading to the embellishment of informal housing as that is the only market which meets the requirement of low income households in the absence of formal choices (highlighted in red in Fig. 4.5 below). As discussed earlier in this section, a majority of households have chosen to reside in houses with one or two rooms and it has become difficult to find small house units, in the formal housing market, available for rental and ownership purposes in India. This poses a challenge to the transition of young households toward homeownership, as a continuum of housing choice does not exist, which results in the poor spending more on housing by distorting their consumption of other goods. A lack of small size rental housing units results in the poor spending more than desired as they end up renting large size units. This reduces their potential for accumulating household savings and delays homeownership. There has been a very noticeable change in household size, especially in urban India. Average household size has considerably reduced from 5.2 in 1971 to 4.7 in 2011. It is interesting to note that the trend of a nuclear family is gaining popularity both in urban and rural India as we notice that the increase in number of households (decadal growth rate) has been higher than the increase in total population, thus bringing the average

household size down. This trend is adding to the demand for a small size of housing units, both on a rental and an ownership basis.

Lack of choice of appropriate types of housing required at various stages of transition (professional and personal) is creating an undesired atmosphere in the housing market, for example, small units measuring between 300–600 square feet, which are developed for EWS and LIG households usually turn out to be unaffordable for this target segment. Lack of formal financial support further extenuates the situation for low income households. The consequence of a suboptimally functioning housing market is that houses meant for low income households, developed under various public programs and subsidised by government, are often misappropriated by higher income groups, who have not found small house units in the open market for investment (or for use) purposes.

After public and private rental housing, the next highest demand is for public and private ownership housing, which is likely to be sought by the 41–60 age group, constituting 17.5 percent of the country's population. The problem, however, is that public housing for ownership constructed by housing boards and other government agencies is in short supply and often turns out to be unaffordable for the target consumer groups (EWS/LIG). Even though 99 percent of housing demand is from lower income classes, private developers have ignored this market (except in recent times) and this demand supply mismatch has made it difficult to achieve housing for all.

Housing needs for the elderly population of the country has recently obtained consideration with a few projects being developed by private developers, for example Ashiana in Bhiwadi (Haryana) and Lavasa (Maharashtra), though public housing for this age cohort has been completely ignored.

The discussion above illustrates the following major challenges:

1. lack of transit housing options
2. investment in housing sector and reluctance toward production of affordable units
3. forms of financial assistance available to lower income groups.

The following sections discuss the fiscal and policy environment within which the housing sector has operated in India.

4.3 Fiscal Environment

The fiscal environment for housing has not been very responsive toward the housing market and it has always been challenging for both suppliers and demanders to access formal finance for production and consumption of housing, respectively. Along with other challenges faced by the housing construction industry—for example, lengthy time required to obtain development permission and non-transparent land markets making land procurement difficult—the issue of a lack access to formal funding has decelerated housing stock production in urban markets. It is disappointing to note that the contribution of the housing sector to GDP has been almost stagnant at 4.5 percent during 1993 and 2003 (NHB 2014) and increased only slightly to five percent in 2012. This indicates that investment in the housing sector has not been sufficient to eradicate housing shortages in the country. KPMG estimates that India would need to double the amount which is currently invested in housing, if the housing shortage is to be met (KPMG, Housing for all by 2022, 2014a, p. 12). The KPMG (2014a) study also expects that the contribution of the real estate industry to GDP will increase up to 13 percent by 2028 because of the strong drive created for real estate due to urbanization, rising income levels, young population, growing number of nuclear families, and strong expected growth in the manufacturing and service sectors (KPMG 2014b). However, the construction industry is considered ‘risky’ by the financial institutions and this poses fiscal challenges to the developers, thus constraining the supply. RBI has set up the threshold for total maximum exposure to real estate for banks at 15 percent, which includes individual housing loans and lending to developers for construction finance (KPMG 2014b, p. 13) which is posing a challenge to developers and households toward accessing funding for housing from institutional lenders (banks and housing finance companies). High inflation rates, less disposable income and savings, rising house prices and high interest rates on mortgages, has caused the challenge of homeownership to grow bigger and bigger for urban households in India.

Along with the unavailability of long term capital for construction, there is a lack of availability of funding for the cost involved during project

conception and land procurement. These costs constitute as much as 20 to 40 percent of the total cost of projects in urban peripheries and 50 to 60 percent in metropolises and a few tier-1 cities, and are usually met through developers' own sources. During the initial years after independence, between 1950 and 1970, the primary sector was a major contributor to national GDP. Post-1970, the service sector's share of GDP increased to 65 percent. Being a largely urban activity, growth in the service sector has increased the requirements for space and land for development. Rise in land prices are in proportion to economic development and thus are indirectly in proportion to increases in the paying capacity of the highest bidder, which in urban areas are the service sector corporates. Increase in demand for land for offices, combined with increased savings of the private corporate sector (see Fig. 4.6) and thus an increase in the

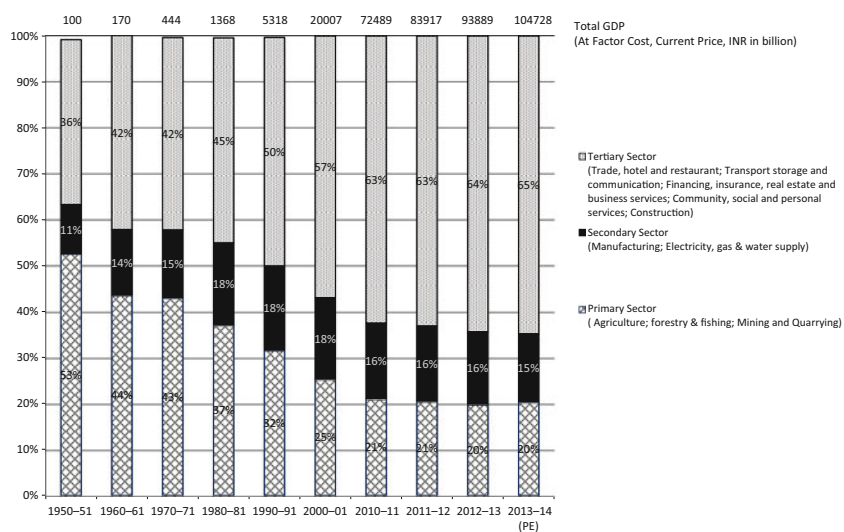


Fig. 4.6 Increasing share of India's tertiary¹² services sector (at factor cost) to GDP (1950–2013). *Source:* Central Statistics Office (CSO) at http://mospi.nic.in/Mospi_New/site/inner.aspx?status=3&menu_id=82. Retrieved December 14, 2014

¹² Following industries are considered to be in the tertiary service sector: i) trade, hotels, and restaurants; transport, storage, and communication; ii) financing, insurance, real estate, and business services; iii) community, social, and personal services; iv) construction.

corporate sector's financial capacity has led to a rise in land prices. Therefore, the bigger the economy the higher the price of land will be in that geographical location and the higher the price of houses will be. In urban areas, land prices will continue to increase with economic growth and this will cause house prices to grow, making housing more unaffordable, particularly if household incomes do not increase at the same pace.

There is no hedge against rising land prices which defends the housing industry from competitiveness among potential bidders (including the service sector). In the past, private developers have relied on public agencies for their land requirements for the development of housing, so as to keep their initial investment in land low and in turn to keep house prices low. With the introduction of latest land acquisition act of 2013 (Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013) it will be more difficult and expensive to acquire land and therefore the hedge against open market land prices, which was being provided by public agencies to private developers, may not be available in future. Compelling developers to bid on the open market and procure land at market price for housing development will increase the cost of development further. This may then increase the price at which housing can be supplied. Housing may become more unaffordable, unless the sector is supported by responsive policy measures targeted at reducing house prices, increasing the paying capacity of buyers and providing an efficient funding mechanism for the developers and buyers of housing units. Figure 4.7 shows the slow pace of growth in household income, represented by private consumption expenditure, in relation to house prices in various cities, thus keeping housing unaffordable.

A comparative picture of GDP, house prices and private consumption expenditure (proxy for household income) trends, as can be seen in Fig. 4.8, shows that an increase in GDP does not necessarily mean a commensurate increase in household income. In Indian cities, household incomes have increased at a slower rate than the growth in house prices, thereby worsening affordability. The share of household sector savings in gross domestic savings has been almost stagnant during 1952–2012, at an average of 71 percent. Though the share of financial savings has increased, the majority portion of household savings is primarily dominated by physical asset savings, with an average of 58 percent

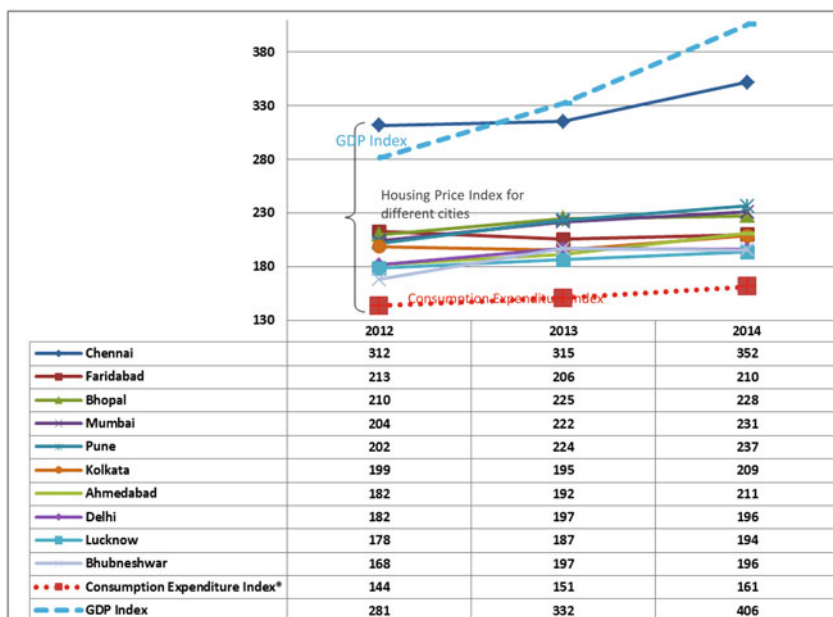


Fig. 4.7 House price trends as against household income and GDP growth (2007 base year). *Source:* National Housing Bank (<http://www.nhb.org.in/Residex/Data&Graphs.php>. Retrieved December 13, 2014); Reserve Bank of India (*<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=15793>. Retrieved December 13, 2014)

(1952–2012), which was highest in 1952 (89.6 percent) and reduced to 67.6 percent in 2012.

This implies that household savings have always been dominated by physical asset savings, the share of which has increased in recent years (2006 onwards), primarily due to increases in house prices and not because of the purchase of new stock by households, as the homeownership rate has remained stagnant at 70 percent during 2001 and 2011 (Fig. 4.9).

On the expenditure side, the share of expenditure on housing, both in rural and urban areas, has consistently increased, and urban expenditure per person on house rent registered a nearly threefold increase over the seven years between 2004–2005 and 2011–2012 whereas overall expen-

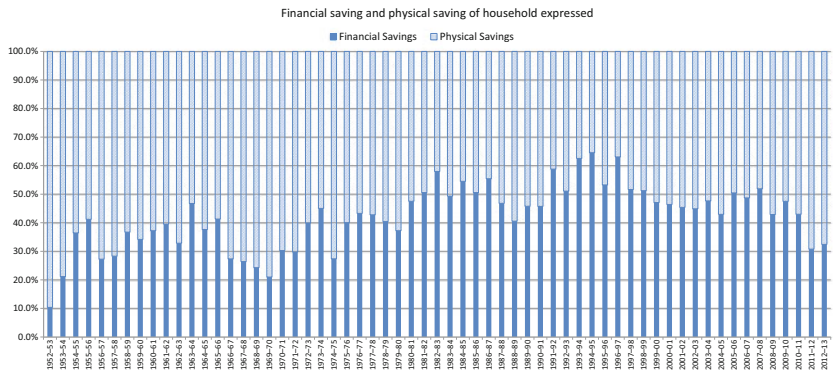
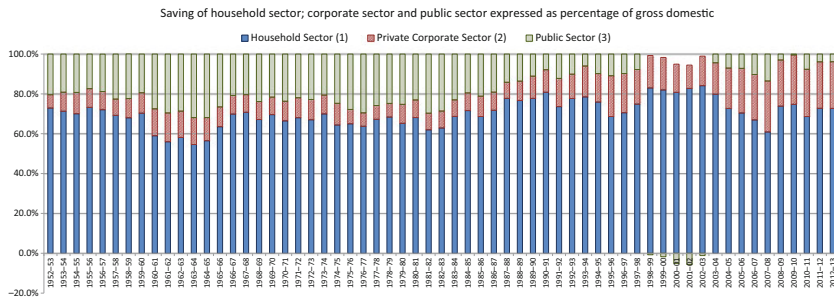
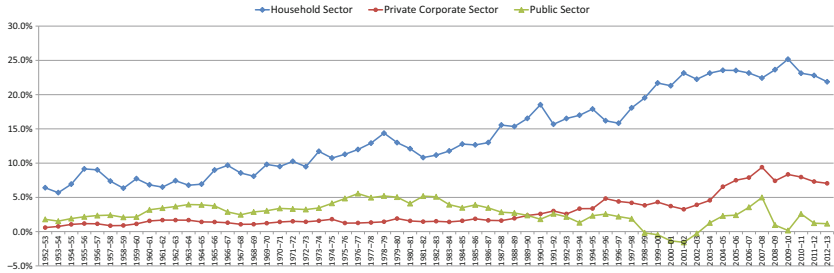


Fig. 4.8 Trends of household savings, corporate savings, and public sector savings (1952–2012). *Source:* RBI (2015)

diture per person only doubled (National Sample Survey Office, 2011–2012). This clearly reveals two important threats to house affordability in urban areas: (i) the share of housing expenses in overall expenditure is increasing, thus hinting at reduced household savings and reduced house affordability; (ii) the rise in housing prices is faster than the growth in income, again reducing affordability (Figs. 4.10 and 4.11).

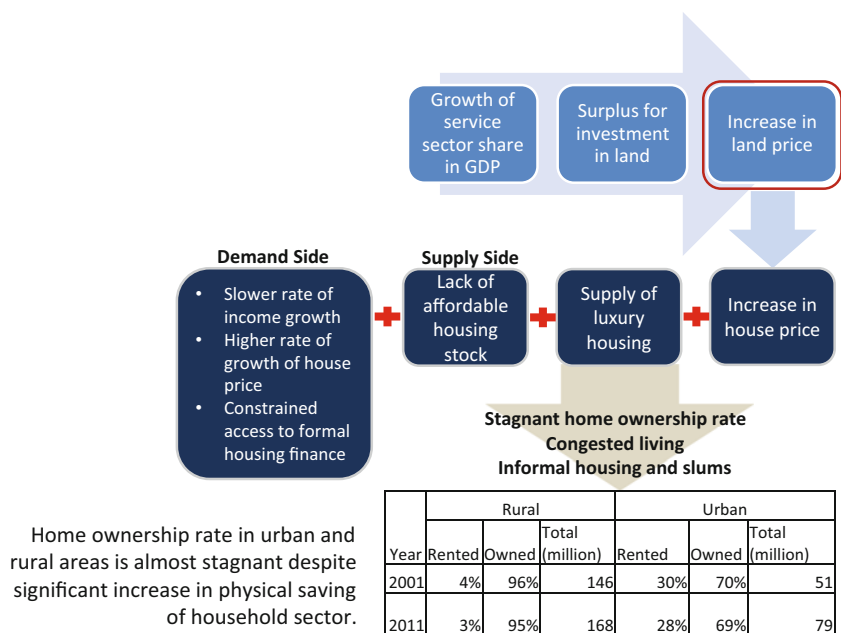


Fig. 4.9 Diagrammatic representation of housing scenario in India (2011).
Source: Authors

For sources of funding for housing, households are highly dependent upon their own savings and the share of institutional lending has always been low. The share of formal sector finance in the form of debt in household housing purchases is only 27 percent (for new buildings) in urban areas, up to around 17 percent in rural areas (Tiwari and Debata 2008, pp. 34–67). The situation is worse for the lower income classes who lack income security, savings, collateral, and access to formal funds. Traditional formal financial institutions have been hesitant to lend to poorer households as they have been perceived as high risk borrowers. Lack of finance has reduced the ability of the urban poor to buy houses on the open market and despite huge demand for housing for this consumer group, the market is reluctant to produce goods targeting their needs.

There have been some scattered attempts by private builders to develop affordable housing who, through innovative mechanisms for financing instruments, have tried to tap into the EWS/LIG market. Some of these

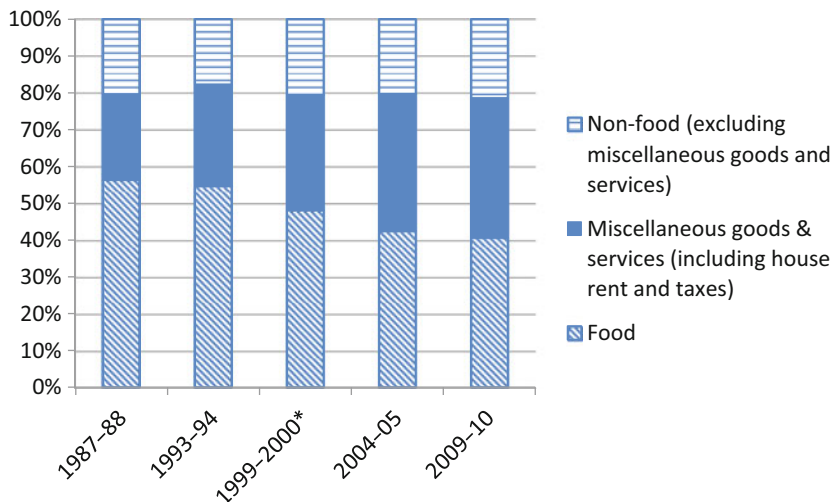


Fig. 4.10 Trends in percentage composition of MPCE (URP)¹³ from 1987–88 to 2009–2010 in India (urban). (Press Information Bureau 2011)

experiments have been very successful and have set groundbreaking examples in the housing market. However, the penetration of such strategies, which are primarily initiatives by private developers, has not gained momentum due to the absence of institutional and policy support, as discussed in detail in the upcoming sections.

Formal funding from institutional lenders for housing construction has been a challenge and there is a need to develop other reliable funding sources while improving the access to existing ones. Alternate funding options, like Foreign Direct Investment (FDI), may appear attractive but a lack of transparency in the real estate sector and the severity of the regulatory environment pose major challenges for foreign investors. The share of foreign investment in real estate has been meager, at only five percent of the total FDI investment in India since FDI was permitted in real estate in 2005. The last five years have seen regulatory attempts to improve funding situations for the real estate industry through a relaxation of FDI

¹³ MPCE(URP), that is monthly per capita expenditure—uniform reference period is measured using last 30 days expenditure for all items (Press Information Bureau 2011).

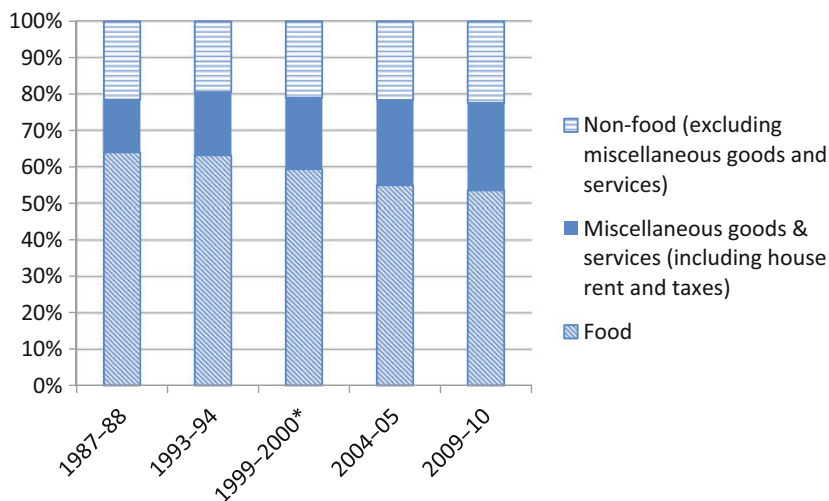


Fig. 4.11 Trends in percentage composition of MPCE(URP)¹⁴ from 1987–1988 to 2009–2010 in India (rural). *Source:* Press Information Bureau (2011). *MPCE(URP) estimates shown for all years except for 1999–2000, for which only MPCE(MRP)¹⁵ estimates are available.

norms, allowing external commercial borrowing for development of affordable housing, and by encouraging the establishment of real estate investment trusts (REITs) in India. These attempts, though laudable, have only been scattered. An improvement in the fiscal scenario would require a well-knit policy paradigm without which the problem of housing and basic infrastructure will continue to grow. The next section discusses in detail the major policy interventions and their impacts on housing sector performance in India since 1951, when the first five-year plan¹⁶ was introduced.

¹⁴MPCE(URP), that is monthly per capita expenditure—uniform reference period is measured using last 30 days expenditure for all items (Press Information Bureau 2011).

¹⁵MPCE(MRP), that is monthly per capita expenditure—mixed reference period is measured using last 365 days data for Category I items (clothing, bedding, footwear, education, medical [institutional], durable goods), and last 30 days for all other items (Press Information Bureau 2011).

¹⁶India has followed development planning based on a series of five years plans since independence. These plans have been formulated and implemented at the national level and comprise major policy directions, capital plans, and budgetary allocations for different economic sectors.

4.4 Policy Environment for Housing in India

Approximately two-thirds of the country's population is rural and Indian policy makers have always shown a reluctance toward urbanization. As originally an agrarian economy the move toward urbanization was seen as anti-rural, which would hamper agriculture and the economy of the country and hence the vast majority of the population who lived in villages. Although the economic base gradually shifted from agriculture toward the service sector, a majority of the population remained agrarian. Urbanization was discouraged at political and policy levels, particularly after 1965. This resulted in a lack of support for newly emerging cities, which, in the absence of any major capital investment program (prior to 2007 when Jawaharlal Nehru National Urban Renewal Mission was launched), remained deprived of physical and social infrastructure despite the fact that cities contributed almost two-thirds of national GDP. Urbanization in India has largely been an imposition of a changing economic scenario, which consistently moved away from an agrarian economy. Unprepared and unplanned cities have not projected a convincing image of an urban landscape and therefore the reluctance toward urbanization persists even today to some extent. Figure 4.12 explains the vicious cycle of economic de-growth linked with reluctant urbanization (Tiwari and Rao 2016).

A superficial scarcity of land—created by non-supportive regulations due to a reluctance toward urbanization, as shown in Fig. 4.12, combined with an increase in the bidding capacity of the services and private corporate sectors—has raised land prices making land procurement expensive for housing purposes. Conversely, if urbanization were supported by a responsive policy regime, it would lead to higher economic growth, higher household income growth, and an increase in a household's capacity to pay for a house and other basic services in proportion to an increase in price of these basic goods (Tiwari and Rao 2016). Supportive land policies would facilitate more land supply for development purposes.

It is important to understand housing policy evolution within the context of changing economic, political, and social scenarios in India

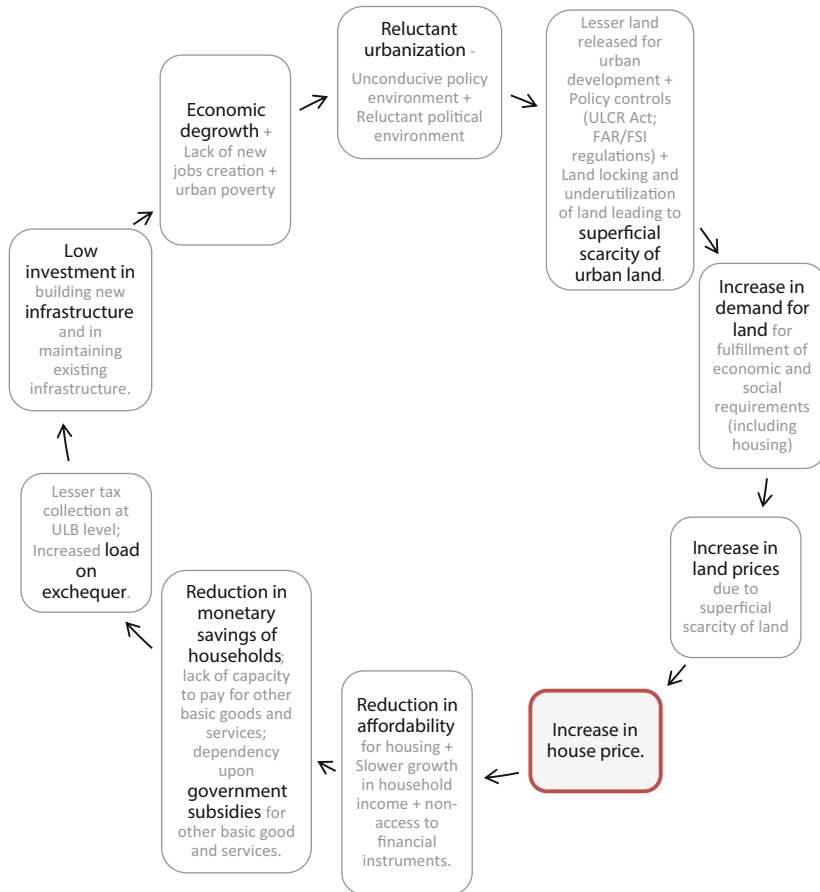


Fig. 4.12 Cycle explaining housing unaffordability as a consequence of reluctant urbanization in India.

to develop an understanding of interwoven issues of reluctant urbanization, urban land scarcity, housing shortages, homelessness, and so on. Figure 4.13 summarizes the major changes in the political, economic, and social environments of the country. This serves as an important reference for later discussions, which attempt to connect the dots to paint a holistic picture of the housing situation in the country.

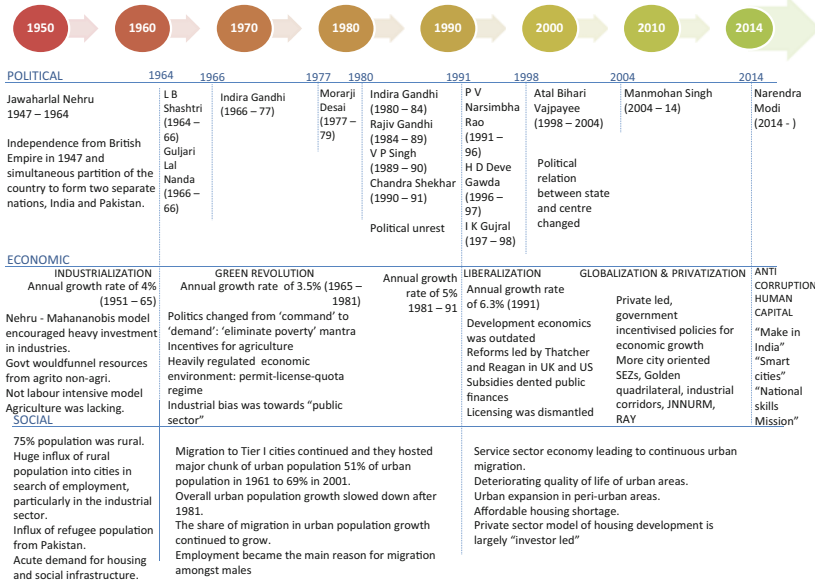


Fig. 4.13 Timeline showing changing political, economic, and social environments in India. Source: Authors; Tiwari (2016)

4.4.1 The Baseline: Housing at Independence (1940s and Early 1950s)

Post-independence in 1947, the architects of modern India, Prime Minister Nehru and his team, struggled to derive a balance between capital investments in revenue-generating economic activities versus investment in social welfare activities. The inclination of programs and policies in India has always been toward the promotion of capital goods. Social goods, like housing, were considered unproductive investments and were ignored.

The legacy of the Indian housing problem has its roots in the economic, political, and social scenarios prior to independence. With the advent of British rule in India, economic conditions deteriorated drastically and from 1757 to 1829 the country’s economy moved away from the position of supplier of manufactured goods to that of a supplier of

raw materials. Discouragement of the manufacturing sector degenerated urban life and reduced job opportunities in cities. When the industrial revolution and urbanization were being observed in Europe (1780–1850), India was witnessing a reverse phenomenon of ‘ruralisation’ (Bansal and Bansal 1984). After 1848, a large amount of investment was made for the development of railways and communications in India, though mainly to connect the hinterland with markets to transport raw materials, it also revitalized the process of industrialization in the country. Cities started to emerge as new destinations for work, especially for those who were landless agricultural laborers or who were facing financial hardship in rural areas.

The rapid industrialization that followed was building up demand for housing for industrial workers, which was usually met by the provision of workers' units, either by the industrial estate owners themselves or by other landowners in the form of rental units. Alongside this formal arrangement for housing, a development of unauthorized squatter settlements and shanties on private and public land was also witnessed. The common element across all formal and informal housing types was poor quality construction and a lack of basic infrastructure, like water and sanitation.

While the conditions for housing in urban India were already weak, the demand for housing in big cities began to increase rapidly during the Second World War (1939–1945) due to huge rural-urban migration, as there was a sudden increase in work opportunities in towns due to the emergence of war goods related production plants. Although employers usually provided housing for their workers before the war, they generally took the stand that not they but the state had the responsibility for providing houses for the working class. Apart from their other handicaps, these employers argued, they did not have sufficient means for investing in house building activities, especially as their post-war profits had declined and the cost of construction materials and labor had risen. The usual village push factors, that is, uncertainty of crop production, increasing debts, lack of opportunities for employment, and underemployment in agriculture, became the reason for a non-return of this population to the villages, even when the production plants ceased to operate.

Private builders were major producers of housing but for a long time they were unable to keep up with the demand. The global economic

meltdown of 1931 delivered a severe blow to international trade. The building industry was also impacted as demand declined and the level of construction fell between 1931 and 1939. During the war years and immediately thereafter both manpower and building materials became scarce and pushed up construction costs. The situation was aggravated further by phenomenal growth of the urban population. A great defect of the private sector-led construction model, particularly for the low-income groups, was that there was no rigorous imposition of building regulations, which led to the production of below standard stock that even compromised upon the provision of basic amenities.

Having realized that private enterprise was not in a position to supply housing units so far as low-income groups were concerned it was suggested that the state fill the gap and assist in the construction of suitable houses for low and middle income groups (both in urban and rural areas) (Tiwari and Rao 2016). However, due to a lack of formal funding options for LIG households, there was not much success in producing LIG housing units. For example, the state government took the initiative and established a Development Department in 1921 in Bombay (now called Mumbai) to cope with the growing shortage of houses there. The department was tasked to construct 50,000 one-room tenements, which were to be rented out to workers. The department also organized the supply and distribution of building materials, but it was shut down before it achieved its target. Only 15,000 tenements were constructed and the cost proved to be very high, so the workers could not afford to pay the rent, which had been fixed by the department to cover the interest and maintenance charges of the buildings.

It was under these circumstances of prevailing housing shortages in urban areas that India gained independence in 1947. There was a huge influx of a refugee population from Pakistan, which was simultaneously declared a new country. Refugees arrived landless and therefore were desperately trying to settle in urban areas so as to get employment in non-primary activities.

Government-provided public housing was primarily for its own employees, especially in smaller towns or in industrial townships. All levels of governments at central, state, and municipality levels and other public institutions provided houses for their own employees. There was huge

dependency of state governments and urban local bodies upon central grants for housing purposes. At municipal level, their own finances were generally in such a deplorable condition that only a few municipalities in India were able to provide even the minimum level of municipal services. Their capacity to venture into capital investment projects, such as housing schemes for low-income groups, was minimal. During partition in 1947 about 7.5 million displaced persons came to India from Pakistan and had to be provided with accommodation. For the first time central government undertook a large-scale housing program for persons other than their employees.

The demand for housing was increasing tremendously as, on the one hand, the urban population was increasing (due to an influx of the rural population in search of work and the settlement of refugee populations in urban areas) and, on the other hand, the private construction industry, which was the major contributor toward the provision of new housing, was shrinking on account of the scarcity and high price of building materials during and immediately after the war. Census figures of 1951 show that during the decade of 1941–1951, while the rural population increased by 4.7 percent the urban population increased by 53.77 percent (Planning Commission of India 1951a). As new stock was not getting produced pressure on existing housing stock was huge and this was leading to extraordinary rent hikes. As an immediate relief measure, the government introduced the Rent Control Act in almost all major cities of the country, though it had been levied in Mumbai since 1918, after the First World War. Legislative measures to control price hikes and protect tenants against eviction discouraged the development of new housing stock and further exacerbated housing conditions through overcrowding in existing homes, deterioration of existing housing estates, and the emergence of a variety of malpractices in relations between landlords and tenants. This was an era of major setbacks for private developers, who were not seeing any benefit in developing new housing or expanding or upkeeping existing stock, primarily due to legislative controls on prices (for example the Rent Control Act; the acquisition of private housing by government for fulfilment of housing needs for government officials) and due to increases in the cost of building materials and labor during and after the war.

4.4.2 Housing Conditions Post-independence, 1950–1965 (Nehru¹⁷ Era)

Between 1950 and 1980 the industrial economy had taken root and the condition of the manufacturing sector was improving as its share of GDP grew from 11 percent to 18 percent. The service sector was also growing during this time, at almost the same pace as the manufacturing sector. The overall economic condition of the country was improving and this brought some relaxation to the housing sector in the form of subsidies and long-term financing options. However, the overall investment in housing as a percentage of the total plan outlay remained low, between 1.5 percent and two percent.

During 1950 to 1956 attempts were made to address housing problems more seriously and a number of institutions were set up with the objective of providing a supportive environment to address housing problems at various scales—village, city, state, and nation. These included setting up state housing boards, the Ministry of Works, Housing and Supply (now the Ministry of Housing and Urban Poverty Alleviation, MHUPA), the Central Public Works Department (CPWD), the National Building Organization (NBO) and the Town & Country Planning Organization (Hingorani 2011). Activities of the Development Department of Bombay were resumed in 1949 by the Housing Board, which carried the objective of building houses for industrial workers and other low-income groups, developing land, and assisting in the production and distribution of building materials. The problem, however, arose in the functioning of housing boards as they were entities set up at state level but which depended upon central government for financial support for their activities. States did not have sufficient funds to allocate to housing boards. It was suggested in the first five year plan (1951–1956) that the principal sources of revenue for housing boards shall be the following:

1. Grants from the central or state governments and municipal authorities;
2. Rents and recoveries from housing estates constructed by the boards;

¹⁷Pandit Jawaharlal Nehru was the first Prime Minister (1947 to 1964) of independent India (refer Fig. 4.13).

3. Sale proceeds of lands acquired for development by the boards;
4. Betterment levies which the boards may be authorized to charge from persons benefiting from an improvement scheme;
5. Terminal tax on passengers and goods, arriving by road or rail, in cities where housing programs have been undertaken within the jurisdiction of the boards;
6. Issue of housing bonds with the consent of the central or the state government, as the case may be, at rates half per cent above the current rate of government borrowing; and
7. Loans from banks, insurance companies and such financing institutions on terms to be approved by central or state governments.

Activities of many state housing boards were curtailed considerably because loans and subsidies expected from central government did not materialize (Planning Commission of India 1951a). Gradually, during the 1960s, it was recognized that the availability of finance and sufficient and affordable land was central to the success of all housing schemes (Hingorani 2011). The land title system in India is primitive and a majority of landowners lack clear land titles. This makes it very challenging for private builders to procure land which is clear of controversies and for which clear land title exists. Therefore it was considered important by public agencies to provide land to private builders who would then be interested in taking up building activities. In order to make available land for housing purposes and to harness the coordination of all concerned agencies (public, private, and cooperative sectors), an emphasis was put on the preparation of master plans and regional plans for metropolitan areas and industrial cities (*ibid.*).

During this time period (1951–1956), the housing policies were primarily focusing upon the needs of industrial workers and low income groups. Importance was also given to research and development of new building materials and construction techniques, which could bring down construction costs and time. The program was considerably expanded, at least on paper, during the second five year plan (1956–1961) with the introduction of schemes of slum clearance and slum improvement, plantation labor housing, village housing and land acquisition and develop-

ment (Planning Commission of India 1956–1961). The centralized approach to housing construction and allocation was adopted during this period. The public agencies were trying to take full responsibility from land acquisition up to the construction and allocation of housing (Hingorani 2011). This proved unsuccessful due to failure in implementation and also due to shortfall of funds required to meet large scale housing demand (Hingorani 2011). A review of programs of this period indicates that most programs did very little to benefit their target group. It was a common practice for the beneficiaries to sell off the house as it was found “unaffordable and unacceptable” (Wadhwa 1988). Affordable housing was possible only on locations where land was available at lower cost, which precluded most city locations. However, housing provided on plots located outside the city center were unsuitable for lower income families as they required a commute to work (Hingorani 2011). The higher income groups could incur these costs and found these homes attractive for investment and occupancy purposes (Hingorani 2011). While the beneficiaries paid subsidized costs for housing, they chose to sell it at the market price. This generated monetary benefits which was an incentive to move back into slums (*ibid*). On the other hand, the public authorities were finding it tedious to acquire slum land and provide alternative sites for rehabilitation in the vicinity. Sivam and Karuppannan (2002) explain that many slum dwellers also found it difficult to pay even the subsidized rent.

The programs also faced other challenges. The availability of government land could reduce the cost of providing housing and therefore the Low Income Group Housing scheme of 1954 had high uptake in areas where affordable sites were available (Hingorani 2011). However, the State governments could not meet the responsibility of providing affordable sites and this restricted the reach of this scheme (*ibid*). Other housing schemes, particularly the ones focusing on employee-provided housing, were difficult to enforce (Planning Commission of India 1961). Other reasons of failure of public housing policies were the lack of public participation in project design; discouragement to international investment; and the upswing of informal and affordable private housing market (Sivam and Karuppannan 2002).

4.4.3 Housing During the Gandhi¹⁸ Era Green Revolution (1965–1990)

During the mid-1960s it was realized that housing policies need to be formulated within the larger context of economic development and industrialization (Planning Commission of India 1961). India's economy grew slowly and was extremely volatile between 1965 and 1981 (Sibal 2012, p. 20). Government intervened deeply in market performance and the economic environment was highly regulated by policy and legislature. The major controls levied during Indira Gandhi's regime included (i) regulation of trade and domestic businesses (Monopolies and Restrictive Trade Practices Act of 1969); (ii) nationalization of banking (Banking Companies Act of 1969); (iii) control over the production of industrial goods (Industrial Licensing Acts of 1970 and 1973); and (iv) restrictions on foreign investment (Foreign Exchange Regulation Act of 1973) (Sibal 2012). Overuse of regulatory powers by the government created a tussle between market actors and regulators, resulting in a temporary check upon government intervention through the imposition of emergency rule for two years, from 1975 till 1977. The economic policies were largely adversarial with the industrial sector. Also, a huge proportion of public budgetary outlay was earmarked for rural areas through capital expenditure and subsidies (Tiwari et al. 2015). Together these not only put pressure on the fiscal resources of the government and hampered growth of the industrial sector and thus, the urban economy.

Financial constraints and previous failures made it obvious that there was a need to change the government's approach to dealing with housing problems. It was soon realized that providing subsidies is not the sustainable solution to housing problems and that providing public housing is not the remedy for slums (Mathur 2009). Also, the level of subsidies shall increase in the future with increasing land price and stagnant household incomes (Hingorani 2011). The government was already fiscally strained

¹⁸ Indira Gandhi was the Prime Minister of India between 1966 and 1977 and then again in 1980–1984 (refer Fig. 4.13). She was assassinated while in post and the position was then taken over by her son Rajiv Gandhi, who was Prime Minister until 1989. He was later assassinated in 1991 during a period of political unrest in India (Fig. 4.13).

due to its economic policies. Hence options to redevelop slums through subsidies became tenable and the focus shifted to *in situ* slum upgradation; improving the living conditions in slums; encouraging poor to build their own house on land provided by the government (Hingorani 2011).

Two major initiatives were: (i) Environmental Improvement of Urban Slums in 1972; and (ii) Sites and Services Schemes in 1980 (Hingorani 2011). Slum upgrading acknowledged investments made by the poor in their tenements and, in avoiding relocation, preserved their access to their livelihoods and other essential social infrastructure (Hingorani 2011). Lack of employment opportunities made housing appear as a source of income and it became a common practice, among those slum dwellers who were legally acknowledged as rightful owners under slum development programs, to rent out the unit and resettle in peripheral areas, in new slums. The 1980s also recognized the inextricable link between shelter problems of the urban poor, the lack of employment opportunities, and access to basic services (Hingorani 2011). Even though there was not much effect seen on ground, the housing programs during this time were more holistic in viewing poverty alleviation alongside housing problems (Hingorani 2011).

During the pre-1970s the only provider of support to house building activity was the government, through its various social schemes for public housing. The government implemented its schemes through state housing boards, which were responsible for allocating serviced land and houses to individuals based on social equity principles (Tiwari 2012). It was realized that the non-availability of long-term finance to individual households on any significant scale was a major lacuna impeding progress in the housing sector and, during the 1970s, housing finance institutions (HFCs) were set up to mobilize and channel investment for housing by public and private actors: Housing and Urban Development Corporation Limited (HUDCO) in 1970; Housing Development Finance Corporation (HDFC) in 1977; and the National Housing Bank (NHB) in 1988. Increased emphasis on financing reflected a shift in addressing affordability from both the demand and the supply sides of the problem, particularly for middle and higher income groups, providing housing loans for households and construction finance for developers. The mandate for the public sector company, HUDCO, was to assist and promote housing and

urban development programs with government agencies. HUDCO's social obligations required them to provide at least 55 percent of the credit to economically weaker sections and low-income group households. The focus of HDFC was on retail lending, based on market principles for homeownership in India, and their financing focus was mainly middle-income and high-income households. Within a decade of setting up of HDFC, several HFCs were set up as either private sector ventures or joint ventures with government or banks/insurance company-sponsored HFCs. An important event of the 1980s was the formation of the NHB in 1988, which is an apex level institution for housing finance. The objective of the NHB was to channelize formal sector resources into housing finance (urban and rural) through the promotion of an efficient financial system for housing that shall be cost-effective and adhere to the different income groups and should integrate with the overall financial system.

In the later part of 1970s, the responsibility of social housing was gradually getting shifted from the central government to the state governments and their housing boards (Hingorani 2011). The programs were now getting designed to meet the paying capacity of the target group and the emphasis on subsidies was reducing while cost recovery was considered important (*ibid*). Also, the public agencies were focusing on building infrastructure and sanitation facilities which was encouraging households to invest in homes (Wadhwa 1988). In addition to the internal funding, the state governments now had access to borrowings from newly established financial institutions for housing, particularly HUDCO. They could also rely on cross-subsidization between HIG, MIG, and LIG housing.

The public sector was slowly stepping back from its role as a direct provider of housing, funding sites, to being a facilitator of private sector actions in housing. The articulation of the 1988 National Housing Policy crystallized and accelerated this change in the 1990s. Government's role was evolving as the orchestrator of the legal, regulatory and financial framework that shall facilitate 'housing for all'. This paved the way for liberalization in the housing finance sector. After 1989 and under guidelines from the RBI, the scheduled commercial banks (SCBs) were allowed to allocate 1.5 percent of their incremental deposits to housing (in 2016

the percentage of permissible allocation for housing was three percent on incremental deposit). The RBI further instructed them to lend 30 percent of this fund directly to individuals and 70 percent indirectly to agencies, for augmenting the supply of serviced land and constructed units and subscribing to guaranteed bonds and debentures of the NHB and HUDCO. The involvement of insurance companies and SCBs increased after the setting up of the NHB in 1988. A deepening of the housing finance market strengthened the private sector, on both the demand and supply sides at least for the middle and higher income segments of society (Wadhwa 2009). There was still a major gap in the formal financing system as it lacked an offering of financial instruments for the poorer segments. This discouraged the private sector's involvement in provision of LIG housing and therefore a dependency continued upon the public sector, which was in turn reducing its involvement in the direct provision of housing. LIG housing supply was reducing whereas the population and demand for this segment kept increasing.

LIG segment lacks access to formal financial institutions. This poses fiscal challenges to the LIG which is the major target segment for public housing. On the other hand, there is dearth of affordable housing in the private market and the MIG segment seeks opportunities to purchase these affordable, public housing which is otherwise targeted for the LIG segment. The weak position of LIG buyers is seen as an opportunity by the MIG and HIG for investment in the real estate sector.

4.4.4 Housing Post-liberalization (1991 Onwards)

During the 1990s policy approaches acknowledged the importance of urban centers in the nation's economy, which required different management, policies, and laws than in rural areas (Hingorani 2011). The power distribution between three levels of government (central, state, and local or urban local bodies, ULBs) was realigned with the 74th Constitutional Amendment in 1992. This amendment aimed at decentralization and devolved responsibility for numerous functions to the ULBs, including: urban poverty alleviation, slum upgrading, housing, management of urban services, and protection of weaker sections (Hingorani 2011). The

ULBs were reluctant to accept financial devolution and their financial dependency on the state, and of the state on the center, remained. This basically resulted in an increase in the load of responsibilities on the ULBs within the limitations of their financial dependency. Municipalities up until that date had been financially dependent upon higher levels of government, framed at different levels by different political parties, which were often incoherent and unsupportive of each other's initiatives. The other challenge has been the capacity of municipalities to deliver on these responsibilities. The municipal structure had largely become defunct in India over time and their capacities had deteriorated. A sudden devolvement of responsibilities without a mechanism for capacity building posed a constraint. There were also overlaps in the role of multiple institutions involved in slum improvement programs, namely—slum boards, housing boards, development authorities, and municipal bodies. The scattered distribution of responsibility for housing the urban poor around multiple agencies led to a lack of commitment by all and, despite sustained investment in housing programs for the urban poor, there has not been any noticeable change in the housing situation (Hingorani 2011).

The housing finance market deepened further with liberalization, which led to a higher involvement by banks between 1990 and the early 2000s. The housing market was looking attractive to the banking sector for three major reasons: firstly due to lower interest rates; secondly due to raising disposable income; and lastly due to the stability of the property markets. To encourage housing supply and consumption, for example: income tax exemption for builders of small-size units (this benefit was withdrawn in 2007); tax exemption to any housing project that was an integral part of a highway project; tax deductibility of interest paid on a housing loan up to a certain limit; exemption from capital gains if residential property is held for more than three years before sale and the capital gains are invested in residential property or other specified asset; tax benefits to HFCs; and direct subsidies to households below the poverty line for the purchase of a housing unit (Tiwari 2012). There was an improvement in buyer's attitudes toward debt for housing and in sources available to households for housing finance. In addition, domestic scheduled banks and foreign banks were required to extend a minimum

of 40 and 32 percent, respectively, of their net bank credit to priority sectors (*ibid.*). Banks were permitted to extend housing loans up to INR 1.5 million, irrespective of location, under priority sector lending. This, together with fiscal and monetary programs to enable homeownership among MIG and HIG households, resulted in a lending and construction boom (*ibid.*). Increasingly, ULBs were encouraged to rely on capital market financing through bond financing or PPPs to meet their financial obligations, a significant development over past policies. However, due to their pre-existing weak financial position, most municipalities have been unable to access bond markets or raise resources through debt.

During this period the policy interventions could overcome the problem of fragmentation in the shelter and income upgradation programs which were witnessed in the earlier policies (Hingorani 2011). Income upgradation and tenure security were deemed necessary for cost recovery and also for long-term sustainability of housing programs (*ibid.*). A good example is the expansion of the program of Environmental Improvement of Urban Slums (EIUS) which is dovetailed with the Urban Basic Services for the Poor (UBSP) program that looks into mother and child care, education, assistance to handicapped and destitute (*ibid.*). Similarly, in 1997 the National Slum Development Program (NSDP) was transformed into a comprehensive program focused on providing: physical amenities; community infrastructure; social amenities; shelter upgrading; skill upgrading; training of urban poor women; and encouraging the involvement of NGOs, community based organizations (CBOs), and private bodies (Mathur 2009).

Another program, Valmiki Ambedkar Awas Yojana (VAMBAY) was launched by the central government in 2001. The objectives of this program were to provide shelter to BPL households through construction of new units and upgradation of the existing stock (Hingorani 2011). The share of central government subsidy was 50 percent and the remaining was to come from the state or local governments or through loans from HUDCO (*ibid.*). The contribution of the state was in proportion to its BPL population (*ibid.*). The state was also responsible for setting up the implementation mechanism and for arranging the land (*ibid.*).

Various other programs were launched during this period. For example, the Night Shelter Scheme for Pavement Dwellers in 1990 aimed at construction of night shelters with sanitation facilities. This scheme was funded partially by the central government (20 percent) and the remaining was coming from the implementing agency or through HUDCO loan (Mathur 2009). Another program was launched in 1998, called the Two Million Housing Program (2MHP). This aimed at facilitating annual construction of two million housing units through the deployment of funds from HUDCO and HFIs (Hingorani 2011).

The evaluation of the liberalization period indicates that substantial progress was made in extending housing finance, which had a positive impact on access to homeownership for middle and higher income groups (Tiwari and Rao 2016). Despite many reforms in the financial sector, formal finance is still inaccessible to the urban poor and the challenging requirements of clear property titles¹⁹ are a big hurdle to the approval of building plans²⁰ by the local authority and a regular stream of monthly income (Tiwari and Debata 2008).

4.4.5 Housing and Economic Globalization and Privatization

Given the background of fragmented implementation of various programs by central government, state governments, and the municipalities, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), launched in 2002, is seen as a major program (Tiwari and Rao 2016). This program suggests resolution of legal ambiguities that hurdle the operations of the land and property markets. Lack of clarity

¹⁹ Due to the inadequacy of affordable public and private housing for the lower income segments, the informal housing market in India is serving the requirements of the poorer class. There is a severe lack of formal property title in these markets and this is the prime reason for the lower cost of housing in this market. Also, houses in informal markets lack access to basic infrastructure for which clear title is a must. This further brings down the value of the property.

²⁰ Building standards stated under local building bylaws are often higher in quality and do not cater to small land parcels and housing units.

of land titles and property tenure restrains the free market transaction of real property, thus discouraging development activities. Under the JNNURM program the approach to development is much broader and the program aims at (i) conferring the property rights in the hands of the poor; (ii) refining urban governance mechanism so as to make it sensitive and responsive to the needs of the urban poor; (iii) overcoming hurdles to investment in urban infrastructure; (iv) enhancement of fiscal capacity of ULBs through tax reforms, with emphasis on property taxes; and other similar initiatives (Hingorani 2011). JNNURM envisages the empowerment of the poor through guarantee of tenure security and by freeing more land for development through reform in the urban land policies and tenure systems (ibid).

A major program for the slum dwellers and urban poor, Rajiv Awas Yojana (RAY), was launched by central government in 2011 with a preparatory phase from 2011–2013 and an implementation phase from 2013–2022. This program looks holistically at the problem of housing and aims at (i) the redevelopment of existing slums and to adopt it under the formal housing system; (ii) developing institutional mechanism to overcome the shortage of land and affordable housing (Tiwari and Rao 2016). The program was also considering involving private sector for assisting in the provision of social rental housing, construction of affordable housing units and slum rehabilitation. There was little response received from the ULBs and in June 2015, this program was replaced by “Housing for All (Urban) Mission”. The new program encourages the central government to assistance to ULBs for the redevelopment of existing slums and the construction of affordable housing stock with the involvement of the private sector; and the subsidization of interest rates on housing loans for the EWS and LIG households; and also subsidies for beneficiary-led individual house construction/enhancements for EWS households (Tiwari and Rao 2016).

In summary, the policy regime in India has gradually been widening to become more holistic and sustainable, covering several interwoven problems of reluctant urbanization, irresponsive planning (economic, social and physical planning, non-participatory planning, illiteracy and unemployment, and so on). However, central government is still clutching on tightly to financial resources and most of these policies are fuelled by grants from

the center. Although it is too soon to comment upon the success rate of ongoing schemes, it would not be incorrect to express apprehension about their slow rate of percolation through several layers of politically incoherent tiers of government to reach actual beneficiaries.

4.5 Constitutional Environment

Under the Constitution of India, housing is not stated as an explicit right and therefore there is as such no obligation of the State or the Central governments to provide housing. The seventh schedule of the constitution clearly states the list of subjects to be dealt by the state and the union government, but unfortunately the subject of housing, despite being a basic good, is not stated explicitly in any list (Constitution of India 2006). However, subjects not mentioned in the concurrent or state lists are vested in the Union Legislature and therefore provision for housing is assumed to be the responsibility of central government.

Articles 20, 23 and 24 in the concurrent list deal, respectively, with: “Economic and Social Planning”; “Social security and social insurance; employment and unemployment” and “Welfare of labor including conditions of work, provident funds, employers' liability, workmen's compensation, invalidity and old age pensions and maternity benefits.” A lack of any clear mention of housing as a constitutional obligation excludes it from claimable rights and this gave rise to various conflicts, including the case of *Olga Tellis & Ors vs Bombay Municipal Corporation*, July 10, 1985 which was one of the first and most important housing rights cases to go up to the Supreme Court²¹ in India. “This case, for the first time, held that the right to livelihood and shelter is an important component of the fundamental right to protection of life and personal liberty. The Supreme Court order laid down that the eviction of slum and pavement dwellers could be done only after arranging alternative accommodation for them (and not before)” (Tiwari and Rao 2016). There followed a spate of cases in the Supreme Court in the 1990s, which followed the *Olga Tellis* example, but they have not yet enabled the inclusion of housing as an enforce-

²¹ Supreme Court is the final court of appeal and the highest judicial forum in India.

able right. Observations from major decisions on cases (from the Supreme Court) related to housing show that India's reliance on internationally recognized instruments²² which propagate human rights, has not been extensive or consistent (Kothari et al. 2006).

Lack of constitutional support for housing has further weakened the roots of housing infrastructure in India. Although it is not expected that the introduction of a right to shelter would automatically eradicate homelessness, it is definite that such a right would stimulate the serious participation of public agencies toward making housing available. This would also make government more powerful and give it the right to act and intervene in housing activities.

4.6 Conclusion

To conclude, we use the housing pyramid framework presented in Chap. 1 to outline those problems at various levels that are hampering India's ability to deliver housing for its urban population.

Layer 1—Income segments

Income inequality is high in India and the share of low income households is very high. Although middle income households are increasing, their number is relatively much lower than the low income population. HIG households are even fewer and mostly concentrated in big cities. The distribution of population by income indicates that a large majority of Indians cannot afford a decent house. Access to housing for financially weaker sections of the society, who form the majority of the population, would require intervention either in the form of subsidies or steps that build the financial capacity of poorer households. The financial market also needs to be deepened so that it creates instruments and mechanisms for lending to the poor by better allocating risk.

²²These instruments include the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights (Art. 11, para. 1), the Convention on the Rights of the Child (Art. 27, para. 3), and the non-discrimination provisions found in Article 14, paragraph 2 (h), of the Convention on the Elimination of All Forms of Discrimination against Women, and Article 5 (e) of the International Convention on the Elimination of All Forms of Racial Discrimination (Kothari et al. 2006, p. 10).

Layers 2 and 3—Housing tenure and forms of payment

The formal rental market has catered exclusively to the HIG and MIG segments. Public rental housing, or a subsidized rental market, is absent and this nullifies the availability of formal affordable housing (ownership and rental). Although there is considerable demand for housing in the lower income segments, the formal market has overlooked this opportunity, as the perceived risk is high. Consequently, the informal market has primarily catered to the needs of low income households. Introduction of formal financing instruments and flexible tenure choices (rental or shared ownership) would allow the formal market to take advantage of growing demand for smaller inexpensive units.

Layer 4—Providers and facilitators

The private sector is the primary provider of housing and public agencies have not participated in the direct provisioning of housing. As mentioned earlier, in the absence of financial assistance to LIG households, the private market has been reluctant to meet their demand. Although public agencies have created an environment that facilitates the private sector in delivering housing (by providing developable land), these attempts have largely been unsuccessful in promoting affordable (small size and low price) housing unit production.

Layer 5—Institutional and policy environment

Even though the institutional framework in India is strongly established, there is a severe lack of responsiveness at policy level, particularly toward LIG housing. Policies are focused toward homeownership and the role of rental and shared ownership tenure types have not received policy attention. Policies and plans are centrally funded and the execution of local plans is often hampered by a lack of funding. Land title issues have constrained land supply in the market, which has led to master plan failures and unexpected rises in the price of urban land and thus rises in the price of housing.

Layer 6—Constitutional rights

In the absence of a constitutional obligation, as housing is not a right in India, there is not much stimulus for the public sector to intensively involved in addressing housing problems. The role of public agencies

has remained limited to the formulation of programs, which have had limited success in their execution. Constitutional and legislative support for housing not only puts the onus on public agencies but also gives them the power to intervene rightfully and efficiently in housing activities.

It is noticeable from Fig. 4.14 that the pyramid is skewed toward the rich and includes the housing requirements of high income segments, and partially of middle income segments, while excluding the poor. There is an urgent need to attend to the housing needs of the poorer segments and a major reinforcement is required in all the layers. The final footing of the pyramid, formed by constitutional rights, is missing and this makes the aim of housing for all even more unachievable for India. The solution to the problem of housing is not simple, and is an outcome of improvements in the following systems: political, governance, planning (economic, social and physical planning), and legal. The process of evolution of these systems takes both time and persistence for improvement.

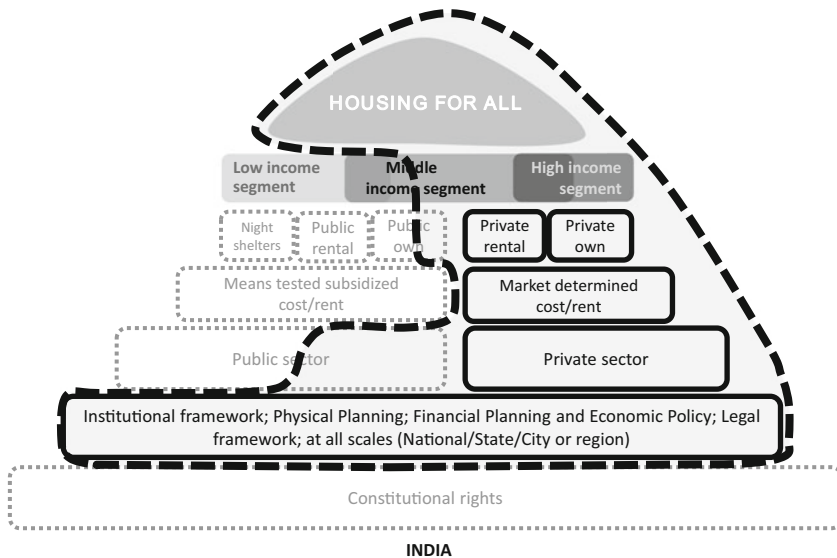


Fig. 4.14 Current status of the pyramid (or framework) for 'Housing for All' in India. *Source:* Authors

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5

China's Land and Housing Reforms: An Institutional and Empirical Timeline

5.1 Economic and Land Reform—New Paths towards Housing for All

This section provides an overview of the development and evolution of housing policy in mainland China since 1978. It also highlights some key transitions during this period, including the major transition from severe housing underproduction in the early reform period to contemporary China's problem of unaffordable prices in urban markets. We do not discuss Hong Kong in this chapter.

5.1.1 Early Reform

In 1949, the new Chinese national government nationalized virtually all housing stock and converted nearly all rural farmland to collective ownership. The estimates vary but between ten percent and 25 percent (Huang 2004) of the housing stock was privately held in 1985. Currently, around 81 percent of Chinese urban households own their homes—a homeownership level that is much higher than American and Australian

homeownership rates, which are closer to 68 percent. This is a remarkable transition to have occurred in a single generation; however, it is also misleading in some ways. If one expands the definition of urban households to include the informal *floating population* that has migrated from rural to urban areas but is not eligible to own urban housing, urban homeownership rates drop significantly. However, the transition represented by these rural-urban migrants being housed in urban areas is no less remarkable than the change in urban homeownership. This section traces the major housing and land policy milestones of this transition.

From 1949 to 1978, following the Soviet model (Bertaud and Renaud 1995), the majority of construction investment was in the industrial sector, as this was seen as the way to grow China's economy. China also followed the Soviet model of urbanization at that time, which stressed low levels of urbanization in general (Ma 2002) and dispersed industrial activity.

Housing construction in this time was limited, and the urban population was growing due to rural in-migration and natural population growth (Li and Siu 2001). In urban areas, production and living were organized around work units. Before 1978, most urban households lived in political and economic work units, or *danwei*. These entities were generally attached to a state-owned enterprise or government department. *Danwei* were both political and economic units (Li 2003) from which households received employment, housing, medical care, childcare, and virtually all other services. Urban form, then, was cellular in nature, with housing and workplaces located in close proximity to each other. For households where no person worked, housing was provided by city housing bureaus.

Political upheavals in the 1960s and 1970s—the Great Leap Forward and the Cultural Revolution—stalled housing and economic reforms until after Chairman Mao Zedong's death in 1976, after which China found itself with an enormous urban housing shortage. Exacerbating this problem, work units—inefficient both at producing and maintaining housing—had allowed much of the housing stock to fall into disrepair, limiting the available housing even further (Kirkby 1988).

In order to develop the housing stock, land reforms were also necessary. Beginning in 1978 and continuing today, legislative moves opened a land market in Chinese cities, and re-introduced a bid-rent curve to some extent (Li 2003). The reforms were geared toward increasing the number and size of dwellings, and additionally toward updating the

existing, ageing housing stock. The cities were ready for this new housing: a 1985 study demonstrated that half of Shanghai's 1.8 million households had less space than official estimates of suitable space. Of these, 216,000 households had an average living space of fewer than 4 square meters per capita. Of those, 15,200 households had per capita floor space of fewer than 2 square meters (UNESCO, no posting date provided). Privatizing urban housing in a formerly-communist economy occurred in two forms: privatization of existing housing stock developed in the socialist era, and generation of new and more modern housing stock to serve the growing population and to de-crowd existing housing.

In addition to there being a housing shortage, there were virtually no housing markets in China. This was unusual even by socialist standards. In some Eastern European countries experimentation with transition to private housing began well inside the socialist eras (Clapham 1996; Logan et al. 2009). In some countries up to 40 percent of housing was privately owned when market transition began (Vesselinov 2004).

Early land reforms aimed at creating a housing development industry included, initially, granting of leases of limited parcels of land to semi-private state-owned enterprises (SOEs), who would develop the land and sell the units for profit (Li 1998). Private individuals or households could purchase the land-use rights to an individual unit or multiple units. In 1983, private property rights were amended to the Constitution by the State Council (Chen et al. 2011a; Wang and Xu 1984), and in 1988, national policy made a land-leasing system applicable in all urban areas (Li 2003). This land-leasing system established permanent usufructuary rights on apartments, enabling long-term tenure security and exchange rights for use of the dwelling, though not official ownership of the unit or land (Li 1998). The legacy of this policy is still visible today. With a legacy of strong usufructuary rights, dislocation and resettlement have become contested processes, as we discuss later in this chapter.

Thus, in the 1980s, *commodity housing* emerged. With rising incomes in many employment sectors and housing supply increases, many middle-class Chinese families opted for commodity housing (Li 1998). However, not all urban housing released to the land-leasing system was commodity housing. Indeed, a great deal of work-unit and housing-bureau housing had entered the leasing system. Recognizing that producing and maintaining housing for their employees was a financial drain, many work

units began to sell off their housing to employees at heavily discounted prices. Municipal housing authorities, responsible for providing housing to those unable to work (Li 2003), did the same. Although these new owners did not own the land, they did have the right to transfer their use rights to others—creating a rental market. By 2001 in Shanghai, more than 1.5 million units of public housing had been sold into the commodity market ([Wu 2004b], citing [Yao and Jiang 2002], in Chinese).

5.1.2 Stimulating Housing Construction

In the early phases of urban redevelopment in the reform era, housing construction was slow due to the availability of capital. Early proposals for housing redevelopment included the suggestion that urban people would fund the costs of housing and be able to buy full rights at cost. A 1979 experimental program piloted in Xi'an, Shaanxi Province, failed to gather momentum. The problem was savings; urban households at that time did not have sufficient savings to buy in, even at cost price, and the policy failed to gain momentum. The next policy phase shared the responsibility for urban housing development by splitting the cost evenly between work units, the national government, and households. This policy gained more traction. The pilot program implemented in 1981 and 1982 in Hebei, was expanded to around 300 cities by 1986, including Beijing.

Implementation of this program required legal reforms. In 1988 ownership of land was legally separated from use rights. Urban land remained the property of the state. Tenure, under the institution of housing use rights, became a kind of private property. In 1990, use rights became transferrable, and anyone holding them could sell them. In 1991, the State Council—China's highest governing body—made the three-party housing funding model available to all urban areas. The Chinese Communist Party (CCP) called this process of transferring use rights, *commoditization*.

This was a particular moment of institutional transition in China, from state-centric socialist housing policies to commodity housing. In 1978, housing was in limited supply in Chinese cities, and crowded.

From the state perspective, there was a need to rid work units of the burden of providing housing so that they could focus on their core business, and further, the Chinese state was also seeking to motivate the development of the country's housing markets (Duda et al. 2005) and get the public used to the idea of paying for housing.

The ten-year reform strategy that implemented a land-leasing system in 1988 (discussed above), also introduced rental reforms for public employees. Wages were also adjusted by national policy at the time to allow people to purchase both commodity and newly converted *danwei* housing. During a transition period, the Housing Provident Fund (HPF) was established (in 1994). This policy was paired with the above-mentioned salary reform, such that workers were paid higher wages, but these additional wages were mandatorily directed to a savings account that could only be used for housing. Only government employees were required to participate in the HPF (Duda et al. 2005; Wang 2001), which, effectively, turned out to be a regressive tax, disproportionately benefiting higher-paid government employees (Duda et al. 2005; Sun 2004; Tomba 2004). Sun (2004) estimated the population eligible for the HPF was around 70 million out of 200 million, though he notes that in actuality, fewer may have benefited from the scheme (Duda et al. 2005).

The transition of informal institutions (people's expectations of government) was a slower process than transitioning formal institutions. During the Cultural Revolution, ending less than a decade before market reforms began, people with pre-revolutionary (pre-1949) ties to capitalism were vilified as "capitalist roaders" and sometimes brutally persecuted. An excellent historical narrative about the Cultural Revolution is provided by Jung Chang in her memoir, *Wild Swans: Three Daughters of China* (2008). Chang, the granddaughter of a bound-foot woman and daughter of a communist revolutionary, and herself a Red Guard during the Cultural Revolution, recalls the resistance to capitalist ideas pervasive in Chinese society during her youth in the late 1960s and early 1970s. She describes the state-incited terrorizing by young Red Guards, particularly directed at anyone with capitalist ties or sympathies. Understandably, the memory of these events made people skeptical about engaging in any activity that could be construed as belonging to a capitalist view of the world.

Also, at the time that land reforms began, the Chinese state gained credibility based on an identity of being a benevolent government—one that provides a better, more modern life for its citizens without the fuss of democracy. This image of the Chinese state persists to some degree today, particularly in China's northeast provinces, where SOEs were particularly strong and land reform came later than to those cities on the eastern seaboard (Shirk 2008).

In 1998, the national government officially abolished the provision of housing by work units, effectively ending the institution of housing as a form of social welfare (Ye and Wu 2008; Duda et al. 2005). The conversion of work unit housing to commodity housing had been taking place for a couple of decades, but very slowly; before the transition, 80 to 90 percent of housing investment was from government or state owned enterprises (Chen et al. 2011a). The implementation of these policies in 1998 signaled the final transformation to a market-based housing system (Ye and Wu 2008).

5.1.3 Cooling Housing Prices

In the past decade and a half, China's urban housing policy has shifted gear considerably. Generally, the established urban population (not including urban migrants, we deal with them later) has both accepted the market reforms and has sufficient savings to buy into the urban housing market. Between 1991 and 2005, real adjusted urban residential housing prices increased sixfold (Chen et al. 2011a).

Since the early years of the twenty-first century, the focus of housing policy has shifted from the problem of creating a housing market, to cooling one that is overheating. Since about 2003, housing prices in China's largest coastal cities have been rising at rates that have alarmed the state. The State Council reported in 2007 that the real estate industry was growing at such a fast rate that the inflation pressures were spilling over into the rest of the economy (Ye and Wu 2008, Research Team of Development Research Centre on Housing Security Systems, 2007). We discuss later the recent policies aimed at slowing the growth of housing prices in China's largest cities and provincial capitals.

Ye and Wu (Ye and Wu 2008) identify three periods between 1998 and 2004 in the development of Chinese urban housing policy: the marketization period, (1998–2002); the period of intensified market control but weakened housing security (2003–2006); and the period of continued market control but strengthened housing security (2007 and after). Economic development was rapid in the period from 1991 to 1998, setting up the conditions for the marketization period. With the economy averaging ten percent growth per year, households with more disposable income had significant latent demand for housing, and the higher incomes drove the demand even higher. The national government was eager to harness the growth of the real estate market as part of the national economic development strategy. The ninth five-year plan (1996–2000) identified housing development as a pillar industry, and brought in reforms on both the demand and supply sides to facilitate housing development. Consumer mortgage conditions, tax credits, and interest rate decreases were implemented with the aim of stimulating demand for housing. Similarly on the supply side, commercial loans and a pre-sale system increased the supply. The housing market responded to the policies, with residential floor areas per capita rising from 18 to 26 square meters between 1997 and 2005 (Ye and Wu 2008).

In the 2003 to 2006 period, housing prices continued to grow quickly, at about ten percent per year (Ye and Wu 2008), and ahead of economic growth. The profitability of the real estate industry (between 23 and 30 percent from 2002 to 2004) and a booming economy (Ye and Wu 2008) supported the continued provision of supply and rising housing prices. Ye and Wu identify 2003 as the year in which the national government began to invest less in affordable housing and implement a number of other measures to temper the growth of real estate investment and stabilize growth in the overall economy. These included modifications to land supply, restrictions on housing purchases by foreigners, and amendments to tax policies. During this time, homes constructed under the “economical and suitable housing” (Ye and Wu 2008) scheme, which had been in effect since 1998 and provided small-sized and affordable units built by local governments at prices below market rates, dropped to 15 percent of total national housing investment (Ye and Wu 2008).

In 2004, a national policy of “strict management on land, severe supervision on credit” was adopted. The major policy instruments were a tightening of credit and therefore a restriction of capital available for real estate development. This did appear to have some effect on slowing the growth of investment, but it also had the counter-productive effect of slowing the growth of housing stock without a concomitant slowdown of demand. Real estate prices rose by 14.4 percent in 2004. In 2005 and 2006, the national government shifted its focus away from controlling excess investment by increasing the costs of land speculation with credit and tax instruments. Preferential development policies for the construction of economical and affordable housing were also implemented, wherein developers could obtain faster permissions and assistance with land assembly. In 2006, the Central government declared a national policy that 70 percent of dwelling units would be no larger than 90 square meters, in order to increase the supply of affordable housing and control prices. Beginning in 2007, urban housing policy regained a focus on affordability and took on a new focus on environmental sustainability (Ye and Wu 2008).

5.2 Urban Housing Inequality

This section reviews some of the sources of tension related to housing in Chinese cities. Chinese cities have some similar issues to other BRICS countries, including affordability and spatial displacement. However, there are some issues that are particularly Chinese, both in their manifestation and their institutional and cultural backgrounds.

5.2.1 Urban Revenues

Clashes between national policy and local implementation create significant tensions, particularly at local level, in Chinese cities. In the absence of a property tax (there are 13 taxes on land, but these are largely on transactions rather than ongoing holdings), local governments derive revenues largely from land sales. National policy was put in place to encourage residential development, and particularly small-sized and low-priced

residential development, by increasing residential land supply and facilitating residential building permits that produced economical and suitable housing. However, land supply adjustments were resisted and sometimes refused outright by local authorities (Yang and Shen 2008).

Enormous incomes are generated for local governments by property development, upwards of 50 percent in some cities (Zou 1998), and there is a large amount of substandard housing in Shanghai waiting to be upgraded. According to Zhang and Fang (2004), "Compared to the actual impact of urban renewal in the United States, ... China's inner-city redevelopment has progressed and will most likely continue at a much faster speed, on a larger scale, and at a greater magnitude. In the midst of the economic accomplishments, the increasing social tension and stress induced by the forceful growth machine loom large in China."

These tensions often escalate into disputes between residents and local governments, which are charged with implementing national policy and are also incentivized to leverage land sales for their own budget planning. There is a phenomenon of the "nail household," where a homeowner resists resettlement, the connotation is negative, suggesting stubbornness and incorrigibility. In the final section of this chapter we describe three nail household disputes in more detail, including attempts by local governments to distance themselves from the disputes by using third-party relocation authorities to negotiate with homeowners.

5.2.2 Affordability

In all areas of economic development, legacy effects can have profound implications for the development of institutions in developing countries and the welfare of populations (Acemoglu and Johnson 2003; Acemoglu et al. 2000, 2002, 2005). Similarly, the legacy of institutional processes of transitioning the housing stock to private household assets have implications that are still apparent.

Housing affordability and growing housing inequality is an ongoing issue of great concern to Chinese citizens and the Chinese Communist Party (Yang and Wang 2011; Duda et al. 2005; Yang and Shen 2008; Rosen 2000), not least because the Party continues to be concerned with

its internal legitimacy (we take this up below). After 2007, the state began to focus again on the affordability problems experienced by lower income families and, generally, to cool the housing market through a number of measures. Yang and Shen recommended the following in 2008: “The ‘economical and suitable housing’ scheme should be further improved and standardised. ...[G]overnments of all levels should intensify efforts to strengthen their supervision on market development improving and implementing relevant laws and regulations. Local governments must assume their full share of responsibility for regulating and monitoring local real estate markets” (Yang and Shen 2008).

Affordability is a problem in the country’s major urban centers. Chen et al. (2010) found a decline in housing affordability for new market entrants in Shanghai between 1995 and 2008. The young particularly are excluded from housing purchases if they lack parental assistance. There was a mismatch between income and prices even before 2007 (see Wang 2003), and while there was a slowdown in prices between 2010 and 2011, prices have risen continuously since 2011 (Wang 2014). High housing prices are a significant hurdle to homeownership (Rosen 2000) in a setting where recent homeownership rates have been very high. Ninety percent of Chinese households owned their homes in 2012, the sixth highest in the world and significantly higher than in the United States (65 to 68 percent of households). These homeownership rates are related to high savings rates and low leverage (Wang 2014).

Interestingly, some authors, such as Chen et al. (2011a), discuss urbanization levels in China as an important institutional factor in the changes in housing prices. From a Western perspective, the classification of urbanization levels as an institution is not appropriate generally, since urban residence is not usually restricted. However, in the BRICS countries, the ability of households to choose their residential locations has, historically, been more restricted. Black and colored populations in Apartheid South Africa were restricted to living in certain areas, for instance. The separate but similar of issue of housing affordability for place-restricted rural-to-urban migrants is deeply intertwined with the bottom up development of rural collective land on the urban peripheries (Yang et al. 2015), and is discussed in some detail below.

These price rises have again prompted new policies to cool the housing market and, if possible, avoid or mitigate a housing bubble. This includes measures restricting access to bank loans, restricting the structure of sale prices, and restricting who can actually purchase housing (Li and Xu 2015). These measures, implemented first in larger cities and provincial capitals, have had mixed success. Wang (2014) asserts that Yale Economist Robert Shiller's (Ewing 2010) list on "how to diagnose the next bubble" applies in the Chinese context¹:

- Sharp increases in the price of an asset like real estate or dot-com shares
- Great public excitement about said increases
- An accompanying media frenzy
- Stories of people earning a lot of money, causing envy among people who aren't
- Growing interest in the asset class among the general public
- "New era" theories to justify unprecedented price increases
- A decline in lending standards.

Whether there is a housing bubble has been the subject of much debate and analysis; see Chen and Han (2014) for a recent review of this evidence. What is clear is that the country is not in a position to comfortably sustain high property price growth, nor to see a downturn in property prices. Since the late 1990s land development has been a pillar of national economic growth (Chen et al. 2011b), and one of the engines by which the country hopes millions more will be lifted out of poverty. As we discuss below, internal stability is dependent on the perceived legitimacy of the Chinese state, which in turn is dependent on the continued improvements in quality of life offered to both urban and rural people. For people in the property market, this may mean growth commensurate with their's, and Shiller's, excitement. For people seeking to enter the property market, this means making housing more affordable. Much of the evidence suggests that recent price growth mitigation policies have possibly slowed growth, but not stalled it, (see Li and Xu 2015), which is possibly the best approach, given the contradictory alternatives.

¹ This list is reproduced here verbatim.

5.2.3 Displacement

So far, three types of housing have been identified: commodity, housing-bureau, and work-unit types. The massive urban relocations occurring in recent times have led to a fourth type. In an effort to provide affordable housing to relocated families, relocation housing emerged. These units are generally provided by land developers who must relocate residents from redevelopment sites (Li 1998).

Thus, in projects where households are relocated, there are generally three sets of actors involved in the process: relocated households, the local government, and land development companies. The various interactions and conflicts among these actors are discussed in the following sections.

There is a substantial amount of redevelopment and change occurring in the central areas of Chinese cities. However, the focus of this project is on the urban periphery, so this discussion focuses mainly on the evidence of a spreading city and the centrifugal forces underlying that change.

Due to the traditional links between job site and residence, and the Soviet-style model which preferred industrial to housing development, suburbanization in the Chinese context was largely absent before economic reforms took hold. This meant that densification and housing-stock subdivision were the main modes of increasing the urban population – rather than new land releases and housing development (Wu 2004b). Thus, the concept of suburbanization is relatively new in Chinese cities. The aforementioned commoditization of housing and emergence of a housing market and land-use rights, in effect, began the suburbanization process.

In Guangzhou, Li and Siu (2001) found, for instance, that 36 percent of intra-urban household relocations originated in the inner city and ended in a new district. This, they conclude, is a clear indicator of suburbanization. They further find that the general direction of household relocations is toward the urban periphery. In a study of Beijing, Shanghai, Shenyang and Dalian, Zhou and Ma (2000) report that the urban cores had a net loss of population from 1982 to 1990, while the inner-ring suburbs gained population.

These trends are no accident; cities have many incentives to reduce central-city densities. Some planners and policy makers feel that higher densities lead to traffic congestion and decreased air quality. Lower densi-

ties preclude investment in more advanced and efficient infrastructure, as inefficient infrastructure is often tolerable at low densities (for instance, water leaks and garbage collection) (Bertaud and Brueckner 2004).

Other suburbanization impetuses are related to the transition economy and the marketization of urban land. Under the pure socialist land-allocation system, land uses were not necessarily allocated, as they would be in a system where there is a rent gradient, so land use was inefficient by market-economy standards. The central cities contained (and often still do contain) large swathes of industrial land and old low-rise housing that is crowded and in need of repair ([Huus 1994]; [Li 1998], citing [Lu 1993, 1994]). After reforms introduced value to urban land, many well-located work units capitalized on the value of that land by selling it at profit and relocating their employees elsewhere. This was another impetus for suburbanization, as worker housing was often rebuilt on the urban edge at much lower costs (Li 2003). Based on data that indicate that more *danwei* households relocate to the periphery than those who end up in open-market housing (largely due to *danwei* incentives to reestablish housing in the urban periphery to reap land resale profits), Li and Siu (2001) concluded that *danwei* were the “primary driving force behind China’s suburbanization.” Zhou (1996) studied outward residential moves in Guangzhou and found that a large majority were *danwei*-induced, and classified more than 80 percent of the moves as involuntary (indirect citation; cited by Li and Siu [2001]; original source in Chinese).

It is noteworthy that policy has recently changed and, as of 1998, *danweis* are no longer obligated to provide housing to their employees (Hook 1999). Although some still do, it is generally for higher-ranking officials in the organization, and the majority of workers must find their own housing (Personal Communication, Professor Pan Haixiao, Tongji University, Summer 2006). This could change the tenure structure in Chinese cities, so their role has likely diminished in the last few years.

Marketization influences also affected non-*danwei* land. The most common pre-1949 housing in Shanghai was a two-story “lane house” (Li 1998) with small unit size, and often a shared kitchen and sanitary facilities. Although dense by Western standards, these areas—generally centrally located and occupied by households in state-provided housing rather than work-unit housing—were sitting on high-value land. Urban

redevelopment projects began in the old areas in the late 1980s (Li 1998), along with a variety of other infrastructure projects—subways, water, freeways, telephones, and power facilities—and continue today.

In Chinese cities, property development generates a massive income—upwards of 25 to 50 percent of the city revenue in some cities (Zou 1998). According to Ding (2005), revenues and loans generated from land sales accounted for 40 to 50 percent of Hangzhou's operating budget in 2002, and up to 75 percent of the funds for urban infrastructure and redevelopment. This places the interests of local governments in conflict with those of citizens: on the one hand, the government is responsible for maintaining social stability and fairness; on the other, land development is a major mode of financing city growth and operations (Wu 2004b). Between 1992 and 1997 in Shanghai, 582 parcels of land were released by the city for leasing. More than half of these were in the old city (Wu 2000). Between 1991 and 1997, 1.5 million Shanghai households—one-seventh of the city's population at the time—were relocated, concomitant with the demolition of 4.2 million square feet of housing between 1990 and 1998. Shanghai dislocated about 18,000 households from riverside homes in order to prepare the site for the 2010 world exposition to be held there (CDT 2006). A survey by Wu (2004a) indicates that more than 35 percent of all moves in Shanghai are involuntary, though Fang (2006) indicates that this number is much higher for Beijing, which has very old housing stock and the added development pressures of being the capital city. The problem also exists in smaller cities. A study of Shengyang found that 64 percent of all city-to-suburb moves were involuntary (Zhou and Meng 1997), and a Dalian study found a similar figure (Chai and Zhou 2000).

In an effort to provide affordable housing to relocated families, but to save on the massive costs of relocation, many developers began to build relocation housing at the urban edge where land is cheaper (Li 1998; Wu 2004b). But relocation to peripheral areas is not entirely an issue of dislocation. Improved transportation and new commodity construction in peripheral areas (Zhou and Ma 2000) have made Chinese households increasingly mobile. Often, households make the choice to move to the urban fringe for a multitude of lifestyle reasons, including such factors as: better environmental quality; less traffic; larger and newer homes that are

more affordable than those situated in the urban core; amenities such as more open space and cheap parking. During field visits, one author observed a lot of upscale and luxury housing oriented to what one might call the 'choice peripheral mover.' These types of developments are common in large cities such as Shanghai, Beijing, and Tianjin, and also in second-tier cities such as Chengdu (the capital of Sichuan Province) and Jinan (the capital of Shandong Province). A popular development strategy is to create suburban developments in the style of European small towns, though both existing research and causal observation indicate that these "towns" and other peripheral developments, situated within the municipal city boundaries, contain few jobs and are limited in size and amenities. As a result, their residents are still closely tied to the city's main job and cultural centers, and urban forms remain largely monocentric, unlike in western cities (Zhou and Ma 2000).

5.2.4 Legacy Effects

In the socialist era between 1949 and 1978, the major driver of housing allocation was not price, but preferential allocation institutions that awarded newer, larger, and better housing to those who were members of the CCP, who had attained higher educational levels (Logan et al. 2009), or higher levels of management responsibility within the CCP.

As Logan et al. (2010) point out, the 2000 national Census declared six modes of housing tenure for family households, many of which reflect the socialist and reform institutions: renting from the public sector; market rental; self-built housing (generally built by peasants or urban dwellers who had been unable to acquire *danwei* housing in the work-unit era); purchase of former public rental housing; purchase at market rates and purchase at discounted (economical) prices (Logan et al. 2010). Self-built and collective housing tenure types also exist in China's cities, particularly in former villages that have been converted to urban land.

Logan et al. (2009) went so far as to assert that the Chinese housing allocation system, at least up to the year 2000, was "designed" to favor people with legacy advantages in housing provision. Using Census data, they found that market mechanisms were less influential on people's

housing outcomes than socialist-era legacy housing allocations; that housing rented or purchased at market prices was among the least common form of home acquisition; that people with rural *hukou* are systematically discriminated against in housing provision and that the disadvantage they experience as a result of their placement in formal housing institutions does not attenuate significantly over time. In a related study using the same data, Logan et al. (2010) concluded that the transition to private housing has not been uniformly good across income and demographic groups. Renters and purchasers of public housing fare better if they were favored in the previous socialist system. Chen et al. (2011a) further point out that another related institutional structure—tenure conversions (from rural to urban *hukou*)—can also affect housing options and prices.

5.2.5 The Need for a Harmonious Society

Almost nobody subscribes anymore to the tenets of Communist doctrine (Shirk 2007). China's national government, then, faces a dual crisis in self-preservation. Like any government, democratic or otherwise, its leaders must think about their own ongoing political credibility with the people. Chinese leaders face an additional struggle; the ongoing need to justify the ideology that underpins Communist-style governance in an era when not only have most governments of the same ilk dissolved, but also China's own economy has brought on increasing social unrest, as seen in the sharp rise in "mass incidents" (the term used by the Chinese government to describe social protests that involve over 100 people) (Shirk 2007, pp. 33–78). As cited in Shirk (2007, p. 56), the official statistics from China's police revealed: "the number of mass incidents has surged from 8,700 in 1993 ... to 74,000 in 2004. The number of people involved in protests in 2004 reached 3.76 million, compared with 730,000 a decade earlier."

China's leaders are acutely aware of this crisis and its relevance to their political survival (Shirk 2007)—a crisis that similar governments in Eastern Europe did not survive in the 1980s and 1990s. In 2004, for the first time, the CCP leadership explicitly acknowledged in a major policy

document, *CPC Central Committee Decision on the Enhancement of the Party's Governance Capability* (2004), that a communist regime may not be able to survive indefinitely in China (Shirk 2007, p. 8). This document made an urgent call for enhancing the Party's "governance capability", in order to secure social stability, maintain the long-term prosperity of the nation, and to consolidate the Party's ruling status (Xinhua 2004). Since then, the theme of harmony has pervaded the national discourse.

In the mid-2000s, the over-arching goal of a harmonious society was introduced into China's public discourse. This new policy language was to reflect a shift away from economic development as a dominant focus of national policy, toward a balanced prosperity. In October 2006, the term harmonious society formally became a major part of China's public dialogue as the CPC Central Committee passed the "CPC Central Party Decision on Building A Communist Harmonious Society" (Xinhua 2006). National and local dialogue in China often pairs the ideas of harmony and prosperity—and specifically, acceptance of government policy as a pre-condition for the advancement and modernization of the country. This pairing is evident in highly public devices such as the 2008 Olympic Games slogan, "One World, One Dream," which signifies a modern China paired with the hope of prosperity.

Within the national dialogue on harmonious society, the pairing of harmony and prosperity is also evident around rural issues. The previously mentioned national policy, *CPC Central Committee Decision on the Enhancement of the Party's Governance Capability* (2004), explicitly acknowledged the threats to social stability from the countryside. This policy called for the Party's "special attention to the weak links in policies that aims at addressing issues around agriculture, rural areas and farmers," with "promoting balanced urban-rural development" established as one of its key strategies (Xinhua 2004).

In addition, the Party's concern over threats to regime stability from rural issues is reflected in the then-Premier Wen Jiabao's main advice to Chinese leaders. In 2005, in light of the "extreme importance of issues on agriculture, rural areas and farmers," Wen Jiabao advised: "Be prepared for danger in times of safety. Be thoughtful in order to be prepared. Be forewarned in order to be forearmed." (CNTV 2014). The balance between China's urban and rural areas was highlighted by the then-

Premier: “If China’s rural areas are not well-off, the whole nation cannot be well-off.” (ibid.). The following year, when national policies on “building a Communist harmonious society” were formally established, also marked the significance of narrowing urban-rural disparities in maintaining social stability (Xinhua 2006).

National tones and policies can almost never remain as abstractions; they necessarily must be grounded in local space and act on people locally. The themes of balance and harmony continue to pervade urban policy from the national to the local scale. One significant place where these policies are grounded is in China’s new towns, the growing entities on China’s urban peripheries.

China’s leaders are acutely aware that social instability could undermine the power of the current regime. Much of the credibility of the current status quo is dependent on economic growth and modernization. Between 1979 and 2007, 400 million people emerged from poverty in China (Shirk 2007, Chap. 1). As of 2014, an additional one million people were lifted out of poverty in China (The World Bank 2014). The signs of modernization and prosperity are everywhere, from Beijing’s Bird’s Nest Olympic stadium, to Shanghai’s Maglev train, to the highest-altitude train in the world, which links Chengdu to Lhasa. Cars and mobile phones are commonplace. Up to the mid-1990s, China experienced “reform without losers” (Shirk 2007, p. 17). After that, some populations fared better than others. The sharp divide between urban and rural incomes is often noted, as is the large income gap between the eastern seaboard and the western provinces (as noted in those two major national policies discussed in the last subsection).

These income divides have been the focus on much social unrest. As previously presented, “mass incidents” increased from 8,700 to 74,000 in the eleven years between 1993 and 2004. In 1994, 230,000 people were involved in mass incidents; this number jumped to 3.76 million over the next decade (Shirk 2007, p. 56). Much of the social instability is apparent in the urban fringes and rural areas. According to a report on Chinese state television, as of 2008 disputes over land requisitions had accounted for 65 percent of the rural mass incidents nationwide (CCTV News Investigation 2008).

The issues underlying mass incidents have played out on both sides of the urban-rural divide, as some rural areas urbanize and others are left

behind. These issues have also played out in big cities and small towns. The remainder of this section focuses on the rationales through which new town planning has emerged as a potential solution, or perhaps stop-gap, to the still-growing (China.org.cn 2012) problem for the CCP: social unrest, resistance, protest, and general undermining of the credibility of the current regime.

5.2.6 The Growth Mandate

Growth is important in China for various reasons. Economic development has enabled more than 500 million people to move out of poverty since land reforms began (The World Bank 2014)—a huge achievement. The Chinese Communist Party also generates a lot of legitimacy among the people as a result of the country's economic performance. Annual economic growth of 7 percent confers on the CCP a credibility that keeps the citizens compliant and promotes the stability of CCP rule (Shirk 2007, p. 30).

This national priority of strong economic growth depends spaces for capital to accumulate and become productive. Han (2015) describes a 2014 national urbanization policy that specifies seven Giant City-Regions as priority areas for both economic development and population growth. Within cities, peripheral housing development alleviates some externalities of urban agglomerations, such as noise and crowding. This has helped Chinese cities to reinvent themselves as good spaces for capital to accumulate (Day and Cervero 2010).

Local city district governments share growth and urban expansion incentives with the national government. Local government land releases and enabling of land development contribute significantly to urban development at the fringes (Wu 2004b; Zhang and Fang 2004b). Property development is responsible for large portions of local government revenues – up to 25 to 50 percent of the city revenue in some places (Zou 1998). Revenues and loans generated from land sales accounted for 40 to 50 percent of Hangzhou's operating budget in 2002, and up to 75 percent of the funds infrastructure (Ding 2005). Such incentives also exist in urban villages – rural areas adjacent to expanding urban regions – where villages capitalize on the urban housing prices to offer lower-cost housing to migrants and generate local

incomes. This is a significant driver of informal urban growth that is often-unacknowledged in official planning (Yang et al. 2015). Many actors, in summary, have strong incentives for the growth mandate to continue.

5.3 Urban Planning

This section reviews the urban management and urban planning processes since 1978, examining some issues that are particularly problematic for contemporary China.

5.3.1 Rural Urbanism

All of the discussion thus far has focused on policies to change the housing provision system for the formal urban population. Yang et al. (2015) call this “top down” urbanization. In China, a residential permit system was established soon after liberation, and is still formally in effect, which assigns people either urban or rural tenure, and still limits their geographic residential mobility.

One significant problem in China’s urbanization process, as Yang and her co-authors point out, is recognition of some forms of urbanization. China’s urban spatial plans seem to exclude reference to, and planning for, urbanizing villages and, what the authors call, “bottom-up” urbanization.

In China, elaborate schemes separate rural people from central government. For instance, in Li et al. (2015), local (district) government “authorities” manage relocation processes that are mandated by metropolitan and national spatial plans. We take up Chen *et al.*’s three detailed case studies later in this chapter.

In the pre-reform (pre-1978) and earlier post-reform eras, holding a rural *hukou* effectively excluded people from urban livelihoods. In the days of *danwei* (work units), rural people could not gain access to urban *hukou* except with special permission; for instance, if they were recruited by an urban work unit or enrolled in a university located in the urban area (Logan et al. 1999). Since these work units provided for most of the urban dwellers’ needs—housing, livelihood, education—there were few

opportunities for migration to cities in China. Post-liberation China was unique among socialist countries in its degree of control of rural-urban migration (Wei 1997).

The 1978 reforms that opened China to the outside and began the ongoing decades of housing reform discussed above, also generated a relaxations in the *hukou* system that allowed people to officially transfer their household registration. The rural Household Responsibility System, implemented in the early reform era (in 1983), placed development responsibility for rural produce back into the hands of individual peasants. One restriction with this policy was that rural landholders could not relocate out of the village, for example to migrate to an urban area, without forfeiting their tenure in the village. They generally did not qualify for public rental housing from a work unit or public housing bureau (Logan et al. 1999; Chan et al. 1999).

Today, with the introduction of more informal housing provision processes, *hukou* status is not so restrictive. People do indeed move from rural regions to opportunities in cities without changing their residential status. This *floating population* (Chapman and Prothero 1983) often moves between cities and villages seasonally, or some family members stay in the villages while others go to work in cities. The largest peacetime migration in human history is currently happening in China, as people move from rural areas to cities following economic opportunities. These people often find housing in rural areas at the urban peripheries, in rural “urban villages” where land is still collectively owned, rather than being state-owned, as is all urban land. This makes some discussion of rural land reform also relevant to the issue of urban housing.

Rural land reform is still underway. Rural land development is important in a study of urbanization because rural land at the urban fringes accounts for a significant portion of urbanization, both through formal, state-led “top down” institutional processes and informal, “bottom up” community-led processes (Yang, Day, Han 2015). Even before urban housing reforms were truly underway, urban redevelopment around villages began to occur because these were places where there was sufficient capital. Villagers were often able to develop housing using remittances from family living overseas and in Hong Kong and Taiwan. Villages also had more autonomy than urban residents over land use decisions.

5.3.2 Housing for Migrants

In recent times, a significant source of housing for rural-urban migrants has been in the developments constructed by rural villages on the urban fringes holding communal land titles. This type of urbanization, not led by formal government planning, which Yang, Day, and Han (2015) call “bottom up” urbanization, can take a number of forms. In one form, entrepreneurial village committees, seeing an opportunity to develop commercial and residential rental properties in the village, convert farmland to urban uses, and villagers earn their livelihoods from the proceeds. In other cases, the villages pool their capital and construct buildings with the intention of extracting more resettlement compensation from local governments wishing to implement land use plans that require reclassifying the village from rural to urban. Reclassification of urban villages has been criticized in the literature for removing rural people from their traditional farming livelihoods, but in many cases where the villages are close enough to urban areas that the rural people can extract urban rents from their land, the changes have been both welcome and enriching for the people.

In 2013, reforms were proposed to allow rural peasants to transact rural land, renting their use rights regardless of residence (The Economist 2013). This is a change from policies in the past that restricted rural landholders to remaining in rural areas at risk of losing their land tenure if they relocate outside of the village. These reforms are not yet in effect (The Economist 2016), but they would open the way for further rural-urban migration but allowing people to make a choice about whether they will remain in villages to farm or earn rents while residing elsewhere.

These forms of rural urbanization are important not only as livelihoods for people whose villages are being incorporated—officially or otherwise—into cities. They are also an important source of affordable housing for rural-urban migrants. Disadvantages in access to housing persist for migrants for long periods of time after they have moved to cities (Logan et al. 2009), and for those excluded from the urban labor and housing markets, housing constructed by landlords in urban villages provides an affordable and accessible option (Goldstein et al. 1991; Zhu 2003, 2007; Wu 2002, 2004). Around the turn of the twenty-first century, even accommodation in a cramped room in an urban village was

generally limited to rural-urban migrants with secure jobs; those with marginal employment were even more marginally housed (Solinger 1999), living in dormitories or temporary housing on factory and construction sites where they were employed (Wu 2002).

Logan (Logan et al. 2009) identifies *hukou* status as the single most-important predictor of housing attainment in Chinese cities in the year 2000. These authors argue that in attempting to understand the particular institutional limitations on rural-urban migrants in the housing market in China's large cities, simple classifications such as "floating population" or "temporary migrants" are not comprehensive enough. While it is true that many rural-to-urban migrants stay in the city part of the year or migrate with the intention of a temporary city residence, some migrants stay for years or indefinitely without urban *hukou*. These authors disaggregate the institutions restraining urban housing for migrants, classifying migrants into a number of subcategories based on the kind of migration they have undertaken and find that, in contrast to migrants from other cities that hold urban *hukou* from those places, migrants with rural *hukou* fare the worst in gaining homeownership—and this disadvantage does not attenuate with time. State-sponsored urban affordable housing programs, which are still a very common form of housing tenure as described above, are still generally not accessible to rural-urban migrants without permanent urban *hukou* (Chen et al. 2011a).

Though they might be the largest single most-disadvantaged group, migrants without urban *hukou* are not the only people affected by high home prices. The presence of floating populations has not created the only demand for urban peripheral housing. As Chen et al. (2011a) point out, they also compete with established urban residents and contribute to high general commodity housing prices.

5.3.3 Housing and Urban Planning

As Yang, Day, and Han (2015) argue, China's urban peripheries complex in their form and formation, generated through a suite of formal and informal processes. These processes include the "top down," urban-centred, state-centric forms of urbanization. These modes of urbanization,

they describe, are focused on the formal processes to expand urban housing and amenity to accommodate urban housing needs and also to accommodate the preferences of households that prefer the benefits of peripheral location: more space, less noise, better air quality, etc. These formal modes of urbanization in China are well-supported by the state, which regulates provision of amenities and infrastructure to support the new urban fabric.

Yang et al. (2015) also describe another, much more informal mode of urbanization, which they label a “top down” mode. This is state-administrated rural development in peri-urban villages with which many outsiders may not be familiar: the national policy efforts in enhancing rural development and the realisation in rural new towns at the local level. In addition, these processes also include what we call “bottom up,” community-driven urbanization with initiatives that are often in defiance of state or local policy. They assert that recognition of all three of these processes of urbanization is important to urban policy and scholarship, and that the “bottom up” form should be integrated into formal planning in a more thoughtful way than that in current practice. There is a disconnect in the literature regarding the non-affordability of housing in some of China’s communities and the oversupply of housing in others. Much of the literature on China’s western-style “ghost towns” and unoccupied apartments on the urban peripheries, is focused on the issue of isolated “top down” planned communities that have as yet failed to achieve their target populations (see Wang et al. 2010; Xue et al. 2013; Keeton 2011). These studies raise important issues about housing production, housing market function, and affordability in China’s cities. However, an unrecognized link in the literature is in the reality that there are millions of rural-urban migrants struggling to find affordable housing in the places planned through “top down” processes. China’s cities have, at one and the same time, a housing oversupply and a housing affordability problem.

This strange coincidence is very likely the result, at least in part, of the disconnect in planning for different types of urbanization. Formal urban planning implicitly recognizes communities planned by “top down” processes by building them into urban spatial plans, where they can then be provisioned with infrastructures and public facilities. The role of “bottom up” urbanization in providing affordable housing is crucial, though, as

we demonstrate above, it gets no recognition in formal spatial planning. Instead, the “top down” urban expansion process attempts to eliminate this source of affordable housing provision, through continuing urban village redevelopment in many Chinese cities. Although villagers, the “landlords” of these informal settlements, may somehow benefit from the government-led redevelopment by receiving compensation, the displacement of migrant housing might also push informal settlements further away, to the far reaches of cities. Rather than being a remedy for curbing informal development, this scenario might sustain informality in China's ongoing urbanization that needs to accommodate 100 million newly classified urban residents by 2020 and, therefore, leave the issue of affordable housing unresolved.

5.3.4 Livelihood Convergence and Social Stability

In recognizing the “bottom up” processes of urbanization as legitimate by building them into formal spatial plans, the possibility exists for urban planning that is better facilitated and more integrated into regional strategies. This is useful for a number of reasons. First, planning transportation networks and other public services is much easier when planners have an accurate distribution of the population. While the informal processes that gave rise to the “bottom up” settlements can work for local infrastructure and building construction, connecting these new urban dwellers to urban livelihoods will require their integration into transportation networks, water and sanitation upgrades, building and construction inspection processes, trash removal, hospital, school, and policing planning, and planning for the many other urban services.

Relatedly, if the goal is to integrate more rural people into urban livelihoods, as the new countryside and new trajectory of urbanization policies suggest, then formal recognition of and planning for the “bottom up” new towns may assist in this aim. Improved transportation planning for “bottom up” new towns would give people more access to urban livelihoods; education planning would make upward mobility more possible. This formalization may also have the added benefit of contributing to social stability—also a shared goal of the new countryside and new trajectory of urbanization policies.

As we describe above in Section 5.2.5, social stability is of great concern to the Chinese state at present. Much of the recent unrest has been over issues that are apparent at the urban edge. One such issue is land conversion at the urban edge; in particular, conversion of rural land to urban uses. Aside from being a main driver of and financing mechanism for urban growth (Wu 2004b), such land conversions have also been significant in fuelling civil unrest. Issues at the urban fringes have been a major location of mass incidents – as reported by official sources (Chinese Academy of Social Sciences 2013). This unrest poses a significant challenge to the CCP leadership (Tong and Lei 2013). In recent years, land disputes related to housing demolition and resettlement have underlain half of the country's mass incidents (China.org.cn 2012).

A number of issues are at the core of land disputes, including compensation for the resettled households (Tong and Lei 2014) and the justice implications of local governments facilitating dislocations on behalf of developers (CCTV News Investigation 2008). These disputes often involve protracted periods of unrest, e.g., Liede village in Guangzhou, where compensation disputes between villagers and the local government lasted for more than a decade; and Xiaocun in Kunming, where planned demolition of a “bottom up” new town was with protest from villagers and violence from the local government before the resettlement effort ceased due to media exposure (Zhu 2014). “Nail households” resisting resettlement or the offered compensation have been the subject of much public discussion and analysis (Li et al. 2015).

From a national perspective, it is clear that there has been a marked shift toward improving the lives of rural people, near and far from the urban fringes. As we describe in Section 5.2.5, this shift is at least partly explained by the state's interest in preserving the current political order. The recent protests and protracted disputes may be forcing the state to consider the land rights and interests of rural people. There are other clear modes for bringing rural people into urban livelihood systems (Yang, Day, and Han's 2015).

Analysis suggests that language in major national policies and urban planning documents reflects the importance of China's “top down” new towns in promoting rural development and livelihood convergence for rural people. Including “bottom-up” urbanization processes in these policy frameworks could be another important vehicle for promoting the national strategy on balanced urban-rural development.

5.3.5 Slums

If the “bottom up” communities are not brought into the formal system of planned communities, they have the potential to develop into slums—an issue with which policy makers in Chinese cities are deeply concerned, (see Tomlinson 2012). Tomlinson further concludes that planners in Shanghai have thus far successfully managed to avoid the existence of slums through the presence of a strong state: “Throughout Shanghai, slum prevention has been an outcome of policy-driven, state-subsidized and state-supported (land assembly/evictions) urban redevelopment together with providing services to, and then incorporating, urban villages (p. xiii).”

Tomlinson's paper—like much of the literature about China's urban peripheries—misses a key factor in the expansion of the urban fabric in China, the reach of informal processes. The idea that China's strong state reaches into all corners of urban development is convincing if urbanization is conceived as a monolithic, “top down” process. However, anyone who has spent any time in China's suburban areas has seen examples of informal peri-urban development that call the monolithic identity of China's urban peripheries into question.

5.4 Implementing Institutions

Above, we have outlined the outcomes, achievements, and challenges of the Chinese state with regard to implementing housing for all. Implicit in this discussion was a critique of China's institutions around housing provision. We describe what we mean by institutions below, but first we address the main point of this section, that successful implementation of housing for all requires the alignment of institutional structures and various levels. We have demonstrated above that there can be harmful consequences of China's housing policies and urban planning practices. This harm can occur at various levels of implementation, and in formal and informal institutions. This harm can be intended or unintended. Importantly, the best-laid plans and policies can fail to produce housing for all because of flaws in the policies or problems in other levels of implementation. This section discusses how China's institutions create a housing environment in cities.

Institutions are the persistent rules and norms that guide behavior in a society. These rules and norms can take the form of formal institutions, like property rights, courts and judicial processes, or they can be informal. Societies have far more informal institutions in place than formal ones. These informal institutions are the often-unspoken “rules of the game in a society,” or the “humanly devised constraints that shape human interaction.” (North 1990, p. 3)

In China, as everywhere, informal and formal institutions can be closely interrelated. Growth machines, for instance, are not mandated, nor is there any formal legal or policy infrastructure that mandates that city governments prioritize the raising of revenues over environmental conservation, compact cities, or fair compensation to old couples. However, operating as growth machines has become a way that city governments function. This behavior as a growth machine is an informal institution. While it is true that formal institutions, such as strong eminent domain powers, enable the informal growth machine, as the actual set of behaviors that power growth machines are informal.

Furthermore, as Fukuyama (2011) points out, the presence of a civil society in China is not supported by historical legacy. The Chinese civilization, 5,000 years old, has never in its history had a state that was accountable to a higher power. This is unique in the world, unlike other places such as feudal Europe where kings were accountable to the church and, failing that, to God. Nor has a *rule of law* ever developed, wherein the state is accountable to an historical precedent of laws that are larger than itself. A Chinese emperor, in contrast, was the embodiment of the state, and the state was a reflection of his will. Today, the CCP functions similarly. With state-enforced atheism imposed on much of the Chinese population, there is no higher religious authority to which people can appeal. The Party is uncontested politically, and from this uncontested place makes the laws, regulations, and policies that shape housing conditions in the country.

5.4.1 Vision and Codification

Institutions also occur at various levels in societies, and implementation at all of these levels requires formal and informal institutional structures. With respect to housing, the first level that institutional structures can

occur is in the founding document. This document often represents the vision for that society, the ideological foundation upon which all subsequent rules will be built. In some countries like South Africa and India, housing for all is codified in those nations' constitutions. In China, housing is not provided at the constitutional level, but the policy and legal structures that have evolved since 1949 illustrate the second level of implementation.

These legal and policy structures include laws and regulations, policies like urban spatial plans, and court decisions that establish legal precedent. In China's housing system, the idea of housing for all emerged within the legal and policy structures that have been evolving since 1949. Thus, China's housing institutions are grounded in strong formal structures, but also in strong informal institutions.

One of these strong informal institutions is tenure security. During the *danwei* era, urban dwellers had strong tenure rights by virtue of housing being provided as a part of their employment. After the *danwei* system was formally dismantled by legislation in 1999, this history and culture of tenure security became reflected in resettlement procedures. Although, as we discuss above, the processes for compensating resettled households have evolved over time, the institution of compensation has remained strong, with virtually all urban households receiving some form of compensation—often in the form of in-kind property—when resettled using eminent domain powers. Over time, to standardize and streamline resettlement processes, formal institutions have emerged to support resettlement.

For instance, resettlement authorities like those described in Chen, Wang, and Day (2015) are authorized by policy to negotiate resettlement terms with private citizens on behalf of the government. These processes do not always end with equitable outcomes. As Chen and his co-authors describe, the power dynamics occurring between the members of the authorities and the private citizens can impact the levels of compensation households receive. This study describes the outcomes for four resettled households, which they characterize as the “gangster man,” the “CEO,” the “factory property owner”, and the “old couple.” In negotiating resettlement compensation terms, the first three of these stakeholders is each able to exert power over the authority's negotiator. The CEO has business

and negotiation skills gained over decades managing state-owned enterprises; the factory property owner is being resettled from a key site in the middle of the development area, so his cooperation is seen by the authority as crucial; and the gangster man uses intimidation to create a negotiation environment that suits his aims of higher compensation.

The old couple, however, are able to mobilize none of these tactics and skills. The authors conclude that this is the reason why they end up without a private residence, but instead are placed by the authority in a care home for the elderly. The unequal treatment of households in the event of resettlement is a well-known issue in China's cities, but not one that has, of yet, been effectively addressed by binding legal processes. As the growth machine argument states, the incentives are misaligned for any formal corrective processes to emerge under the current conditions. All incentives for government actors and land developers are aligned toward local governments generating operating revenues from land sales, and the continued resettlement of the people who are in the way is crucial in this process.

The institutions that have emerged to manage resettlement are illustrative of a distinction that Acemoglu et al. (2005) make between *political* and *economic* institutions. Economic institutions, such as tenure security, the structure of property rights, and the presence of markets, "are important because they influence the structure of economic incentives in society." (Acemoglu et al. 2005) Political institutions include forms of government such as democracy or autocracy, or in the case of China, "socialism with Chinese characteristics."

The structure of political institutions strongly impacts the power that people in a society have to influence their leaders and affect their circumstances. As Acemoglu et al. (2005) argue, there is a strong relationship between political and economic institutions. In China, institutions like the resettlement authorities have both political and economic elements. On the one hand, they have been designed to limit the interaction of the state with private citizens negotiating resettlement. The effective outcome of this institutional structure has been to limit their capacity to influence government—a political process. However, these authorities are also agents that operate to facilitate financial transactions between the local government and land developers—an economic process.

Acemoglu and Robinson (2012, 302–334) points to an endogenous relationship between a country's political and economic institutions—that is, between the forces that create policy and then implement and enforce it, and the forces that create economic growth and development. He argues that political institutions are the main mechanisms by which the non-elites in a society gain favorable economic institutions. The growth machine problem, for example, is a fundamental mismatch of political and economic institutions. It is not simply a mismatch of ideology that produces different economic institutions, then; there must be an incentive system in place that causes leaders to perpetuate institutions that support growth machines, where the leaders can extract more benefits than they could by shifting the institutions to be more equitable to a larger proportion of the population.

They illustrate the point using the example of North and South Korea, which diverged institutionally from each other in the 1950s, but before that were culturally identical, and which remain topographically and geographically very similar today. Ideology, they argue, is not a sufficient explanation for the current differences in outcomes between the two countries because there has been sufficient evidence since the 1980s that the North's policies were resulting in worse economic outcomes than the South's. There must be other incentives at work.

The growth machine corresponds with what Acemoglu et al. (2005) identify as the *social conflict view*, wherein bad institutions arise because groups with political power benefit from having them configured as such. As Haugen and Boutros (2014) point out in *The Locust Effect: Why the End of Poverty Requires the End of Violence*, there are few institutions aside from violence where there are people actively trying to suppress the law-enforcement institutions that would protect the poor from violence, including state violence.

Formal political institutions grant power to people in societies. This *de jure* power stands in contrast to *de facto* power, wherein a group or individual can have political power in the absence of formal political institutions that support that power. Groups in societies can, for instance, riot or revolt, protest, or take actions that impose economic costs on powerful elites. In China, a common exercise of *de facto* power occurs when a household becomes a “nail household.” Households facing resettlement

negotiations sometimes resist the resettlement, either because they do not wish to relocate, or because they wish to achieve higher levels of compensation. By holding up the resettlement process, they seize the power of economic transaction and gain power. The strong tenancy institutions in Chinese cities enable this kind of protest.

Acemoglu et al. (2005) note that the *de facto* power derived from protests is often dependent on groups being able to engage successfully in collective action. In China, this power is limited by elites. As a matter of procedure, resettlement authorities engage with nail households individually, attempting to limit the amount of interaction they have and in which they might organize. National legal structures prohibit protest, though as we discuss in the enforcement section that follows, tolerance of power generation through protest is the inevitable product of increased dissatisfaction toward the economic outcomes that resettled households experience.

5.4.2 Enforcement

The third level of implementation of housing for all is in the enforcement of formal laws, implementation of policies, and enforcement of informal norms and processes. Without enforcement, laws and policies can mean very little for non-elites, even when it is this population they are designed to serve.

Power matters for enforcement. In 2009, national legislation in China required compensation for resettlement to be given either in monetary terms or in kind. This formal regulation is presumably aimed at bringing about standard and fair resettlement compensation outcomes. However, Chen, Wang, and Day's (2015) old couple lacked the power to generate enforcement of these regulations, and further lacked the *de facto* power to affect change informally. This example illustrates how a lack of enforcement can actively undermine the poor and powerless. The three other actors in that story—the gangster man, the CEO, and the factory property owner—were able to assemble *de facto* power to bring about an outcome they were willing to accept. The old couple, lacking the capacity to assemble this power, would have greatly benefited from a system that enforced the regulations.

Of course, the processes that enforce regulations and laws, are themselves institutions. Development of such institutions is a crucial step in the movement toward institutions that deliver services to everyday people—including housing. Haugen and Boutros (2014) argue that there are certain special-case institutions in which there are incentives for the powerful to actively undermine the poor. Although they are largely speaking about the need for enforcement of everyday violence against poor people in developing countries, their point has strong parallels to our discussion. In the case of growth machines and resettlement authorities, for example, China's housing institutions are arranged to facilitate fast transfer of land to private developers. Like criminals who act violently toward the poor with confidence that the codified rights of the poor will not be enforced, the housing authorities that skirt regulations in resettlement processes make assessments of their risk based on the perceived power of their opponent. As Li et al. (2015) conclude, the poor and powerless are often the losers.

The reason good institutions do not always emerge is that bad institutions are initiated and perpetuated by elites towards a rationality that serves their aims. People with power can benefit from institutions that serve their interests to the detriment of the poor. In housing, the growth machine corresponds with what Acemoglu and Robinson (2012, 302–334) identifies as the *social conflict view*, bad institutions arise because groups with political power benefit from having them configured as such, and groups with less political power cannot effect changes to the institutions. As *The Locust Effect* points out, there are few institutions aside from violence where there are people actively trying to suppress the law-enforcement institutions that would protect the poor from violence, including state violence, as we discuss below. As the case of the Old Couple illustrates, housing is one of these cases.

Most countries in the world have made significant progress through the first two levels of implementation—vision and codification—when it comes to housing rights. As we have detailed above, China has a well-developed vision for housing. It has a codification scheme that is actively evolving but still imperfect, creating perverse incentives for resettlement and leaving significant numbers of people vulnerable to the actions of land developers and resettlement authorities. It is at this policy level and

at the third level, of justice and law enforcement, where the significant gains can be made in the coming years. According to Shirk (2008), the Chinese national government is particularly sensitive to assertions of *de facto* power such as protest, and seeks to minimize such actions in the citizenry. Therefore, increased enforcement is aligned with the top priority of the national government, which is regime preservation.

5.5 China’s Housing Pyramid

China’s housing pyramid is characterized by the conflicts that exist within it. Figure 5.1 shows the pyramid, which summarizes the foregoing discussion. China has a growing middle class and a large underclass. There are significant distinctions between urban and rural populations that create tensions across the housing system. The strong culture of private savings means that many urban households can invest in housing. High prices mean that new entrants are increasingly excluded from housing purchase. Urban planning can entirely ignore forms of urbanization and the rural-urban places from which they emanate, perverse land development incentives exist within the system, and procedures for resolving conflicts in

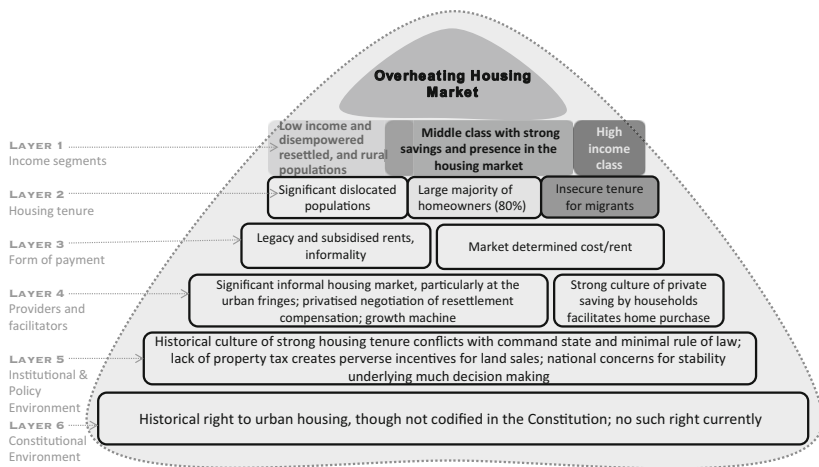


Fig. 5.1 China’s housing pyramid. Source: Authors

resettlement can create extreme disparities depending on the power relationships among actors in those disputes. Underlying all of these conflicts is the constant need of the Chinese Communist Party to legitimate its existence and power in a world where almost nobody believes in communism. The Chinese system of housing provision is fraught with conflict that will play out on the world stage in the coming decades.

5.6 Conclusion

China has significant and conflicting forces at work within its political and economic systems that create tensions in the system of housing provision. One issue the country will need to address in the near future is the very high cost of urban housing. This issue is receiving significant attention in current national housing policy.

Despite its one-party governance structure, the Chinese Communist Party does seem to be largely responsive to the demands of its citizens when it comes to housing reform and assurance of tenure rights. However, significant populations do get left out of the increasing prosperity, for instance, both the old and the young who are trying to enter the housing market for the first time. Rural people and people who migrate seeking prosperity, and people whose lands and livelihoods are being encroached upon by expanding cities, are also often excluded. It is perhaps not surprising that the oldest bureaucratic system in the world is constantly adapting to the new challenges that arise. This responsiveness is, very likely, directly due to the constant existential challenges to its credibility.

The country is in an enviable position compared with the other BRICS. Despite the large number of people living outside their *hukou* status, it does not have a majority of informally housed populations, like Brazil for example. It does not suffer from an institutionalized and dependent population that is desperately poor and waiting for the state to provide housing, like South Africa. Subsequent reforms have attempted to balance the rights of the people against economic growth and development via the housing industry, and have often extended rights that had previously been taken away or diminished. In short, China's housing policy reforms have been largely effective, as evidenced by the one-

generation shift toward a vast majority of homeowners, and will likely continue to serve the population as they vacillate toward a fair, equitable, and prosperous system.

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6

Housing in South Africa¹

6.1 Urbanization and Housing in the Colonial and Pre-Apartheid Era

The period between 1834 and 1948 can be identified as South Africa's post-slavery colonial period. During this era, decades prior to the introduction of the infamous apartheid political system, a precedent was set for spatial segregation within South Africa. Common within colonial environments was a “racialized hierarchy of difference” (Porter 2006 p. 383) and this differentiation gained acute meaning across South African geographies. Inland white colonial expansion, away from Africa's southern coastline, led to conflicts with established African² communities and groups, who were roundly subjected to a loss of independence and integration into colonial institutions (Mabin 1992, p. 14). This racialized

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² In this chapter, we use apartheid-era nomenclature to refer to the various populations as distinguished under apartheid policies. The term African refers to people of largely African ancestry. Colored people were mixed-race, and white South Africans were either Afrikaners, if from a Dutch or German heritage, or English-speaking, if from an English heritage.

hierarchy was specific to broad socio-economic factors, including economic opportunities, quality of education, and health care (Bond 1999).

As early as 1910, land had been formally segregated between African and other inhabitants (Mabin 1992, p. 16). This was immediately met with resentment by traditional African leaders who recognized the potential consequences of limits to movement (Freund 2007, p. 112). Le May (1971, p. 64) indicates that initial colonial desires for separate development stemmed from Afrikaner concerns around a loss of identity through contact with Africans. Further, there was a prevailing belief among white South Africans that diseases such as cholera, malaria, and the plague originated in the poorly sanitized African settlements (Freund 2007, p. 110); outbreaks of such maladies were often followed by the systematic dismantling of urban African communities. To placate concerns associated with racial mixing, Afrikaners pursued urban development predicated on predictability, order, and safety, primarily through the restriction of movement of Africans (Murray 2011).

The Native (Urban Areas) Bill of 1923 is widely recognized as the initial piece of legislation controlling the movement of Africans into cities and towns. The Bill designated local governmental authorities as the responsible party for providing separate areas for African residence (Horrell 1978, p. 2–3; Le May 1971, p. 54). It further directed authorities to “control the influx of Africans” (Horrell 1978, p. 3) and forcibly remove unemployed Africans from urban areas. Local authorities are said to have been “slow to accept responsibility” (Horrell 1978, p. 3) in providing segregated settlements for Africans; with the onset of the Great Depression in the 1930s, South Africa’s urban slums became arenas for dreaded racial mixing (Le May 1971, p. 64). Further, overcrowding became extreme in designated African areas by 1945 (Mabin 1992, p. 17), leading to numerous urban land invasions and other manifestations of informal urbanization (Bonner 1990). The concept of land invasion by spatially disadvantaged groups is a phenomenon that has been repeated time and again up to the modern era.³

³ Land invasion can be understood simply as the invasion, and subsequent occupation, of land or property, public or private, by a group of people; for SA Federal policy on land invasion, see: <http://www.gov.za/services/place-live/how-respond-land-invasion>

This perceived racial integration and loss of movement controls was met with alarm by Afrikaners; anxieties prevailed in post-World War Two South Africa around the “native question” (Le May 1971, p. 74). O’Meara (in Posel 1987, p. 124) indicated that this apprehension was more concerned with Afrikaner capital accumulation and protection rather than inherently racialized ideologies. Changing segregation systems was seen as potentially fractious to existing social and economic stratifications (Le May 1971). Capital and social protectionist ambitions provided a solution for the central native question and were also the foundation of a successful 1948 election for the emerging National Party (Le May 1971; Mabin 1992; Posel 1987).

These processes of racial separation continued and intensified during the apartheid period, starting with the 1948 election and continuing during the subsequent four decades-long dominance of the Afrikaner-led National Party.

6.2 Apartheid Mechanisms for Spatial Control

After the 1948 election, the National Party became the dominant political institution and used legislative and judicial practices to marginalize non-white groups while reinforcing their own interests. The Group Areas Act No. 41 of 1950, imposed racial control throughout South Africa regarding property rights and land occupation (Horrell 1978, p. 71). The Act allowed governments to enforce residential segregation between whites and different groups of non-whites (Le May 1971, p. 78). This was seen as an institutionalization of the prevailing hierarchy of separate development based on race. This was particularly concerning for Africans as land ownership was severely restricted and traditional self-worth is said to derive from land possession and occupation (Benjaminsen et al. 2009).

The overwhelmingly white Durban City Council (DCC) was a particularly active local government in using this new legislation to allocate space within the city by race. As Maharaj (1992) outlines, the DCC was

particularly interested in marginalizing the small, but increasingly influential, Indian population. The vertically integrated system of racial development was perhaps tested for the first time by the Durban Indians' objections; the disregard of these objections by federal and provincial officials was indicative of an entrenched system that favored white South Africans (Maharaj 1992). The Group Areas Act formed the foundation of many future aspects of National Party legislation that sought to entrench spatially separate development, including the much maligned African Homelands (Horrell 1978).

Another key piece of apartheid era legislation was the Native Laws Amendment Act No. 54 of 1952 (Horrell 1978, p. 173). The crux of the Act was:

All black persons, men and women, over the age of sixteen were to carry passes and that no black person was to be allowed to stay in the urban areas longer than seventy-two hours unless they had permission to do so. (Le May 1971, p. 85)

This Pass Act, as it became colloquially known, legislated that Africans could not be in urban areas without a formal purpose, such as employment. As such, apartheid era urban centers became overwhelmingly white. Freund (2007, p. 107) points to the "official structures" and "historic peculiarities" associated with Afrikaner cultures and that these institutions "seemed to define urban life." Nonetheless, the necessity for proximal low-income labor and the system of passes meant that clusters of poorer dwellings needed to be relatively close to enclaves of wealth (Freund 2007, p. 111).

Dozens of novels and memoirs document the daily indignity and brutality of the pass system, the impossibility of complying with pass laws for the average worker, and the reliance of peri-urban African families on labor in the white urban cores. In his memoir, *Kaffir Boy*,⁴ Mark Mathabane (1986) describes his childhood in the 1970s and 1980s in Alexandra, a suburban African township of Johannesburg. One common feature of his childhood were midnight raids by a "peri-urban police"

⁴ Kaffir is a pejorative term for black Africans.

force on his family's various shacks, and the periodic arrests of his father and mother for failure to have their passes "in order." This precarious, chaotic, and extralegal urban existence fomented divisions that were both racial and socio-economic.

Failure by family members to comply with the pass system were very often the justification for the raids. Both of Mathabane's parents were born outside of the urban region and had migrated to seek economic opportunities. This made the children, born in Alexandra, also illegal urban dwellers. Mathabane—a tall boy who would go on to a tennis scholarship in the United States—describes the family ordeal in securing his papers as he neared the age of 16, began to look like an adult, and started experiencing police harassment. His illiterate mother navigated multiple offices, long queues, and circular referrals between different departments for months before giving the process up, unsuccessful. As no member of the family had a legitimate pass to live or work in Alexandra or the Johannesburg region, the family remained in insecure dwellings and was frequently subjected to acutely difficult circumstances, particularly when one or other parent was imprisoned for having a faulty pass.

The very existence of a peri-urban police force suggests a spatial distinction between policing in the white urban cores and the black urban peripheries. Indeed the term apartheid is an Afrikaans term that, before it was entrenched with political connotations, meant simply a state of being apart. Crew (2013, Chap. 4) describes the desire for physical separateness—as well as political domination—on the part of the Dutch-derived Afrikaner population. Feelings of racial superiority were so strong among Afrikaners that they believed themselves to be above living near black Africans. Even the Dutch Reformed church supported this belief system, unlike other Christian sects at the time, preaching that the Afrikaners were God's chosen people. The book *When She Was White* (Stone 2008) further outlines the entrenched and institutionalized racial hierarchies in South African society at the time. Broadly, Afrikaners created a system wherein they lived apart from, were divinely separated from, and rarely had to see or interact with, the black African population.

Crew (2013, Chap. 4) argues that this level of physical separation and social-spatial exclusion far exceeded that in other colonial settings, such as English colonial India. This physical separation, he argues, ran in parallel with political exclusion. In colonial India, for instance, Indians began to participate in politics with some level of citizenship before the struggle for independence began in earnest. In South Africa, there were white, colored, and Indian houses of parliament, but no black representation (Mary R. Tomlinson 1998). Even Mahatma Gandhi believed black Africans to be racially inferior to Indians (Crew 2013, Chap. 4).

It is in this context that the next section describes the urban form that emerged from apartheid policies of separation.

6.3 Apartheid Urban Form

In providing an historical account of the urban planning processes and their spatial consequences, Mabin and Smit (1997) describe how every South African city experienced low-rise expansion of their peri-urban areas from the 1950s. This, they argue, includes even those cities that saw concurrent high-rise growth in the core areas, such as Johannesburg. A significant proportion of this peri-urban sprawl was made up of settlements of African rural-to-urban migrants in designated township areas, like Mathabane's parents found themselves in. The apartheid government, perhaps aware that urbanization forces were more powerful than its policy instruments, created a number of influx control measures to curb the movement of Africans into the white urban cores.⁵

The aforementioned Group Areas Act established African and colored townships outside of the white urban cores across the country. Movement of Africans and Coloreds into the white areas was tightly controlled and monitored by the pass system. The movement of whites was also controlled, at least partly to separate white residents from the reality of the conditions and treatment of blacks in the peri-urban townships. In *Burger's Daughter* (Gordimer 2000), the white protagonist Rosa Burger navigates streets into a black neighborhood in the full knowledge that

⁵The previous section outlines several of these influx controls.

doing so could cause her hard-won passport to be revoked. The daughter of an imprisoned, white Afrikaner civil rights activist, her choices were rigidly constrained by the apartheid government. It was impossible for her to undertake her chosen profession, law, for instance, and her movements inside the country were monitored. Travelling outside of the country only became possible after her father's death in prison, and then only to selected countries that were not critical of the apartheid government. While driving a black woman to her home, she pondered the rationality of her decision to risk her own chances of international travel in order to give someone a ride. Other authors describe road and movement restrictions that were part of apartheid urban institutions (McGaffin et al. 2015). Apartheid-fighter Nelson Mandela was arrested and sent to prison for years during a routine 'traffic stop of Africans after fleeing the authorities (Mandela 1995).

In Johannesburg, "land-use zoning laid the foundation for the segregated city on the basis of a calculation of racial difference." (Murray 2011, p. 176) These formalized plans situated the black townships to the south, while the north part of the city housed the white populations (Klug et al. 2013). White areas of the city to the north had low population density rates, similar to that of Los Angeles (Tomlinson 1990, p. 81). This could be directly contrasted with the densely packed, informal squatter camps that sprang up to the south of Johannesburg's urban core (Crankshaw et al. 1992). Further still, the preservation of neighborhood homogeneity became the central focus of urban planners of the time (Murray 2011).

In Mathabane's account (1986), he describes white residents of Johannesburg who cannot believe his reports of conditions in Alexandra. As a young tennis player Mathabane was frequently invited by white friends to play tennis at white tennis clubs in the City of Johannesburg. He describes, like Rosa Burger, the act of defiance by one friend in giving him a ride home one evening after a match.

In the city of Bloemfontein, Manguang township was established in the region's southeast to receive the black influx from rural areas, and the township of Heidedal was established for colored people. Between 1950 and 1968 Manguang received around 6,000 rental housing units as the apartheid government attempted to both improve housing conditions for poor black African migrants and control their influx to Bloemfontein.

These initial 6,000 housing units provided the basis for the informal expansion of Manguang township, with “backyard” shacks filling in the interstitial spaces between formal stands (Marais and Ntema 2013). Even as the government attempted to channel black urbanization to towns dozens of kilometers from the Bloemfontein urban core (Marais and Ntema 2013), the township kept densifying, albeit without the upward, multistory expansion that arises when there is security of tenure and when midnight raids and evictions are not the norm (McGaffin et al. 2015). By the time the government allowed the formal expansion of Manguang in 1968 (Marais and Ntema 2013) the township was already an example of the low-rise urban sprawl that was indicative of the country’s urban peripheries (McGaffin et al. 2015).

The Cape Town metropolitan area was developed under a similar set of racially specific spatial drivers. Toward the end of apartheid, Cape Town was widely recognized as the most segregated city in South Africa (Besteman 2008, p. 47). The commercial core of the city and its inner-southern suburbs were reserved for white residents (R. Tomlinson 1990). Colored townships generally spread further south of the urban core, including the sprawling, populous township of Mitchells Plain (Besteman 2008). This dormitory suburb housed more than a quarter of a million residents and represented a South African concept of apartheid-era decentralized urbanization (Tomlinson 1990, p. 115). The inherent spatial disconnection between Mitchells Plain and upwardly mobile employment opportunities in the commercial core represented a consistent manifestation of the desired apartheid economic system (R. Tomlinson 1990).

Further east and southeast of the urban core, African townships were established before 1983 in Gugulethu and Crossroads, primarily to house low-wage labor (Besteman 2008). In 1983, in recognition of the increasing demand for African housing, the apartheid government designated Khayelitsha—the Xhosa word for new home (Chiumbu 2012)—as the location for Africans migrating to Cape Town (Cook 1992). Cook (1992) recognized that economic opportunities were limited, particularly in the formal economy. Many residents traveled outside of Khayelitsha for basic needs, a condition found to prevail in a 2011 study commissioned by the City of Cape Town despite years of public investment in sustainable enterprises (Urban-Econ Development Economists 2011). While racially

differentiated, both Mitchells Plain and Khayelitsha were spatially and economically disconnected from the relatively affluent white core of Cape Town (Cook 1992, p. 133; Tomlinson 1990, p. 115).

Even before the end of the apartheid regime, urban form began to change. Toward the end of the National Party's apartheid government, the enforcement of influx control laws were relaxed and people began to exercise a "spirit of freedom" (Marais and Ntema 2013, p. 88) with regard to their settlements. This resulted in strong in-migration to, formerly, exclusively white urban cores. For instance, Marais and Ntema (2013) describe the "invasion" of Freedom Square Bloemfontein by African township dwellers and rural African migrants in 1990. This was concurrent with a similar movement of Africans all over the country to unoccupied urban core land at around the same time. Land invasions of well-located but unoccupied land became increasingly commonplace.

The apartheid government came under considerable pressure from white constituents to manage these land invasions and the resulting creation of informal settlements, and the National Party created some housing policies that were designed to upgrade dwellings in the townships and to formalize land tenure. The Independent Development Trust (IDT) was set up to upgrade informal settlements with formal tenure, water, sanitation, and electricity. Freedom Square in Bloemfontein was one of the communities that received such upgrades as part of the IDT program, along with 100,000 households across the country (Marais and Ntema 2013). There was a real ambition on the part of white political interests at the time to develop a generation of African homeowners in order to stabilize the country's broader political landscape (Huchzermeyer 2001, p. 308).

The IDT itself was a scheme that sought to empower Africans through homeownership within the framework of the prevailing spatially segregated urban form. Self-help, or self-built, housing was introduced through the IDT toward the end of apartheid as a realistic way for Africans to own and maintain a property (Parnell and Hart 1999). If the self-built dwellings met the standards of the time, they were formalized. Huchzermeyer (2001) indicates that quantifiable results were of primary concern to the IDT; rather than building communities, the program was solely focused on housing delivery. Many institutions were critical of this

approach, often calling them “toilet towns” (Huchzermeyer 2001, p. 311), and felt that a more “human” approach was required (Nuttall 1997, p. 168). Despite these criticisms parallels have been drawn between the IDT and modern, capital-affected approaches (Huchzermeyer 2001).

These late apartheid institutions and transition period housing policies are outlined in some detail below.

6.4 The New Constitution and the Housing Crisis

The South African Constitution, certified on May 8, 1996 (Henrard 2002), is widely acknowledged to be one of the most progressive in the world in demonstrating an “extensive commitment to socio-economic rights.” (Liebenberg 2001, p. 405) This is particularly unique among developed modern democracies. According to its constitution, South Africa is a pro-poor, developmentally focused state (Bradlow, Bolnick, & Shearing 2011).

Among the socio-economic rights is Section 26 of the Bill of Rights which specifically pertains to the right to housing, it reads:

- 26.1 Everyone has the right to have access to adequate housing.
- 26.2 The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realization of this right.
- 26.3 No one may be evicted from their home, or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions. (Republic of South Africa 1996)

For adults, housing rights are qualified by the phrase, “within its available resources.” In Section 25, the meaning of this phrase is further elaborated (Huchzermeyer 2003):

- (4) The state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis. (Huchzermeyer 2003)

For children, on the other hand, housing rights are unqualified. In Section 27 the Bill of Rights states, without qualification, that (Huchzermeyer 2003):

(1) Every child has the right -

(c) to basic nutrition, shelter, basic health care services and social services (Republic of South Africa 1996).

Section 26.2 requires some deconstruction to frame a modern housing policy. It can be determined that it is the state's obligation to "take reasonable measures" (Liebenberg 2001, p. 415) for all citizens to achieve access to adequate housing. In the post-apartheid era, these reasonable measures have manifested themselves in numerous statutory frameworks that will be covered below.

Again from Section 26.2, the term progressive realization has further significance. This term in the constitution recognizes the process-driven aspect of housing delivery, although its application is contested and inherently difficult to quantify (Tissington 2011, p. 27). One key concern relating to the progressive realization of access to adequate housing has been that the housing backlog, or the number of South Africans waiting for a subsidy, has been steadily increasing over the past twenty years (Huchzermeyer 2001; Tissington 2011). With that said, all housing policy constructed in South Africa in the frame of the new constitution has been based on the "fundamental understanding that housing is a basic need." (Huchzermeyer 2001, p. 305)

The South African constitutional right to housing came into effect on February 4, 1997 (Huchzermeyer 2003). Since then, there have been numerous cases contested in South Africa's Constitutional Court with regards to Section 26. One such case was *Government of RSA v Grootboom*, CCT 11/00 (Grootboom 2000), in which the 900 applicants had applied for state subsidized housing and were forced to wait for seven years (Liebenberg 2001, p. 438). They had "illegally" occupied land that was slated for public housing development and were subsequently evicted by the authorities (Ranslem 2015). The following is an excerpt from the case:

The right of access to adequate housing is entrenched because we value human beings and want to ensure that they are afforded their basic human needs.

A society must seek to ensure that the basic necessities of life are provided to all if it is to be a society based on human dignity, freedom and equality. (Grootboom, paras 43–44)

Following the applicants' eviction from privately held land, the Constitutional Court ruled that the state was obligated to provide temporary shelter due to the length of wait, despite the illegality of the land occupation (Liebenberg 2001, p. 438; Ranslem 2015, p. 58). The Court ruled that the state had not acted responsibly in not taking "immediate steps to provide relief to those in urgent and desperate need." (Tissington 2011, p. 27) This was a precedent case for the construction of temporary shelters for evictees in emergency situations on the housing subsidy waiting list.

The concept of state-provided emergency, or temporary, housing, has become increasingly important in the wake of the Grootboom case. While it theoretically provides a short-term solution for those in need, it is recognized as becoming increasingly permanent; many now recognize the dwellings as permanent builds for temporary accommodation. Ranslem (2015, p. 56) outlines the idea that temporary housing settlements are "built into the South African urban form in troubling ways." Disturbing connections have been drawn between modern temporary housing and forced African relocation camps from the 1950s (Chance 2011). Many residents do not view these "temporary" settlements favorably and an anti-eviction movement has become an influential grassroots movement supporting residents housed in these developments (Chiumbu 2012). At the very least, the transient nature of the residents erodes the establishment of a community spirit, or *ubuntu*, a concept central to successful place making in South Africa (Shutte 2001).

The failed N2 Gateway project, an attempt by Cape Town local government to build high-rise public housing, led to affected residents being relocated to four temporary housing sites around the metropolitan area (Ranslem 2015). One of these temporary sites, Blikkiesdorp, is covered in detail by Ranslem (2015), who describes the movement of residents of

1,667 'tins' being carefully monitored by police situated at site entrances (Chiumbu 2012)—which is troublesome considering the legacy of police in the reinforcement of apartheid laws (as described in Jackson 1980). Blikkiesdorp has become a permanent fixture alongside the township of Delft, with evicted residents from other sites, including victims of xenophobic violence, being gradually relocated. While the city of Cape Town has worked to implement social services within Blikkiesdorp, resident satisfaction levels remain dismally low (Ranslem 2015).

The next section of this chapter explores the major policies and programs designed to support the provision of housing in post-apartheid South Africa.

6.5 Housing Policy and Supporting Regulatory Framework Since 1994

The South African constitution provides the foundation and vision for housing provision in the country. However, the journey from oppressive apartheid-created housing insecurity to a developmental state with housing for all, would prove to be fraught and contested. The scale of this situation is, by all accounts, enormous (Wilkinson 1998). For example, at the time of the groundbreaking 1994 democratic elections, the estimated housing backlog was 1.3 million units, with 200,000 new families needing houses annually (Mary R. Tomlinson 1998). Wilkinson (1998, p. 215) outlines that the need for housing was overwhelmingly African as a legacy of the institutionalized racism.

With that said, neither the new constitution nor the country's first democratic elections were the starting point for housing reform. The National Party leadership established a "progressive" body, the Urban Foundation, to address urban and social policy issues in 1976 (Huchzermeyer 2001; Parnell 1992). The foundation remained an influential actor in South African urban and housing policy until the complete dismantling of the apartheid regime (Huchzermeyer 2001). Despite their alignment with white interests, the Urban Foundation is credited with pioneering the concept of subsidizing poor African homeownership

in 1990. In the context of a crumbling system of racial segregation, this notion supported both capital and political interests at the time. The proposed injection of state funds was to support private construction firms and represented a softening of the National Party's stance toward African homeownership (Huchzermeyer 2001, p. 309). Amid consultation with the incoming-ANC leadership, the Independent Development Trust—or IDT—was allocated a one-off R2 million fund in 1992 to deliver low-income housing (Huchzermeyer 2001).

Also in 1992, still prior to the country's democratic elections, the National Party Department of Housing established a multiparty panel to negotiate a new housing policy that would address apartheid-inherited inequalities, urban form, and the housing shortage (R. Tomlinson 2002). This panel, the National Housing Forum (NHF), was composed of political groupings, such as labor, financial institutions, housing developers, and civil groups. At the time, much of the policy being developed by the ruling National Party, outside of the aforementioned IDT, was being met with strong political opposition (Mary R. Tomlinson 1998).

After considerable debate, the NHF developed a consensus around a new policy (R. Tomlinson 2002). At the time, debate was not focused on the need to provide housing; it was generally agreed that large housing interventions were necessary. The terms of debate were over the mode of delivery, the kinds of housing to be delivered, and land ownership. In the debate over whether housing policy should be state-led or market-driven it was eventually decided in favor of private-sector housing policies (Miraftab 2003), wherein the government provides a framework and funding, and the private sector delivers the housing (Mary R Tomlinson 1999). The unattractive option was seen as the state retaining land ownership and providing rental housing, because of the complexities of managing rental properties, of body corporate arrangements, and the past tendencies under apartheid of the poor to protest various issues with rent strikes (Harrison et al. 2007; Huchzermeyer 2003). High density was rejected, partly in the belief that the poor could not successfully manage ownership via the sectional titles associated with apartment buildings. A technocratic, "orderly" form of urbanism became the preference of the NHF (Huchzermeyer 2001), often mirroring concepts of post-World War Two British new town policies (Tomlinson 1990, p. 115).

After its comprehensive election victory in 1994, the new ANC government was in a position to develop and implement policy. It sought to develop urban policy and a complementary statutory framework that would “reverse the mutually reinforcing system of spatial, economic, and social exclusion” (R. Tomlinson 2002, p. 379) which developed under apartheid. One of the primary focuses of the post-apartheid government has been low cost housing provision, something that was historically neglected by apartheid leadership (Goebel 2007). The ANC has been faced with a triple task of “race-based inequalities, poor municipal based services and rapid post-apartheid urbanization” (Goebel 2007, p. 291).

To manage the complex task of providing for a constitutional right to housing, South Africa sought assistance from the international development community. Tomlinson provides a concise summary of housing policy and statutes prior to 2002 (R. Tomlinson 2002). The credibility of this summary and the critique it provides of international aid agencies in shaping a persistent neoliberal angle to South Africa’s housing policies, is demonstrated by its reproduction, more than a decade later, in the prestigious *Cities of the Global South Reader* (R. Tomlinson 2014).

In 1994, the ANC released a Housing White Paper. This document was the first formal effort at framing the vision of how to deliver a coherent national policy that could achieve compact, integrated cities. That the provision of housing was essential was not an object of debate. However, of considerable debate were the mode and form of delivery. As mentioned, there was significant conjecture within government, and among the international aid advisors involved in the development of housing policy (R. Tomlinson 2002), as to whether housing should be produced and owned by the state in the form of rental housing, developed by private developers and delivered to recipients in the form of formal, titled tenure, or through some other mechanism (Harrison et al. 2007).

The final agreement, achieved via “careful compromise and diligent lobbying on the part of powerful business-minded stakeholders” (McGaffin et al. 2015), was that the private sector would deliver land title, a basic dwelling structure, and water and sanitation services. The state would facilitate with subsidies and land assembly assistance (McGaffin et al. 2015). The same private-sector influences prominent during the political transition period of the early 1990s retained a vested

interest and, subsequently, political influence over the Housing White Paper (Huchzermeyer 2001). Product delivery and cost justification were particularly important considerations for profit-driven companies set to construct the homes, providing a “fundamental contradiction” (Huchzermeyer 2001, p. 304) within mid-1990s South African housing policies.

The Housing White Paper was one of the initial strategies of the new ANC government’s Department of Housing. This department, headed by Joe Slovo, had inherited a broad housing crisis (Huchzermeyer 2001; Landman and Napier 2010; Parnell 1992). The paper recognizes the scale of the issue by beginning, “Housing the Nation ... is one of the greatest challenges facing the Government of National Unity.” (Department of Housing 1994, p. 4) Section 4.2 of the Housing White Paper illustrates the new National Housing Vision:

Government strives for the establishment of viable, socially and economically integrated communities, situated in areas allowing convenient access to economic opportunities as well as health, educational and social amenities, within which all South Africa’s people will have access on a progressive basis, to:

- A permanent residential structure with secure tenure, ensuring privacy and providing adequate protection against the elements; and
- Potable water, adequate sanitary facilities including waste disposal and domestic electric supply. (Department of Housing 1994, p. 19)

The new strategy did not just seek to deliver housing but also included elements of community building and engagement for those involved in the program (Govender et al. 2011, p. 335). The strategy outlined in the paper became known as the Reconstruction and Development Programme—or RDP—with the express goal of creating “viable communities.” (Department of Housing 1994, p. 10) The fundamental principles introduced by the Housing White Paper continue to drive development and implementation strategies in current day South African (Tissington 2011).

This interpretation of adequate housing, ascertained through the Housing White Paper differed from that of previous policies, particularly that of the National Housing Forum (Huchzermeyer 2001, p. 304).

By shifting the focus of housing delivery away from one-dimensional technocratic methods, it laid the foundation for a fundamental contradiction between the public and private interests rampant in early ANC-housing policies. The contradictions between product/private and people/public oriented housing developments illustrates the intrinsic difficulty of achieving a progressive realization of housing access. The public private partnerships required to deliver housing were perhaps not addressed within the context of the constitution. The concept of cooperative governance outlined in Chap. 3 of the constitution provides for vertical public cooperation but does not describe a strategy for public-private partnerships (Republic of South Africa 1996; Tissington 2011).

The RDP is also known as the capital subsidy program (McGaffin et al. 2015). The ANC had come to power on a platform that included housing. As a government it was committed to delivering on that promise. The RDP was the ANC's guiding policy document toward achieving government-supported socio-economic redistribution. The RDP housing subsidy was made available to households whose formal monthly household income was below R3,500 (Landman and Napier 2010); these were seen as households that were unable to meet their housing needs independently (Rust 2006). Landman and Napier (2010) outline that the grant covered the costs of land acquisition, housing material, installation, and building services. RDP homes are generally stand-alone, with a floorspace of 30–40 square meters on a wider 250 square meters lot (Landman and Napier 2010).

Also in 1994, relatedly, the ANC released the Municipal Infrastructure Investment Framework (MIIF). In the RDP, the ANC government committed itself to providing basic housing and also services for the poor who were lacking access to them. However, the government lacked the knowledge necessary to implement the policy. There was some understanding of the housing backlog. However, with regards to associated services such as water and sanitation, according to Tomlinson, “there was no knowledge of how many households lacked such services, what it would cost to provide a basic services level, how the cost could be financed and how the services could actually be delivered.” (Tomlinson 2002) So the MIIF served as a financing strategy document, laying out a vision of how

municipal services would be paid for, including a range of options such as municipal delivery and privatization (R. Tomlinson 2002).

In 1995, the government released the Green Paper on a National Urban Development Strategy. This strategy document proposed an outline for developing “compact, integrated” urban form (R. Tomlinson 2002, p. 379). The strategy was supplanted in 1996 by the Urban Development Framework. Based on the framework and principles set out in the Habitat Agenda, the Framework was drafted by an academic from the University of Toronto, Richard Stren. According to R. Tomlinson (2002), “for all practical purposes it has disappeared from the policy horizon.”

During the later part of the 1990s, a number of schemes and acts were developed to deliver housing and change urban form. The National Housing Subsidy Scheme was the funding mechanism designed to support housing delivery and full ownership for beneficiaries (Mary R Tomlinson 1999; Tissington 2011). These projects tended to be developer-driven (McGaffin et al. 2015). The Less Formal Township Establishment Act (LEFTEA), in 1995 was aimed at increasing the pace of government-funded housing by lowering the barriers for land release. Du Noon was established in 1995 under this act (McGaffin et al. 2015).

In 2004, the Breaking New Ground (BNG) policy document was adopted by the cabinet as a revised framework from the RDP as the country’s guiding policy on housing (Tissington 2011). The primary focus of the BNG policy was to construct sustainable and well-integrated human settlements, a significant criticism of the RDP up to that point (Rust 2006). One of the key adjustments was away from the inherently technocratic concept of “one uniform housing product for all” (Huchzermeyer 2001, p. 307) which RDP communities had received up to that point. Despite its good intentions, McGaffin et al. (2015) regard this document as being “divided in spirit.” Simultaneous pressures to provide better-located, better-serviced settlements, and to improve the housing ultimately delivered to the end user, have pulled the program in opposing directions. This further illustrates the prevailing contradictions associated with the intent of low-income housing delivery and quantitative construction outcomes in a modern capitalist democracy (Huchzermeyer 2001). Nonetheless, the BNG policy has seen successes

in integrating a number of previously mutually exclusive housing delivery frameworks (Rust 2006).

One could argue that post-apartheid housing processes, starting with the nation's constitution, have been largely good-faith attempts to move toward a more people- and poor-centric housing policy. These adjustments continue. In 2009, the Ministry of Housing changed its name to the Ministry of Human Settlements (Bradlow et al. 2011), in part to acknowledge the shortcomings of former national housing policies, and in part to command new ways of thinking about housing delivery. Currently, the Ministry of Human Settlements manages both housing unit subsidies and housing policies, including the ambition to rearrange cities more sustainably and equitably. Prior to 1996, housing policy was made and managed out of the Office of the President.

In 2007, a national inclusionary zoning (IZ) policy was drafted. This policy would have required developers to include affordable housing in some developments, but the policy was never adopted. Instead, some cities have attempted to develop local IZ policies (Klug et al. 2013).

A more successful, currently smaller-scale, initiative that seems to have the promise to scale up, is the People's Housing Process (PHP). This is a loose term referring to a collection of partnerships between the government of South Africa and community-based and pro-poor organizations, such as Shack/Slum Dwellers International (SDI) and the South African Federation of the Urban Poor (FEDUP). The PHP has developed in parallel with housing subsidy programs and seeks to empower communities to take advantage of non-financial resources. This has meant that "poor households could overcome the affordability barrier and gain access to a house without the long wait to access housing finance." (Tissington 2011, p. 63) The South African state has cooperated with FEDUP, developing the uTshani Fund to facilitate cooperation between banks, state bureaucracy, and FEDUP. Up to 2011, 15,000 houses were built by the PHP, all outside of the state-driven model set up in the RDP (Bradlow et al. 2011).

Housing Norms and Standards are also periodically readjusted to reflect incremental changes to housing policies. Norms and standards adjustments generally update the subsidy amounts and the building standards and materials to be provided per unit. In 2014, the update to the

norms and standards of the RDP increased the subsidy for housing to R111,000 (McGaffin et al. 2015).

6.6 Post-Apartheid Urban Form and Housing Dynamics

Despite the extensive and progressive nature of housing provision in the country's founding document, many scholars have commented that the South African state has failed to live up to its promises to the poor to provide housing and equality of opportunity. While this can be partially attributed to the ambitious nature of the constitution, there have also been fundamental flaws in the policy mechanisms developed by the state. Nonetheless, the process of "overcoming apartheid" and its legacy of spatial segregation has been seen as an "exercise in nation building" with the express goal of progressively achieving "unity in diversity" (Donaldson and van der Westhuizen 2011; Henrard 2002). In an urban form context, this has ranged from simple tasks like renaming streets, up to hosting sport mega events to build broad nationalism (Donaldson and van der Westhuizen 2011). In the foregoing sections, we described the status of this progress toward housing and, more generally, to an integrated urban environment. This section describes the evolution of a South African metropolitan urban form in the post-apartheid era.

The ANC inherited cities where the urban fabric clearly reflected and actively reinforced apartheid-era inequalities. An initial goal of the ANC's was to create housing policies that provided compact and equitable cities (R. Tomlinson 2002). It is hard to imagine that this vision of compactness would have included the continued subdivision of housing plots to very small sizes in peri-urban housing projects and historically black townships. However, horizontal subdivision—not verticalization—is precisely what has occurred in the vast majority of poor peri-urban townships, even many that are highly accessible and for which economic theory would predict a significant compelling force toward higher floor area ratios (McGaffin et al. 2015).

Despite the well-intentioned ambitions of the legacy RDP, there have been manifold problems associated with both delivery quantity and service quality of RDP homes (Tissington 2011). The detached single dwelling model that has been adopted by the RDP invariably requires swathes of vacant public land (Gunter 2013, p. 278). This design is said to have perpetuated spatial dislocation and, subsequently, marginalization of the poor (Huchzermeyer 2001; Tissington 2011). Numerous reports have outlined an economic, rather than a racial, spatial segregation that has manifested among these RDP communities. Often beneficiaries simply move to a better-located informal settlement (Tissington 2011).

Subsidized government homes are subject to restrictions of transfer and tenancy providing strangely inconsistent, and often informal, housing markets within RDP subdivisions (Tissington 2011; M. R. Tomlinson 2006). The government had legislated that it was illegal to sell an RDP home for numerous years after the subsidy (Govender et al. 2011); further diluting local markets was the illegality of renting out an RDP home, despite a healthy demand for low priced rental housing (Govender et al. 2011). This creates a divergent ideology between a house as a home and the formal dwelling as an economic asset for material gain. The restrictions have adverse effects for cash-poor South Africans who struggle to maintain their new homes and find no formal market available to liquidate their state-provided asset (Govender et al. 2011). As such, informal housing markets are rife, potentially reducing the value of an RDP home.

There are indicators that there is a vacuum of responsibility between new homeowners and the conservation of their subsidized properties. Govender et al. (2011) found that almost all of the housing recipients indicated that they could not afford formal upkeep on their properties. Further, there was an expectation among residents that because the government constructed the property, the onus was, in fact, on the state to finance all maintenance and improvements. Mitlin (2001) pointed to the time-consuming nature of the urban poor's employment situations; long commutes from the urban periphery made it unrealistic to wait in for tradespeople. Often residents were found to choose between a day's wages and improvements to their properties.

As described in the previous section, Mabin and Smit (1997) describe the pattern of township spatial expansion as low density, equating

low-density and low-rise spatial patterns. However, although low-rise spatial patterns have persisted, it did not take long for densities in these areas to become quite high. For instance, Alexandra, a township in the peri-urban area of Johannesburg, was believed to house around 350,000 people in 2001. This was an estimate, as accurate Census data was not available at that time. At any rate, the precise population matters little for the density argument: the settlement was originally planned to house around 70,000 people, and 350,000 people presents a density five times the planned capacity of the settlement (Huchzermeyer 2003).

These densities were, for instance, high enough to warrant evictions on the condition that the settlements presented a danger to the inhabitants. In 2001, a High Court judge granted an urgent application for the eviction of 6,000 households in Alexandra. This informal settlement was located near the banks of the Jukskei River, and the urgent eviction was granted on the grounds of flooding and a cholera risk. Concerns have been raised not only around the poor location of informal settlements but also the overall design of subsidized housing tracts. The surprising, and sometime informally enhanced, density of public housing developments has increased the risk of communicable diseases and created public health concerns (Govender et al. 2011, p. 341).

One evicted resident's home is descriptive of the density of Alexandra at the time, it was a fully-serviced, self-built house constructed over twelve years in the yard of a family friend (Huchzermeyer 2003). These "backyard dwellings" (Lemanski 2009) are present in significant proportions in the country's informal settlements, in which one-fifth of the urban population resides. Lemanski (2009) argues that the policies of state-assisted housing construction are partly to blame for these densities, as cash-poor landlords become dependent on a cash income from backyard tenants.

Backyard shacks have become an increasingly frequent phenomenon across South African metropolitan areas, particularly where RDP homes have been developed. Lemanski (2011) reports from a survey of Westlake Village, an inner-suburban area where residents received subsidized houses and formal tenure, that 58 percent of properties had tenants who had constructed shacks. This is above the average of 40 percent for Cape Town in 2006 (Lemansky 2011 citing Vorster and Tolken 2009, 27–38).

Govender et al. (2011) further elucidate the conditions of this density for RDP housing settlements in the Cape Town municipality. The article shows images of shacks that take up much of the space between adjacent, formal, low-cost houses. These shacks lack drainage and frequently flood, and the residents usually share kitchens and bathrooms with the main house or else access these amenities elsewhere. Additionally, a majority of formal homes had insufficient drainage and sewerage systems in disrepair, and the vast majority (86 percent) had serious structural issues. In 2009, the Ministry of Human Settlements acknowledged that tens of thousands of RDP homes were unfit for human occupancy (Bradlow et al. 2011).

Given the formal restrictions on the transfer of subsidized homes, the lot surrounding a development gained an acute economic meaning. Subsidy recipients exploited this space as a resource through the construction of semi-attached shacks, or backyard shacks (Govender et al. 2011, p. 339; Robins 2002; Watson 2009). This uniquely South African phenomenon has been indirectly and directly attributed to constructions from housing programs (Crankshaw et al. 2000; Lemanski 2009). The informal nature of backyard shacks in a housing subsidy area inorganically raises overall population density rates. This has adverse effects on service delivery infrastructure, which is often designated for far fewer residents than end up taking advantage of it (Watson 2009). Govender et al. (2011) outline the nature of the informal rental economy developed through backyard shack construction. The indication is that shacks rent for around one quarter to one eighth the price of informally rented RDP homes. Govender et al. (2011) also found that shacks never had flush toilets and often relied on taps from the attached home for running water.

There is evidence to support the notion that many South Africans prefer self-built shacks over government subsidized homes (Gunter 2013). Lemanski (2011) corroborates this, finding that many residents articulated a clear desire to be responsible for the construction of their dwelling. This posits two important distinctions from existing policy. First, a case could be made for a land subsidy, funding for a self-built home, and subsequent building inspections to reach formalization (Lemanski 2011). Elements of the late-apartheid IDT employed this strategy. Secondly, government-assisted shack upgrading could be a positive and relatively inexpensive solution to the housing question for residents who place a

high value on the sweat equity in their existing dwelling (Gunter 2013). It seems neither of these strategies have been accepted by the government.

There are notable exceptions to this low-rise-but-high-density rule of urban expansion, such as Du Noon, an accessible peri-urban community of 3,000 formal houses in Cape Town, which has achieved high densities. However, the scholar studying that community notes its significance as an outlier, with residents demolishing government-funded houses to construct multistory buildings to generate rental incomes. The density of Du Noon is considered to be instructive for its variation from the norm (McGaffin et al. 2015).

McGaffin et al. (2015) attribute this density pattern to legacy suburbanization processes dating to the 1950s, and also to urban housing policy both under apartheid and afterwards. In particular, these authors argue that three major factors drive housing toward a pattern of sprawl. First, they argue that the foundational housing policy, the Reconstruction and Development Housing Programme (described below), has been a large part of the reason that low-density sprawl has persisted. By specifying the grant amount and the floor area, the policy makes land the only variable cost for housing projects. Thus, to achieve lower costs, peripheral lands are often sought by the developers charged with building new housing settlements. Second, they argue that households lack the capital to individually invest in multistory buildings. Third, they argue that social considerations, such as inheritance and community, play a large role in whether to build up or out.

Apartheid-era spatial segregation persists across South African metropolitan areas, even in Johannesburg, often recognized as the most favorable of the large cities for African residents (Tomlinson 1990, p. 82). While it is the country's largest city and most important financial center, Johannesburg remains starkly divided along north-south distinctions. Since the end of apartheid, the city's spatial patterns have become more complex. The city of Johannesburg's spatial development framework (SDF), of which there have been multiple iterations since 2000, seeks to redistribute space in the city. Since the end of apartheid African and colored populations have moved to the city center, and there are new informal settlements in the north. However, the divide still persists. Within

the SDF another policy, the growth management strategy of 2008 has, among other things, introduced an inclusionary zoning policy (Klug et al. 2013).

Martin Murray (2011, p. 213) outlines the “defensive urbanism” prevalent in post-apartheid Johannesburg:

Johannesburg after apartheid is a bewildering city, with no dominating downtown or easily recognizable boundaries. With few limits to its horizontal expansion, it has become a sprawling, fragmented metropolis that in large measure resembles a disconnected archipelago of isolated, fortified enclaves unevenly distributed over a vast and highly differentiated territorial expanse.

Murray eloquently details the complex and dynamic metropolitan landscape as apartheid paranoias simmer below the surface and economic divisions construct a disconnected city. The former open veld to the north of Johannesburg has been replaced with sprawling, fortified private developments; crime prevention and around-the-clock protection are major marketing tools for developers (Murray 2011, p. 289).

Low-rise and low-density suburban development is not the only urban fabric that exists as a post-apartheid legacy endowment. The land invasions that began in force in the early 1990s, persist, and there are significant populations of squatters living on private and government lands throughout the metropolitan areas, and particularly in highly-accessible urban cores. For many of these people, the “politics of waiting” makes them contradictory entities. On formal government registers for housing, they are recognized by the state but, sometimes decades long, waiting lists cause them to move into informal settlements, defying state mandates and becoming illegal squatters (Oldfield and Greyling 2015). Mrs. Grootboom, awaiting the housing provision promised in the settlement, gave up and sought housing privately (Huchzermeyer 2003).

As Bradlow et al. (2011) point out, this distinction between formal and informal housing as that which must be built versus that which must be eradicated, is a product of state policy, notably the People’s Housing Process. Those waiting as informal dwellers exist in a state of limbo in

which “we are assigning blame for the exclusion of the poor from their rights as citizens **on the poor themselves.**” (Bradlow *et al.*’s emphasis; p. 269) Bradlow *et al.* go further, stating (without apparent empirical substantiation) that the current state-centric policy regime induces passivity and disempowerment in the poor population. Dewar (1992) outlined the urban problem as a series of individuals seeking the provision of shelter and a government attempting to deliver just that; that a lack of cohesion prevails, driving the sprawling and chaotic South African cities of the twenty-first century.

All systems reach their equilibrium states as a result of the forces acting on them. In summary, the form of density occurring in South African cities accords neither with policy objectives nor with the overall post-apartheid mission of the country to use housing as an instrument to address inequality and poverty. In the following sections, we describe the inherent tensions and conflicts that exist in South African institutional design, which may be limiting the effectiveness of housing delivery.

6.7 Muddling Through: The Evolution of Housing Institutions in South Africa

The section above suggests that there is a strong component of evolution in South African approaches to housing provision, with many initiatives, changes in policy direction, and changes in institutional responsibility and framing. Policies that do not work are updated. Even the responsibility within government for the stewardship of housing provision has evolved. This may be simply evidence that South Africa is “muddling through” (Lindblom 1959), seeking to create an effective mix of housing policies in the incredibly complex socio-spatial system it inherited from decades of apartheid rule of law. Although housing policy has undergone significant shifts and adjustments, major policies have rarely been entirely abandoned, and the mission of delivering housing to more people continues. This suggests a strong commitment to the objectives underlying those policies.

Evidence from other settings suggests that the institutions that develop in a culture can persist for very long periods. The urban fabric that the

ANC inherited from decades of colonial and apartheid rule, cannot be discounted. A number of influential works suggest that the effects of institutions can persist for decades or even centuries (Acemoglu et al. 2000, 2005). Fukuyama (2014) describes such patterns in explaining the differences between North and South American colonial governance patterns and their relationship to current governance structures and corruption. In this discussion, they distinguish between extractive and non-extractive institutions.

In South America, settled earlier, native populations were larger, and local labor was thus easier to exploit. The Spanish and Portuguese settlers set up exploitative institutions designed to extract resources and maintain separation between themselves and the native people. In North America, on the other hand, where native populations were lower, colonial residents had to do more of the daily work, and there was a stronger incentive to set up institutions geared toward long-term settlement by English colonizers. England, late to the colonial game, attained a colony without apparent natural resources to extract. Thus, the English took a long view of colonial settlements, generating institutions that would serve settlers as residents rather than plunderers. Similarly, Acemoglu and Robinson (2013) describe the relationship between current levels of societal trust among people and the frequency of slavery-era kidnappings and human trafficking. Where trafficking was higher, people's propensity to trust others is lower. South Africa's apartheid-era landscape more closely resembles South America's plundering origins than North America's. Institutions were designed to suppress and control the large native population. Distrust of the state was rational and longstanding.

The legacy of extractive institutions and distrust, then, can manifest long after new institutions replace them. South African cities have inherited a spatial form and population psyche that is pernicious and difficult to change. A desire to implement effective and fast reforms appears to have led to an implementation framework for housing provision that contains an inherent mismatch between the policy intentions and the institutions and policies designed to implement them, despite a sustained commitment to housing delivery as codified in the country's founding document. This appears to be related to the inability of housing reformers to commit to a model, who instead settle for policies that satisfy many

parties but contain difficulties that are difficult to overcome. For instance, Tomlinson (p. 144) argues that this difficulty was present in the earliest stages of housing reform, in failed negotiations within the 1992 National Housing Forum, which could not agree on mode or scale of delivery, nor whether communities should be consulted and small firms empowered. The result was the placement into the policy of all perspectives, leading to contradictory results. Community consultation drives up prices and conflicts with a developer-driven method where for-profit entities liaise between communities and government. Similarly, immediate delivery conflicts with economic empowerment, as empowerment requires the use of small and inexperienced developers (Mary R. Tomlinson 1998). Tomlinson's (2002) work suggests there was disagreement and distrust between local South African planners and international aid consultants working with them to develop a housing policy framework.

Muddling through, then, can be a long process. Housing policies, in part due to their divided hearts, have required continued adjustment. In turn, the adjustments and reinterpretations of policies over the years has manifested in other difficulties. The persistent housing backlog (Tissington 2011)—despite strong national economic growth and large numbers of people “waiting for the state” (Oldfield and Greyling 2015) in a system of institutionalized helplessness—suggests that there may be inherent difficulties that plague the provision of housing. Interpretation of the causes and consequences of the housing backlog and a difficulty with the implementation of the constitutional goal of housing for all, is the subject of much writing and commentary.

A common assertion in the literature is that people cannot keep up with or understand the new policies. For instance, in describing the “politics of waiting” (Oldfield and Greyling 2015), the authors discuss how households describe the various card colors associated with housing registries. They are essentially able to describe the color of the cards, but not how the policy changes behind those changed colors affect their chance of gaining a house. Lemanski (2011) and other authors describe how, despite multiple iterations of updates and supplanting policies, houses delivered under South Africa's various housing programs are still colloquially referred to as “RDP houses” despite the fact that Breaking New Ground has been in effect since 2004.

Other scholars contend that the evolution of housing policy is reflective of more-pernicious attitudes in the leadership. For instance, they contend that the ANC's initial housing policies, though designed with the intention of generating a spatially equitable urban fabric, quickly became subsumed in neo-liberal delivery processes, and have been moving toward the extremes of neo-liberalism ever since. Lemanski (2009) asserts there has been a strong movement toward neoliberal housing policy from a starting point in the 1994 RDP of housing as a human right and that, since the 1996 introduction of the more macroeconomic Growth Employment and Redistribution (GEAR) strategy, "government perceptions of housing have become increasingly neoliberal, conceptualizing housing as primarily a capital-accumulating asset for the poor." The interpretation of the state's constitutional responsibility to provide housing has been shifting toward a model of privately held tenure, as opposed to the state acting as landlord.

This is consistent with other thinking on South African Housing policy. For instance, Bond (1997) differentiates his work from other critics of South African housing policy in the immediate post-apartheid years, focusing on the market-centric features of the housing policy as the chief culprits for its ineffectiveness. Some authors have interpreted the homeownership goal of the Housing Subsidy Scheme as a neo-liberal policy, arguing that homeownership has not resulted in increased wealth or movement up the "housing ladder" (Lemanski 2011). Bradlow et al. (2011) succinctly critique the failure of the People's Housing Process (PHP) to create compact, integrated cities, curb sprawl, generate wealth, or engage the common person in the housing planning process. The state, they argue, has singularly focused on formal, developer-driven housing delivery. They argue that, despite policy and budgetary commitment to housing delivery, this singular approach ignored other viable models of incremental and self-built housing that South Africa's poor have demonstrated to be effective.

Others scholars offer an alternative explanation that housing policy is nuanced, with components of social democratic, liberal, neoliberal, and corporatist welfare state models (Venter et al. 2015). Lemansky's (2011) work supports that housing in South Africa is more nuanced than neoliberal. She argues that housing assets are not socio-economically empowering

because they are: (1) not sellable at market rates, and thus do not support households moving “up” on the “housing ladder”; (2) not capital generating in that people do not frequently use them to secure bank loans for investment, nor do people use backyard shacks to generate capital for investment. Rather, she argues, they use this rental income to pay for necessities like school fees. While she criticizes what she perceives as a neoliberal construction of the country’s housing policies, she fails to recognize that these outcomes represent what Venter et al. (2015) would assert to be more corporatist or social democratic in construction. These models require less of a focus on the asset and income generation capacities of the housing, and more of what Lemansky sees as intangible, a sense of security and participation.

Other scholars take on the issue of whether community participation processes have been genuine attempts at community outreach in inclusion, or “mere tokenism” (Miraftab 2003). Miraftab examines two particular housing policies and identifies the faults in “[h]ow the origin of participatory processes is conceived and how community participation is institutionalized and assisted to scale up.” These, she says, “determine whether community participation moves beyond mere tokenism.” She looks particularly at two programs in the country’s housing policy, the Subsidy Scheme and the People’s Housing Process (PHP).

Other authors criticize the state’s financial commitment toward fulfilling its obligation to provide housing from a structural perspective. Aigbavboa and Thwala (2014), for instance, describe the South African government’s current commitment of five percent of Gross Domestic Product (GDP) as “grossly inadequate” to work through the large existing housing backlog. Berrisford (2011) attributes the persistence of apartheid-era urban form as an inability of the state to change planning laws, in particular. This, he argues, is despite three “windows of opportunity” that occurred at various times over the post-apartheid time span.

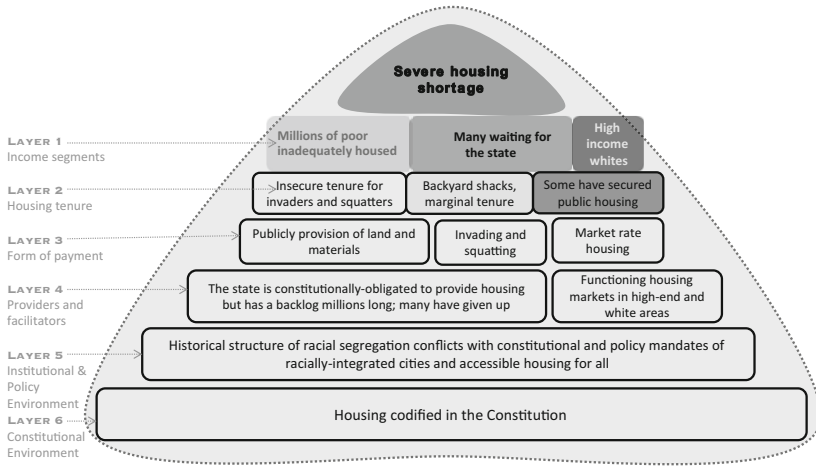


Fig. 6.1 South Africa's housing pyramid

6.8 South Africa's Housing Pyramid

Whatever the causes and underlying driving forces, the South African state continues to muddle through toward achieving its constitutional imperative of adequate housing for all. As the country's housing pyramid suggests (Fig. 6.1), the movement toward housing for all is fraught with tension between those waiting for housing and the government, between landowners and squatters, and still along racial lines.

6.9 Conclusion

The ANC inherited cities where the urban fabric clearly reflected and actively reinforced apartheid-era inequalities. Since the end of apartheid, the ANC has had the task of meeting a huge housing backlog and doing so in a way that is sensitive to cultural expectations, is manageable in a developing country with low capacity, and that empowers Africans through homeownership within the framework of the prevailing spatially

segregated urban form. The South African Constitution codifies housing as a human right. An initial goal of the ANC was to create housing policies that provided compact and equitable cities. Despite these well-intentioned ambitions, there have been manifold problems associated with both delivery quantity and service quality of government-provided homes.

This establishment of housing as a right has been at the core of an extensive debate about how to implement a housing policy that achieves a goal such as housing for all in a country with low capacity and an enormous housing backlog. The questions range from what comprises housing, to the legality of land occupation, to the institutionalization of citizenship, as South Africans are left waiting for the state to fulfill their housing promise.

Despite the extensive and progressive nature of housing provision in the country's founding document, many scholars have commented that the South African state has failed to live up to its promises to the poor to provide housing and equality of opportunity. Apartheid-era spatial segregation persists across South African metropolitan areas, despite progressive policies. While this can be partially attributed to the ambitious nature of the constitution, there have also been fundamental flaws in the policy mechanisms developed by the state.

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7

Toward a Philosophical Evaluation of Housing for All in BRICS Economies

7.1 Housing for All Framework, Capabilities and a Paradigm

Professor Amartya Sen in his famous treatise on capability approach writes, The primitive notion in the (capabilities) approach is that of functioning—seen as constitutive elements of living. “A functioning is an achievement of a person: what he or she manages to do or to be, and any such functioning reflects, as it were, a part of the state of that person. The capability of a person is a derived notion. It reflects the various combinations of functionings (doings and beings) he or she can achieve. It takes a certain view of living as a combination of various ‘doings and beings’. Capability reflects a person’s freedom to choose between different ways of living.” (Sen 2003, pp. 5) approach requires that the evaluation of welfare be on a capability set. Sen argues that the most important thing is to consider what people are actually able to be and do (Wells 2012). A simplified version of the capability approach relates an individual’s capability (as a set of functionings) to the characteristics of goods and personal, social, and environmental circumstances (ibid).

Capability = {Space of functions or space of states of being/activities = f (characteristics of market and non-market goods), personal characteristics, social and environmental characteristics)}

The capability model suggests that goods (market and non-market) chosen by an individual have certain characteristics, (a combination of an individual's personal characteristics and social and environmental characteristics) which lead to a state of being or doing for the individual. This state of being or doing is the functioning, which is part of a set of doings and beings, or the capability.

An individual's capability, as per Sen's capability approach, to convert goods into functioning or a set of functionings differs, depending on that individual's ability, their adaptive preferences, and degree of freedom. Wells (2012) explains this further. Individuals differ in their ability to convert the same resources into valuable functionings, hence an evaluation that focuses only on the means, without considering what people can do with these resources, is insufficient. Moreover, people internalize the harshness of their circumstances without realizing what they can never expect to achieve, a phenomenon called *adaptive preferences*. The freedom of choice between options is another important element of capability approach. Whether an individual takes up an option or not is a different matter, what is valuable is that the individual has options. In this sense, actual achievement is the functioning and the effective freedom of choices is the capability.

Sen has argued that the focus for evaluating the welfare of individuals is not their resource wealth or relative well-being but their capability to live a life that we have reason to value. In order to assess that we first need to determine which functionings matter for a good life, and to what extent. A limited application of the capability approach is to identify the basic capabilities—such as education, health, housing, and nutrition—up to a minimally adequate level to assess the extent of deprivation and to evaluate how well people's lives are going in terms of those basics (Wells 2012).

Let us approach being well-sheltered as a capability. Among different people well-sheltered can be compared, but it would depend on their position in the lifecycle, preferences for the size, type, tenure, and quality of housing, cultural preferences, and so on. This makes the approach

applicable across political, economic, and cultural borders. It may be recognized here that the level and degree of income inequality between countries will impact on the amount of resources required to achieve the capability for being well-sheltered. In countries that are wealthy but where income inequality is starker than in others, the resources required to be well-sheltered will be higher. This is because the standard of housing, as a good, required before being considered well-sheltered will be higher in wealthy societies than others. As societies become wealthier, their notions of well-sheltered also change. For example, in developing economies the up-gradation of slums—by connecting them to water, sanitation, and better access to facilities—leads to a person's capability to move from poor-sheltered to well-sheltered. But with rising incomes the definition will shift to include formal tenure, permanent housing structure, exclusive space for individuals in the family, and better amenities.

Housing, as a good, provides two functionings, shelter and financial security as illustrated in Chap. 1. The latter functioning is associated with the ownership of housing, while the former can be achieved irrespective of status of tenure. The personal characteristics of an individual together with the social, economic, political, and regulatory environments determine whether housing can be converted into those two functionings or not. A well-functioning housing market implies that individuals can move: horizontally from one level of housing (say rental) to a higher level of housing (say ownership), depending on their preferences and personal circumstances; and also vertically from one level of housing to another as their wealth increases. The ownership of a house also provides financial and tenure security. In many countries the law protects a tenant's rights in a public/private rental house, thereby providing the capability of tenure security without having to own a house.

For housing as a good to translate into functioning and capability, institutions (economic, political, and regulatory) need to provide supporting conditions so that housing will make individuals well-sheltered and financially secure. In some societies like Brazil, South Africa, China and Russia, where housing is a constitutional right, deprivation of at least a basic level of housing implies poverty in the capability of being well-sheltered. From a justice perspective, the relevance of the capability

approach is to argue that if well-sheltered has been collectively agreed as a capability (for instance as a constitutional right), then justice requires that this shortfall should be specifically addressed. Nothing else could compensate for this shortfall other than housing.

Chapters 2 to 6 of this book evaluated the institutions in Brazil, Russia, India, China, and South Africa (collectively referred as BRICS economies) within which housing is able to provide the functioning of being well-sheltered and financial security. As the chapters illustrate, all these countries have failed to provide a well-sheltered society. The nature of this deprivation, though, differs: in Brazil it is measured as housing quantity and quality; in Russia in terms of housing quality; India's deprivation is in the form of quantity and quality; while China's problems relate to affordability and quality.

The framework that Chap. 1 proposes, and is used as a lens in the country chapters, provides the institutional environment within which housing as a good creates individual capability for being well-sheltered and financially secure. Since we are looking at individuals with different wealth levels, the notion of a low-income individual's welfare is that at least basic shelter should be accessible to these households. As we go up the income ladder, the characteristics of housing should provide the functionings of shelter and financial security. Of course, the supporting institutional and personal environments are necessary for the capability to be created. Layers 2 to 6 of the framework (Fig. 1.3, Chap. 1) are components of the institutional environment, unique to the countries studied. This uniqueness brings about different kinds of deprivation for individuals being well-sheltered and in leveraging houses for financial well-being.

This chapter summarizes the discussion by presenting the key lessons from each of the five countries in section 2. Section 3 reflects on the question of whether housing institutions are able to convert housing into capability. Though we have not conducted a detailed and in-depth analysis on the application of a capability approach to housing projects/programs, section 4 looks at some examples where institutions seem to have created capability. Section 5 concludes the discussion.

7.2 BRICS and the Framework

In an ideal situation, housing good should provide an individual with the capability to be well-sheltered and financially secure for better living, but in reality whether these characteristics of housing can be achieved depend on the institutional arrangements. These arrangements vary a lot, as discussed in Chaps. 2 to 6, depending on initial conditions in the countries' political and economic ideologies, and social preferences. Hence the differences, at macro-level, in the nature of deprivation. This section summarizes the key institutional characteristics across BRICS countries. The starting point of the discussion is a summary of deprivation of being well-sheltered.

7.2.1 Housing Shortage

The nature of shortage has differed across countries. Brazil lacks housing for about 7 million households. The shortage arises for a large proportion of households who live in *favelas* or informal housing, thereby precluding them from being well-sheltered. These households, due either to a lack of secure tenure, or to the formal finance sector not finding such housing acceptable, are unable to leverage their housing for financial security. In Russia, 46 percent of housing stock would need to be replaced or developed to meet the requirements of households to be well-sheltered. This equates to 1.8 billion square meters of space. The difference in the way shortage is quantified in Russia is due to the practice of allocating housing space per person as instituted by the communist regime. The capability that housing generated in Russia was of being well-sheltered. The financial security aspect of housing was not a characteristic that housing provided. However, with the shift to a market economy and the promotion of homeownership, housing as a good has transitioned to a normal good, providing the functions of shelter and financial security. India has a housing shortage of about 51 million housing units, due to homelessness, lack of quality, and congestion.

In China, the question of inadequate shelter, while obvious (as discussed in Chap. 5), is difficult to quantify due to a lack of data measuring

this indicator. Tomlinson (2012), in his paper “Does Shanghai have slums,” discusses the issue of inadequate housing in China. Among various viewpoints presented in his paper, if one applies the definition of slums as households lacking access to water and sanitation, in 2000 it appeared that one quarter to a third of the urban population in China lived in slums (ibid). On the basis of crowded living, urban migrants lived in crowded housing (ibid). These are conditions deprived of being well-sheltered. Homeownership in China is a recent phenomenon and hence the use of housing as an asset for financial security is also recent. Housing affordability is a big concern. Chapter 5 argued that affordability belies a greater complexity. It is true that housing is expensive in China’s cities, which have, simultaneously, a housing oversupply and a housing affordability problem. This strange coincidence is very likely the result, at least in part, of the disconnect in planning for different types of urbanization. Formal urban planning implicitly recognizes communities planned by top down processes by building them into urban spatial plans, where they can then be provisioned with infrastructure and public facilities. The role of bottom up urbanization in providing affordable housing is crucial, though as we demonstrate above, it gets no recognition in formal spatial planning.

The housing shortage in South Africa is a consequence of poverty and apartheid. In the absence of formal estimates for housing shortage, it is difficult to give a figure but, given that more than 26 percent of South Africans live in slums, the shortage is acute. Slums have resulted due to the spatial exclusion of certain populations, with both a racial and an urban/rural component. Institutionalization of the prevailing hierarchy of separate development based on race was codified in law, and black Africans were excluded from cities. The Pass Act legislated that Africans could not be in urban areas without a formal purpose, such as employment. As such, apartheid-era urban centers became overwhelmingly white, with black and colored people relegated to the urban peripheries.

7.2.2 Constitutional Environment

Housing as a constitutional fundamental right has been recognized in Brazil since 1988 and the right is justiciable. Furthermore, the constitution also requires the eradication of poverty and substandard living

conditions. This environment has required that all municipalities create a master plan to serve as the basic legal instrument for urban development and property ownership. The advantage of the right to housing has been that, since 1988, a number of programs have been planned and implemented by municipalities to upgrade *favelas* and regularize lot divisions.

The Russian constitution guarantees the right to housing, largely fulfilled by the former USSR government through the allocation of living space. The right to housing also created other dependable guarantees, including: the development and upkeep of state and socially owned stock; assistance for cooperative and individual building; fair allocation of housing; and low charges for rent and utilities. The mechanism of provisioning on rights caused queues for socially provided housing in cities, poor quality housing, and congestion as, at times, more than one family was allocated a house based on per person/family space criteria. Though ownership did increase in Russia after 1993, when the privatization of social housing was permitted, Russians are still reluctant to buy homes built by private developers with a mortgage as, culturally, they are finding it difficult to accept that they are required to pay for what is their right.

India has resisted making housing a constitutional right. In the absence of a constitutional obligation, there is not much stimulus for the public sector to get involved in resolving the housing problem and their role is limited to policy level, with little success in execution.

The China story is about the socialist model of providing housing for all. In 1949, upon liberation, the new Chinese revolutionary government privatized most housing stock. Fast forward to the present, and around 81 percent of Chinese urban households privately own their homes. The Chinese transition to market housing provision is remarkable and interwoven with stepping stones and muddling through.

The South African constitution codifies housing as a human right. This establishment of housing as a right has been at the core of an extensive debate about how to implement a housing policy that achieves a goal such as housing for all in a country with low capacity and an enormous housing backlog. These conflicts range from what comprises housing, to the legality of land occupation, to the institutionalization of citizenship, as South Africans are left waiting for the state to fulfill their housing promise.

7.2.3 Institutional and Policy Environment

In Brazil the institutional and policy environment changed quite substantially after housing was made a fundamental right in 1988. This also changed the approach toward dealing with *favelas* or informal housing. The City Statute of 2001 and the setting up of a Ministry of Cities in 2003 further emphasized the priority of housing in the government's policy agenda. The recovery of the economy after a prolonged period of high inflation and economic growth during 2000 provided an environment conducive to a housing market. A number of programs toward upgrading *favelas* and regularizing lot division have been implemented. The most important of these programs has been My House, My Life, which has met with mixed success.

In Russia the institutional and policy environment changed drastically following perestroika. The former USSR institutions were dismantled and a process of privatization begun. The Russian approach to this change was to establish new institutions. For housing, a new Housing Code 2005 was set up. The responsibility to provide housing, as it is a constitutional right, was shifted from national government to municipalities. The privatization of housing required the establishment of property rights in Russia.

In India, even though the institutional framework is strongly established, there is a severe lack of responsiveness at policy level, particularly toward LIG housing: the approach of policies is focused toward home-ownership and the role of rental and shared ownership tenure types is yet to be realized; financial institutions are not providing access to formal finance to the low income households; policies and plans are centrally funded and the execution of local plans is curtailed due to a lack of funding; land title issues are constraining land supply in the market, which is leading to master plan failures and an unexpected rise in the price of urban land and thus a rise in the price of housing.

In China, *danwei* (work units) were both political and economic units from which urban households received virtually all services, including housing. The post-revolutionary Chinese urban form was cellular in nature, with housing and workplaces located in close proximity to each other. The post-revolutionary Chinese did not commute. This *danwei*

housing had fallen into significant disrepair by the time Chairman Mao died, and from 1978 and continuing today, Chinese Communist Party (CCP) leaders opened up a land market in Chinese cities. In China's housing system, the idea of housing for all emerged within the legal and policy structures that have evolved since 1949. China's housing institutions are grounded not only in strong formal structures, but also in strong informal institutions. One of these strong informal institutions is tenure security. This history and culture of tenure security has become reflected in more recent issues like conflicts over resettlement.

In South Africa, housing was a core issue at the election of the ANC. With that said, neither the new constitution nor the country's first democratic elections were the starting point for housing reform. The National Party leadership established a 'progressive' body, the Urban Foundation, to address urban and social policy issues in 1976. The institution remained an influential actor in South African urban and housing policy until the complete dismantling of the apartheid regime. Also in 1992, still prior to the country's democratic elections, the National Party Department of Housing established a multiparty panel to negotiate a new housing policy that would address the apartheid-inherited inequalities, urban form, and housing shortages.

Post-apartheid, despite the extensive and progressive nature of housing provision in the country's founding document, many scholars have commented that the South African state has failed to live up to its promises to the poor to provide housing and equality of opportunity. While this can be partially attributed to the ambitious nature of the constitution, there have also been fundamental flaws in the policy mechanisms developed by the state. In ANC inherited cities the urban fabric clearly reflects and actively reinforces apartheid-era inequalities. An initial goal for the ANC was to create housing policies that provided compact and equitable cities. Despite the well-intended ambitions of the legacy RDP (Reconstruction and Development Programme), there have been manifold problems associated with both delivery quantity and service quality of RDP homes. As such, informal housing markets are rife, potentially reducing the value of an RDP home. Apartheid-era spatial segregation persists across South African metropolitan areas, even in Johannesburg, often recognized as the most favorable of the large cities for African residents, despite progressive policies like the Growth Management Strategy of 2008.

7.2.4 Providers and Facilitators

The Brazilian system has numerous providers and facilitators in the public and private sectors. A national social housing system with resources from savings and loan systems and workers severance funds has ensured the availability of resources for social housing. There are also instruments like ZEIS, which allows an informal settlement to be declared as an area of special interest or tenure regularization to facilitate their upgradation and redevelopment. In addition, Brazil created a national market housing system to facilitate finance for housing on market principles. The market mechanism, though, has not contributed much to housing access other than for a small proportion of high income households.

The move from social rental housing system to a system that includes homeownership as tenure in Russia required a number of mechanisms to be put in place. First was a system for the privatization of social housing and responsibility for private maintenance of housing. Second was a mechanism for establishing a market rent for rental housing. For those who could not access ownership or rental housing, a program for affordable housing was established. Almost all the stock was owned by the public sector before 1993. In the post-Soviet era, with the shift to a market economy, the factors of production and consumption were privatized. This required the housing finance system to provide mortgage lending, a secondary mortgage market, and the liberalization of foreign capital inflows.

In India, the private sector is the primary provider of housing and public agencies are not participating in the direct provision of housing. In the absence of financial assistance to LIGs, the private market is reluctant to meet that demand. Public agencies are facilitating the private sector in the provision of housing but are unsuccessful in promoting affordable (small size and low price) house unit production. Early land and housing reforms met with limited success. Today, nearly all Chinese adults are homeowners, and the policy goals are more focused on how to cool rather than stimulate the property market. The policy timeline has traversed an era in which Chinese households lacked adequate capital to invest in housing, to an era in which it is common for Chinese households to invest their capital in housing.

At the same time, the Chinese state has undergone significant cultural shifts. During the Cultural Revolution, ending less than a decade before market reforms began, people with pre-revolutionary (pre-1949) ties to capitalism were vilified as “capitalist roaders” and sometimes brutally persecuted. Today, China’s corrections to market mechanisms are far less extensive than in social democracies such as those in Northern Europe. China’s cities today are full of non-registered migrant floating populations, while unregistered populations were virtually non-existent in the *danwei* era.

Some aspects of China’s development have been remarkably stable. The CCP remains politically autocratic. At the time that land reforms began, the Chinese state gained credibility based on an identity as a benevolent government—one that provides a better, more modern life for its citizens without the fuss of democracy. This image of the Chinese state persists today.

There is a strong component of evolution in South African approaches to housing provision, with many initiatives, changes in policy direction, and changes in institutional responsibility and framing. Policies that do not work are updated. Even the responsibility within government for the stewardship of housing provision has evolved.

7.2.5 Form of Payment

Brazil and Russia, given that both have constitutional right to housing, have much larger social housing programs. In Brazil, My House, My life aims to build one million houses for low and middle income households. The program offers subsidies to developers and subsidized mortgages to households. However, the program is facing the challenge of rising land prices, which has made it difficult to acquire serviced and well located land for social housing. There are also constraints due to a lack of technical capacity in government agencies to deliver the program. Legal and institutional reforms have not been in step with renewal and reinforcement of social mobilization. The private market has catered largely to high income households by supplying luxury homes. The market has also seen participation by speculative investors.

The consequence is that on the one hand Brazil faces huge shortages and on the other hand there are vacant homes, which are unaffordable for a large proportion of society.

In Russia, former social rental housing has been converted to private ownership housing, largely at no cost. The problem, however, is the maintenance of these houses and the redevelopment of dilapidated buildings. Not all apartments in a building have been privatized, which makes it difficult for redevelopment to take place. Private sector housing finance has been constrained by a flow of funds, more so after capital inflows dried up post the global financial crisis. The share of private developer housing and private housing finance has been very small.

The formal rental market in India only caters to the HIG and MIG segments. Public rental housing, or a subsidized rental market, is absent. Lack of formal affordable housing (ownership and rental) is building demand for housing in the informal market, which caters primarily to lower income segments.

In Chinese cities, clashes between national policy and local implementation create significant tensions, particularly at the local level. Land disputes are common between residents and local governments, which generate much of their income from property development. Housing affordability and growing housing inequality is an ongoing issue of great concern to Chinese citizens and the Chinese Communist Party, not least of all because the party continues to be concerned with its internal legitimacy. Whether there is a housing bubble has been the subject of much debate and analysis. What is clear is that the country is not in a position to comfortably sustain high property price growth, nor to see a downturn in property prices. Internal stability is dependent on the perceived legitimacy of the Chinese state, which in turn is dependent on continued improvements in quality of life being offered to both urban and rural people. For people in the property market, this may mean growth commensurate with their prior trends. For people seeking to enter the property market, this means making housing more affordable. Much of the evidence suggests that recent price growth mitigation policies have possibly slowed growth, though have not stalled it, which may be the best approach given the contradictory alternatives.

7.2.6 Housing Tenure

The full range of tenure as presented in Fig. 1.3, Chap. 1, does not exist in any of the BRICS countries. In the absence of functioning social and formal private housing systems, Brazil is saddled with a huge amount of informal housing. The other forms of tenure are private rental and private ownership. The private rental housing market was constrained by the rent control law in the past, which has now been repealed. However, societal preferences have shifted toward homeownership, which has become difficult to achieve due to high house prices and low incomes for nearly 70 percent of households.

In Russia, 70 percent of households own a house, a large proportion of which are former social rental housing converted to ownership. The private sector has supplied about four percent of ownership housing and private sector supplied housing is affordable only to the top 25 percent of households.

In China, since the reforms began, millions of urban Chinese have been involuntarily displaced due to redevelopment pressures, particularly to suburban fringes. This is a common story in some other BRICS cities, like Johannesburg. These trends are no accident; cities have many incentives to reduce central-city densities, including financial windfalls from land sales and the benevolent goals of improving housing and urban environments. Housing policies have gradually become more tolerant of housing replacement being provided further and further out from the urban centers.

Almost nobody subscribes anymore to the tenets of Communist doctrine. China's internal legitimacy depends on strong economic growth. The generation of new housing and urban redevelopment are not the only mechanisms by which cities grow in China. A significant source of urban housing has been in urban villages. These are places where the city has expanded and encircled rural places. Sometimes these areas are reclassified by local governments, and sometimes they are not. These forms of rural urbanization are an important source of affordable housing for rural-urban migrants. Disadvantages in access to housing persist for migrants for long periods of time after they have moved to cities, and *hukou* status is still an important predictor of housing attainment in Chinese cities.

Since the end of apartheid, the ANC has had the task of meeting a huge housing backlog; in a way that is sensitive to cultural expectations; is manageable in a developing country with low capacity; and which empowers Africans through homeownership within the framework of the prevailing spatially segregated urban form. Self-help, or self-built, housing was introduced through the IDT (Independent Development Trust) toward the end of apartheid as a realistic way for Africans to own and maintain property. Backyard shacks have become an increasingly frequent phenomenon across South African metropolitan areas, particularly where RDP homes have been developed.

Urban form during and after apartheid reflected these institutional arrangements. Every South African city experienced a low-rise expansion of their peri-urban areas after the 1950s. The Group Areas Act established African and colored townships outside of white urban cores across the country. Movement of Africans and coloreds into white areas was tightly controlled and monitored by the pass system. The movement of whites was also controlled, at least partly to separate white residents from the reality of the conditions and treatment of blacks in the peri-urban townships. Movement was so restricted that white South Africans cannot believe that the conditions in the townships were as reported by residents.

7.3 Do BRICS Housing Institutions Create Capability?

The review of housing in BRICS countries has revealed that the functionalities housing as a good should create, have not happened or have occurred only partially, for some individuals more than others. Institutional environment plays an important role and institutions evolve over time in response to changes in political, economic and social preferences. The institutions in BRICS economies have changed dramatically over time and impacts are seen on making more individuals well-sheltered and financially-secure. There are still gaps though. The ideal framework of Chap. 1, when applied to individual BRICS countries, reveals an important message, a partially functioning institutional environment is not sufficient to convert the characteristics of housing

good into capability. What is not working in different countries is presented conceptually in Figs. 7.1–7.5. The parts that do not work efficiently differ (omitted parts of the framework represent non-functioning parts in each country) in different countries but the outcome is same—inadequate housing (Figs. 7.1–7.5).

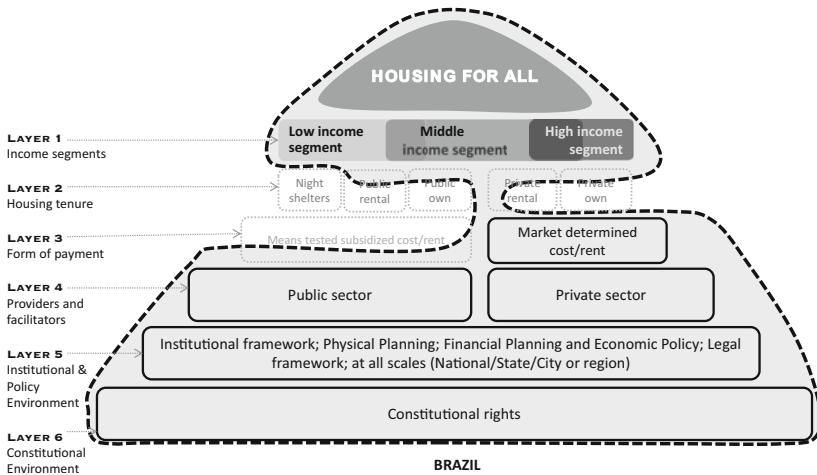


Fig. 7.1 The framework in action for BRICS economies—Brazil

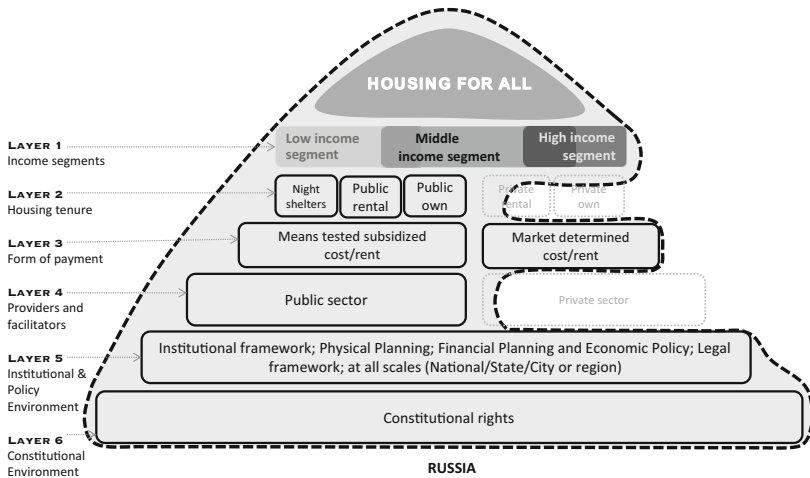


Fig. 7.2 The framework in action for BRICS economies—Russia

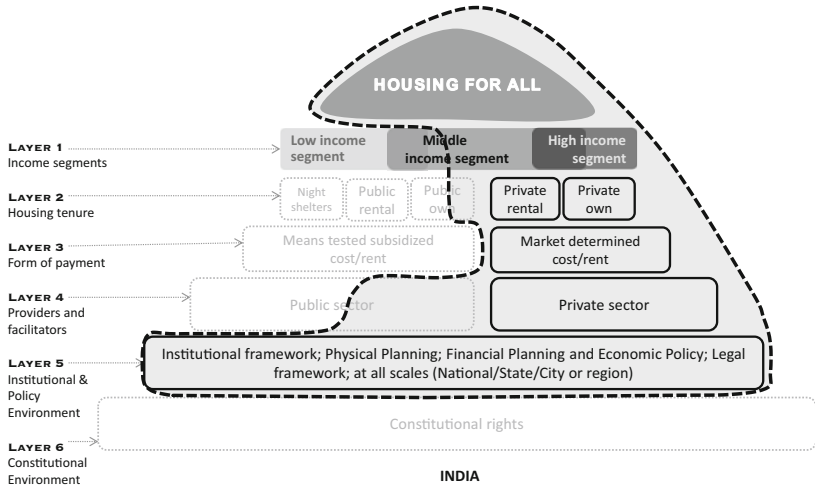


Fig. 7.3 The framework in action for BRICS economies—India

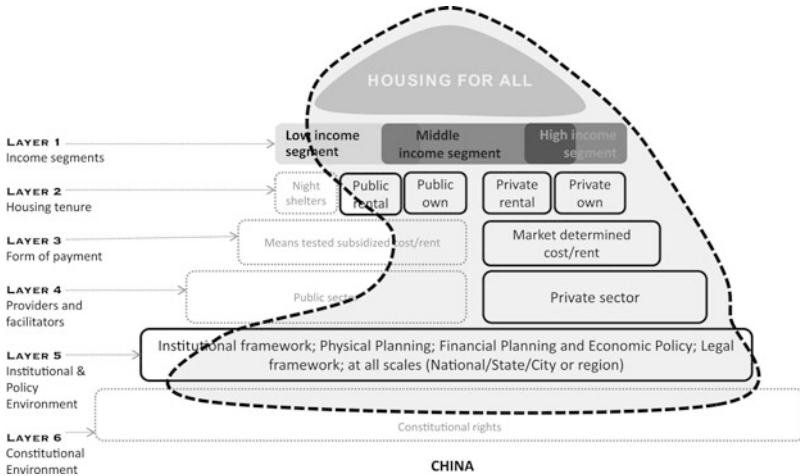


Fig. 7.4 The framework in action for BRICS economies—China

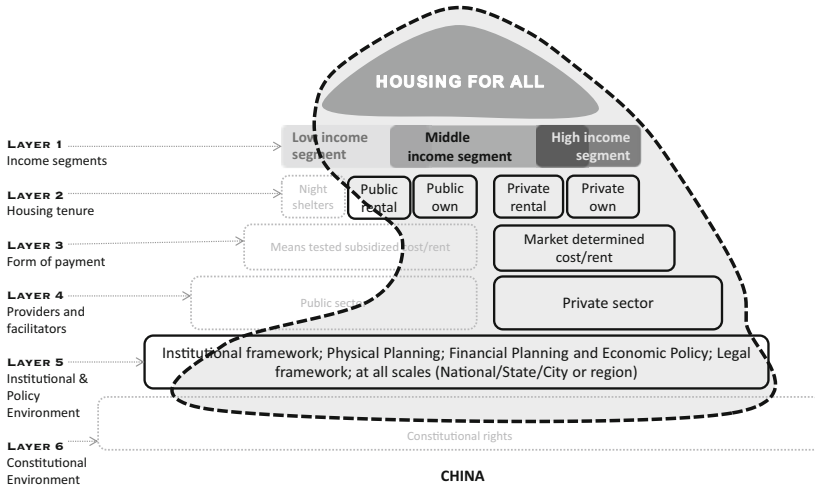


Fig. 7.5 The framework in action for BRICS economies—South Africa

7.4 Select Examples

It has become contentiously obvious that personal and institutional characteristics have not been able to create ‘universal’ functionings—well-sheltered and financial security—for all households in BRICS economies at the macro-level, as aspired to by policy makers. Are there then examples of projects/programs in these countries where such capabilities have been created? In this section, we review five projects/programs where we believe capability has been created. There are many projects that may qualify for an evaluation, but given the scope of the book we have restricted ourselves to five, purely by chance these projects are from India and Brazil. There are important projects in China, Russia, and South Africa, which have also created capability, however, these have been left for future researchers to evaluate. These projects are much larger in scope than the housing, which we interpret as necessary to create capability.

7.4.1 Magarpatta Township, Pune (India)

An noteworthy example of capability enhancement, in numerous regards, is demonstrated in the private initiative of the Magar community, who transformed themselves from agriculturalists to owners/shareholders, builders and operators of the Magarpatta cyber city in Pune (India). Similar to other private townships in India, the Magarpatta is a gated development, spreading over 1.74 square kilometers of land in Pune city (Maharashtra, India), which offers space for commercial and residential purposes within an enclosed conditioned environment, maintained and operated by private service providers. However, the difference with regard to the nature of gains achieved from conventional real estate development projects is worth noting. While economic benefit drives most private developments, Magarpatta is unique in its approach by adopting an equitable, integrated, and holistic development model, which prioritized benefits for the original landowners. We will elaborate on the gradual process of development in the Magar community in sync with the project development stages.

Acquisition of agricultural land on urban fringes for expansion of existing urban boundaries is a common phenomenon in the process of urbanization. The land of the Magar community in Hadapsar village lies on the outskirts of Pune city and was proposed as a 'future urbanization zone' under the Draft Development Plan of 1982. This threatened the farmers with a loss of land and livelihood through compulsory acquisition by public agencies. With an increase in the population of Pune, the chances of the urban boundaries of Pune city engulfing farmlands were also increasing. Instead of resisting urbanization and suffering the disadvantages, the Magar community proposed a plan, in 1993, to develop their own land to suit the needs of a growing city and to use the opportunity of urbanization to create employment for themselves in non-agricultural sectors. Under the leadership of Satish Magar, 120 families in the Magar community came together to form a private limited company (Magarpatta Township Development and Construction Company Limited, MTDCCL) and build a township on their collective pool of land of 434 acres (1.76 square kilometers). The project faced an initial challenge in proposing the conversion of agricultural land to residential

and commercial use, but it was seen by public agencies as a mechanism to avoid uncontrolled unorganized private development dotting the urban fringes of Pune. The government took six long years to sign off the experimental idea and this time was used strategically to learn new skills, which could be deployed during the execution.

There were two simultaneous development initiatives being taken: (i) physical development on farmland; (ii) economic development of Magar community members. Corresponding to these two activities, the prime requirement was of initial investment in the project for material and labor; and skill enhancement of the local community so as to make them employable in non-agricultural sectors. Both the requirements of the project (cheap material and labor) and of the community (seeking alternate employment opportunities) were complementary. Initially, a rupees 100 share was assigned for each square meter of land owned. Shareholders could sell their shares within the community to raise finance for the fulfilment of capital intensive needs. Many used this facility to buy homes within the township either for consumption or investment. Alongside that, multiple revenue and livelihood opportunities were created and farmers were encouraged to pick up the tasks of construction as laborers, contractors, building material providers, carpenters, fabricators, and other similar roles as per their skills and interests. All stakeholders contributed to the project while they benefited from it. This built a symbiotic relationship between the farmer owners and the project from its inception.

The initial capital on the company's balance sheet was 434 acres of land and each farmer owned shares in proportion to her share of land. Based on its land corpus, the company received financial support for construction from formal institutions like the Housing Development Finance Corporation (HDFC). In the first phase of the project, residential units were constructed and sold and the revenue generated was partially used by the company for future development (70 percent) and was partially distributed among its shareholders (30 percent). During the second phase of construction, the housing units were sold at an increased price and 30 percent revenue was received back by the shareholders. Shareholding farmers were benefiting from the real estate market boom in Pune and were also able to maintain a continuous flow of income

from dividends. Apart from direct sales in initial phases, the flow of income was maintained by rental revenue generated from office spaces in the IT Park which were constructed in the third phase. MTDCCL is continuing to expand sources of income by promoting and monitoring construction of other similar projects, like Nanded. Alongside offering a share in the company's profit, the company also extends direct financial assistance to its shareholder farmers who can avail themselves of a better quality of life through better housing, health services, education, and employment.

The role played by farmer owners was crucial at all stages of this project—planning, construction, operation, management, and maintenance. While original owners continue to be employed in operational roles at ground level—site maintenance, safety and security, landscaping, solid waste management, power, water and sanitation, etc.—second generation farmers have progressed into managerial roles within the company and provide dedicated services as accountants, lawyers, chartered surveyors, and engineers. Many have undertaken entrepreneurial roles in subsidiary companies that are created to facilitate broadband, cable TV, private transportation etc. on site (Tiwari et al. 2015).

The project demonstrated how institutional and personal environments, through the interaction of various stakeholders and the leadership of an individual, facilitated the creation of capability for all individuals involved.

7.4.2 Program for Improvement of Favelas in Sao Paulo—Cingapura/PROVER (Brazil) (Magalhaes and Villarosa 2012)

In 1996, almost 12 percent of the population in Sao Paulo lived in favelas. Almost 45 percent of these inhabitants were intra-urban migrants, previously living in low-income neighborhoods. They faced the problem of inadequate housing and lack of tenure security. A program for the improvement of favelas was initiated in 1996 by the Municipal Housing and Urban Development Secretariat, Municipality of Sao Paulo, to

improve the living, social, and environmental conditions of low-income households through two main objectives: (i) favela urbanization; and (ii) regularization of lot divisions. The program was funded by a loan from IDB and a matching contribution from the Municipality of Sao Paulo.

The program was implemented between 1996 and 2004. It was planned that basic infrastructure and redevelopment would be provided in 20 favelas covering 11,000 low-income families living in 9,000 apartments and 2,000 basic homes. The program also proposed to provide basic infrastructure for 21,000 land lots covering 100,000 dwellers. The provision of basic infrastructure, the redevelopment of houses, and lot regularization enabled households to be well-sheltered. Legal titles facilitated another capability, financial security. The program was ambitious in scope and achieved 82.5 percent of the favela urbanization goals under more than 100 percent of lot regularization, with 31,890 lots covered with basic infrastructure and 14,885 provided with legal titles.

To facilitate housing to create capability in the favelas program, financial resources and an institutional capacity building of Popular Housing Superintendence were required, as was a willingness of households to participate in the program. While urban reforms in Brazil were followed by the establishment of a right to housing in the constitution, the decentralization of powers to deliver on that right to municipalities, and the City Statute which provided the necessary institutional conditions, the capacity of municipalities for program implementation needed further strengthening. This required the development of an integrated system for information, necessary for planning, programming, and monitoring the program—and staff needed to be trained. A geographical information system was required for decision making, as it facilitated the processing and visualization of spatial information. At the beginning of the program a number of diagnostics were performed which led to the development of a Social Action Plan for the Recovery of Deteriorated Buildings for Housing and Mixed Uses, to encourage development activities in communities and improvements in the housing conditions of households living in slums.

The program illustrates that besides the legal and regulatory institutions, operational institutions and financial resources are also necessary for creating the desired functionings and capability.

7.4.3 Urbanization Program for Popular Settlements in Rio de Janeiro—Favela-Bairro II (Brazil) (Magalhaes and Villarosa 2012)

The program was implemented in 2000–2006 with a loan from IDB and co-funding from the Municipality of Rio de Janeiro to improve the quality of life of the low income population living in favelas and irregular lot divisions. The program was wider in scope and aimed to serve children and teenagers, and employment and income generation. The focus of discussion in this section though is on housing and lot regularization.

Precursors to the program were two regulatory developments, Complementary Law No. 16 of 1992, which established the Ten-Year Regulatory Plan and the creation of GEAP (comprising eight departments and seven municipal entities in Rio de Janeiro), which was responsible for proposing a housing policy and launching actions for reversing urban deterioration. With funding from the Rio de Janeiro Mayor's office and the IDB, the program covered 62 favelas and 16 irregular lot divisions.

The program aimed to provide 100 percent of dwellers of favelas with water and sanitation, street paving, and the installation of 11,132 lighting points on streets; and to provide a social infrastructure, such as one day care center and one sports field per favela. The achievement of these objectives is noteworthy, since 96 percent of dwellings now have water, 90 percent have sanitary facilities, 9,890 lighting points have been installed, and all favelas have at least one day care center and one sports field. In accordance with the affordable housing policy discussed in Chap. 2, it was expected that the program would be able to declare 100 percent of favelas and lot divisions as special social interest areas, and that 100 percent of dwellings in favelas and lot divisions would be registered in the property tax cadastre. While the goal of declaring favelas and lot divisions as social interest areas was achieved, getting them included in the tax cadastre has not been achieved.

The program illustrates that while the institutional and regulatory framework was supportive, it required funding and capacity building of staff to plan, program, and implement. Legitimacy and a political institutional climate are two essential pre-conditions for creating the

functionings. In this program, commitment from the Mayor, and the participation and support of main players were key to the success of the program. Another important lesson is that improvement of housing is isolation is not sufficient and it should be accompanied with building basic physical infrastructure—such as water, sanitation, roads—and social infrastructure—to gradually reconstruct the decayed social fabric. For the creation of well-sheltered capability, the institution should not only provide these but also create conditions for their continuity. In the favelas program in Brazil, the capacity of individuals was also enhanced through their involvement in project design, fostering start-ups, and development of know-how for acting in favelas.

7.4.4 Land Pooling in Gujarat (India)

Procurement of land from private landowners for public purposes has been an unbalanced process, which favors the interests of society over individual interests of landowners, thus leaving the affected landowner aggrieved and deprived of the fruits of development of their own land. To minimize negative externalities of development activities happening over compulsorily acquired land, the public sector is attempting to internalize the benefits by including original landowners in the process. The Town Planning Scheme (TPS) of Gujarat (India) is a successful example of inclusive integrated growth, which also enables public agencies to meet the public's expectations of infrastructure and services. TPS works on a land pooling and redistribution (LPR) model, which is popularly adopted for planned growth of organic agricultural settlements on the urban fringes of growing cities. In the process, a redevelopment plan is prepared for an existing settlement to extend over a portion of land (say a block of one square kilometer). The plan realigns original plot boundaries to make them regular in shape, although smaller in size than the original. The plan introduces major infrastructure (e.g., roads, water, sewers, and street lighting) and services (e.g., schools, parks, and housing for economically weaker sections—EWS) as per the local planning standards, or as considered necessary for prospective inhabitants to be healthy and comfortable. A part of the redeveloped land mass is reserved for future sale by the

public agency and the proceeds are used for similar TPSs. The remaining land is redistributed proportionately among original landowners. A new use, say residential or commercial, is permitted on redistributed plots, which had been restricted to agricultural use before the TPS. This gives an opportunity for the original landowner to benefit from the development potential of her land while also giving her the choice to continue with agricultural activities. Unlike in cases of compulsory purchase, the landowner retains her right to use or sell the property on the open market. While market demand for the permitted use type may build gradually, an immediate appreciation in the price of redistributed land is guaranteed by the government through Jantri¹ rate imposition. This approach to development acknowledges changes expected in the physical form of developing cities and prepares them to absorb the load of population increase. This also gives time to farmer owners to adapt to physical and economic transformations happening in the area and the opportunity to participate in or contribute to land market activities.

The success of TPS rests in its easy acceptance by the public. This is achieved by substituting forceful compulsion with voluntary participation as far as possible during planning, negotiation, execution, and redistribution. The public agency (which is either the local development authority or the municipal corporation) takes part in discussions and negotiations with individual landowners to inquire about their needs and expectations. The scale of TPS is small and manageable in size for the public agency to survey, plan, negotiate, and execute, and also to conduct public hearings and reconcile revenue records with the site survey (Tiwari et al. 2015). The scheme is self-financed through revenue generated from the sale of reserved plots and permanent collection development or betterment charges (Tiwari et al. 2015). Therefore the TPS successfully integrates a public agency's capacity to interconnect the physical, financial, and property rights dimensions (Tiwari et al. 2015). Reservation of a portion of land with the public agency for sale allows the private real estate market to procure contiguous land parcels with clear titles without the challenges of holdouts. This helps

¹ Jantri is the annual statement of rates (ASR) which serves as an essential guideline for calculating the stamp duty to be levied during the sale of property (retrieved on 05/11/2015 from http://www.egovamc.com/gruda/6_1_amc_new_limit_tp.pdf).

in organized regulated growth of the region as well as in development of a local construction industry. Legislative support for the scheme gives the public agency the power to execute the model successfully.

7.4.5 Rajiv Awas Yojana (RAY) Program in Rajasthan, India

To address the rising housing shortage in India, particularly for the urban poor, the Ministry of Urban housing and Poverty Alleviation instituted initiatives under two programs, JNNURM and Rajiv Awas Yojana (RAY). These programs provide capital subsidy through state governments for housing and infrastructure to the urban poor, including slum dwellers. The objective of the programs is to make cities slum-free. RAY's approach to the problem has been through a curative and preventive approach—by the provision of security of tenure through title security and a supply of land for affordable housing. While the overall performance of RAY at the national level has not been encouraging, the state of Rajasthan has led the supply of affordable housing under RAY.

In December 2009, the Department of Urban Development, Housing and Local Self Government, Government of Rajasthan, launched Affordable Housing Policy 2009 with the objective of addressing the emerging issue of housing shortage, mostly among EWS and low income groups (LIG) in urban areas of Rajasthan. The Government of Rajasthan aimed to build 125,000 houses for weaker sections, lower income groups, and lower middle income groups over five years (2010–2015), with house areas of 325 square feet for EWS and 500 square feet for LIG. The policy has five models of the Affordable Housing Projects and between 2009 and 2013 the Rajasthan government has succeeded in meeting only half of its target (62,000 houses out of 125,000).

Model 1 is based on mandatory provision of serviced plots/flats for EWS, LIG, and middle income groups (MIG-A²) in all the housing projects undertaken by the Rajasthan Housing Board (RHB), urban local bodies (ULBs), or private developers. In terms of progress, more than

² MIG-A (Income rupees 200,000 to 360,000 per annum).

30,000 flats/plots are reserved in Urban Local Bodies and private townships. The institution that has facilitated this is the planning approval mechanism, which made earmarking housing/plots for selected income groups mandatory in any project approval process.

In Model 2, a private developer who builds on a private land, is eligible for certain incentives if she builds EWS/LIG housing on 40 percent of the land and MIG-A housing on 12 percent, while using the remaining land for open market housing which may be for higher income groups. Incentives include no external development charges, no land conversion fee, and no building plan approval fee. The maximum density of development allowed is double that of the normal density, and extra density is permitted for timely completion. This model has shown a fair contribution to reaching the target and its success lies in the fact that it was a lucrative investment for developers who were holding low cost, unserviced land in peripheral areas. It also had the benefit of receiving doorstep infrastructure from government, thereby causing the value appreciation of the remaining 48 percent of land and the land in close proximity.

Model 3 is one in which a private developer builds on acquired land where the cost of acquisition is paid by the developer. Minimum construction for EWS/LIG and MIG-A and the incentives are as per Model 2. Around four to five developers submitted a proposal under this model but no project actually matured. This model has totally failed because land acquisition tedious, long-term mechanism and some of the land parcels proposed for acquisition by developers were under litigation or there was some other problem.

Under Model 4, the developer shall acquire land for free from the government. The project shall be awarded to the developer offering maximum number of EWS/LIG flats free of cost to the ULB with minimum 50 percent of houses in the EWS category. Around 5,000 houses were estimated to be started by the Jodhpur Development Authority and Urban Improvement Trust (UIT) Kota under this model, but the development was not fulfilled because the number of units offered by the developer did not cover the cost of land provided by government.

Model 5, the Slum Housing Model covers all slum housing constructed under Government of India (GoI) initiated RAY programs. Around

rupees 9,200 million of capital subsidy has been given by GoI, Government of Rajasthan (GoR) and ULBs, who share around 95 percent of total project costs.³ This program has covered around four percent of the total slum households.

To elaborate further, Model 2 is based on the concept of cross-subsidization where the sale price of the EWS units are not more than rupees 240,000 and LIG units are not more than rupees 375,000 and MIG-A rupees 700,000. Once the developer constructs these units they are handed over to the nodal agency Rajiv Avas Vikas Infrastructure Ltd. (RAVIL) at the above-mentioned rate and thereafter are allotted by RAVIL to beneficiaries.

To be eligible for the ownership of units, one should fall under the income criteria defined by GOI for EWS, LIG, and MIG and must be a resident of the state of Rajasthan and should not hold any freehold or leasehold house or plot, either in his own name or in the name of spouse or dependent member. Some of the affordable housing projects in JNNURM cities are supported by GOI under RAY where the beneficiary gets five percent interest subsidy on house loans and 25 percent of the infrastructure development cost or rupees 50,000, whichever is smaller as a subsidy on the dwelling unit (DU) cost. It is around rupees 12,000 where only power and road infrastructure costs are included, while remaining costs are not provided through network infrastructure.

M/s. Siddha Infra Projects Pvt develops the case presented here, planned on six acres of land on Ajmer road. The project comprises 224 EWS, 128 LIG, and 48 MIG-A flats (G+3 structures) on 52 percent of the land. On the remaining 48 percent of land, the developer is allowed to construct market housing units for higher income groups. However, given the stringent building byelaws and regulations the developer is not able to utilize the allowable density and can take the unutilized density to another project as a transferable development right (TDR).

The initial response to the scheme was good and 70 applications from developers were received. However, many of these proposals did not take off. In the past, section 90B of Rajasthan Land Development Act, 1956

³ Source: RAY progress report as on January 1, 2014 by Rajasthan Urban Infrastructure Finance & Development Corporation Limited (RUIFDCO), state level nodal agency for JNNURM and RAY.

was used to legalize illegal land conversions that had taken place up to 1999, when the section was abolished. Many of the projects suffered due to an injunction from the High Court that followed the abolition of section 90B.

There were others reasons for the scheme not being successful. All affordable housing projects were sanctioned with a promise that the state government would provide doorstep external infrastructure and necessary amenities (such as schools, health center, etc.) around the project. The case above shows that there were lapses in the provision of water and sewerage lines.

It seems that the government passed the project without appropriate planning and due diligence. The huge costs of building infrastructure to a distant project has kept them from providing water and sewer lines.

Affordable housing programs are self-financed where beneficiaries have to pay the pre-defined cost of a unit to RAVIL, in case of an EWS unit this is rupees 240,000. The payment comprises rupees 7,000 as registration fees, rupees 15,000 before allotment of house in three subsequent monthly installments by the beneficiary, rupees 100,000 as house loan from banks or any other financial institutes, rupees 118,000 by beneficiary as monthly installments up to two years from the date of allotment to RAVIL. The whole amount has to be directly submitted into an escrow account for the development work. It was noticed that banks were reluctant to provide loans to EWS/LIG groups because of a credit risk.

The policy driven projects drastically increased the demand for skilled manpower and for materials at specific times. Developers faced a shortage of skilled and unskilled manpower and of materials, leaving them with no choice but to hire/purchase them at inflated rates and reduce their profit margins.

Building regulations in the area did not allow developers to use the total permissible density of development. Provisions to convert unused developable density to TDRs are there but delays in conversion caused the failure of the cross-subsidization model.

State government has lacked the capacity to scrutinize the information that developers and applicants submit. This has left the government reliant on the affidavits/bona fides submitted by the applicants. This practice has resulted in:

- Incapable builders and developers entering the affordable housing market leading to incomplete, delayed, and unmanaged construction.
- Non-needy and resourceful applicants benefiting by being allocated houses.

The self-financed monthly installments to be paid by beneficiaries are set at around rupees 5,500 per month, which is beyond the affordability of the EWS category.

It was observed that nowhere does the policy mention methods of marketing the scheme. Currently, installments government is using newspaper advertisements as a marketing tool and the result is that only some connected and lucky people get the benefit, while the majority are still unaware.

What this case illustrates is the lack of operational mechanism to tie together various stakeholders (government, developers, and beneficiaries) which has caused limited success. In other words, even though the institutional mechanism is there, its translation into action has become a problem due to operational lacunae.

7.5 Summary

In summary, as discussed in Chap. 1's introduction to the BRICS' country studies, there is a clear picture of understanding international housing market outcomes using the institutional lens to enable comparative study. Use of the conceptual framework proposed in Chap. 1 highlights, in a simple illustrative manner, possibilities and opportunities for future research. To make the discussion on housing holistic, this chapter has brought another dimension to the discussion by utilizing Sen's capability approach, as to whether housing as a good has created capability for individuals (defined by the functionings of well-sheltered and financial security) in the countries studied. Deprivation of these functionings for individuals is a failure on the part of a country's institutions, which have not been able to convert the characteristics of housing good into capability. This also allows countries to be compared, institutional arrangements analyzed, and outcomes evaluated.

The conceptual framework enables the disentangling of institutional complexities of being well-sheltered through interlinkages between rights, policies, politics, economics, market, finance, processes, and outcomes. Used intuitively, the model does explain the differences and similarities across different countries arising from the development paradigm chosen by each country. Thereby, the framework functions as a tool for forecasting trends and challenges in sheltering individuals adequately.

In conclusion, the framework provides an appropriate tool for understanding the challenges that countries face in providing adequate housing. It also offers an opportunity to identify gaps in institutional arrangements. Where future research is needed is in applying the framework at project level for an in-depth understanding of what went right, and why? And what went wrong, and why? This would need primary data to be collected and analysed. A brief analysis of the five cases in this chapter raises another important aspect—the operational capacity of institutions, which brings in human and time dimensions. Housing institutions and their interlinkages evolve over time. These need to be evaluated in the context of housing outcomes.

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Index

A

affordability, 62, 63, 68, 74, 95–101, 104, 109–12, 116, 124, 148, 149–50, 201, 224, 226, 266
affordable housing, 2, 16, 17, 34, 37, 42, 62, 76, 96–8, 102–3, 105, 112–13, 123, 127, 131, 134, 147–8, 152, 154, 163–5, 201, 226, 230–3, 245–9
housing affordability, 32
Affordable and Comfortable Housing for Russian Citizens, 75
Affordable Housing Policy, 62, 245
Affordable Housing to Russian People, 62
African National Congress (ANC), 195, 197, 199
AHML. *See* State Agency for Housing Mortgage Lending

ANC. *See* African National Congress
apartheid, 6, 7, 150, 183–97, 202, 205–7, 212–14, 226, 229, 234

B

backyard shacks, 190, 204–5
Banco Nacional de Habitacao, 45
bank finance, 62
Banking Companies Act, 124
banks, exposure to real estate, 107
below poverty line (BPL), 97–9, 101, 104
Blikkiesdorp, 194
BPL. *See* below poverty line
Brazil, 21–56
housing affordability, 32
housing pyramid, 53
land tenure system, 26
late transitional period, 23

- Brazil (*conti.*)
 military takeover, 27
 Ministry of Social Welfare, 48
 National Housing Policy, 36
 urban geography, 25
 urbanization, 23
- Brazilian Savings and Loan System,
 36, 38
- Breaking New Ground, 210
- Bresser Plan, 46
- C**
- Caixa Economica Federal (CAIXA),
 36, 46
- capability approach
 capability/capabilities, 221–5,
 234–8, 240–3, 249
 functioning(s), 221–4, 233–7,
 241, 243, 249
- Caribbean, 1
- CBOs. *See* community based
 organizations
- CCP. *See* Chinese Communist Party
- Census 2001, 102
- central planning, 27
- Central Public Works Department
 (CPWD), 121
- China, 141–76
- Chinese Communist Party (CCP),
 144, 229
- citizen housing councils, 51
- City Statute, 48, 50
- Civil Code of Russian Federation, 69
- civil unrest, 148, 156, 157, 166
 income inequality, 158, 159
 land disputes, 158, 159, 166–7,
 173
- coffee economy, 25
- communal flats, 64
- community based organizations
 (CBOs), 129
- congested living environment, 92
- congestion, 91
- Constitution, 192
 Bill of Rights, Section 26, 192
 Bill of Rights, Section 25, 192
 Bill of Rights, Section 27, 193
 children's unqualified right to
 housing, 193
 date of, 193
 concurrent list, 132
 economic and social planning,
 132
- constitutional right(s), 10, 11, 19,
 48–9, 54, 79, 135–6, 193,
 197, 223, 224, 227–8, 231
- Constitutional Supervisory
 Committee, 73
- cooperative housing, 70
- corticos*, 34
- courts
 Constitutional Court, 194
Government of RSA v Grootboom,
 193
- CPWD. *See* Central Public Works
 Department
- credit information system, 37
- Cruzado Plan, 46
- Cultural Revolution, 145
- D**
- da Silva, Luis Inacio Lula, 48
- danwei*, 142, 145, 153, 155, 161,
 170, 228, 231

abolition, 146
 conversion to commodity
 housing, 146
 land sales, 153
 tenure security, 170
 work units, 142, 144, 160
 decline in urban growth, 30
 de-concentration of Sao Paulo, 30
 Deepak Parekh Committee, 96
 Department of Housing, 196
 National Housing Forum (NHF),
 196, 210
 displacement, 148, 152, 154, 165
 conflict resolution, 173–4
 and power, 172
 Dmitry Medvedev, 66

E

economic growth, 159
 Economical and Suitable Housing
 Scheme, 150
 economically weaker sections (EWS),
 96–7, 100, 116, 126, 243
 EIUS. *See* Environmental Improvement
 of Urban Slums
 EMI, 98
 Environmental Improvement of Urban
 Slums (EIUS), 125, 129
Estado Novo, 42
 eviction, 202
 EWS. *See* economically weaker sections

F

favela(s), 4, 22, 34, 36, 44, 55, 225,
 227, 228, 240, 241, 242,
 243

FEDUP. *See* South African Federation
 of the Urban Poor
 Fernando Collor de Mello, 47
 FGTS, 38
 Five Year Plan, 122
 Foreclosure Law, 39
 Foreign Direct Investment, 113
 formal housing finance, 35
 Franco, Itamar, 47
 FUNACOM-FUNAPS, 48
 Fundacao da Casa Popular, 43

G

Gandhi, Mahatma, 188
 GEAR. *See* Growth Employment
 and Redistribution strategy
 GoI. *See* Government of India
 Gordimer, Nadine
 Burger's Daughter, 188
 Government of India (GoI), 263
 Government of Rajasthan, 245–7
 Great Leap Forward, 142
 Green Paper on a National Urban
 Development Strategy, 200
 Green Revolution, 27
 The Group Areas Act, 188, 234
 Growth Employment and
 Redistribution (GEAR)
 strategy, 211
 growth machine, 149, 169
 institutional issues, 172

H

harmonious society, 156, 157, 158
 HDFC. *See* Housing Development
 Finance Corporation

- higher income group (HIG), 16, 17, 34, 36, 95, 97, 99, 103, 106, 123, 126, 130, 246, 247
- homeless, 87
- homelessness, 91
- homeownership, 141–2, 150
floating population, 142, 161
rate, 103
- household savings, 110
- housing
backlog, 193, 195
bubble, 151
commodity housing, 143, 144
density, 206
emergency, 194
homeownership, 195, 211
housing, stimulating construction, 144
housing markets, 143, 145
housing privatization, 143
inadequate, 21
overcrowding, 143
prices, 146–8, 151, 163
regulation, 147–8
self-built, 191, 205, 211
shortage, 22, 142
tenure rights, 144, 161, 170
use rights, 143
usufructuary rights, 143
waiting, 210
waiting list, 194, 207
- Housing and Urban Development Corporation Limited (HUDCO), 125–30
- housing as a bundle of amenities, 101
- housing boards, 121
- Housing Code, 69–71, 74–5, 79, 228
- Housing code of the Russian Federation No 188-FZ, 70
- Housing Development Finance Corporation (HDFC), 125, 126
- Housing for All, 107
- Housing in 2002–2010, 75
- housing markets, overheating, 146–8, 151
- Housing Norms and Standards, 201
- Housing Provident Fund, 145
- housing shortage, 33, 87–91
- Housing White Paper, 197–8
- HUDCO. *See* Housing and Urban Development Corporation Limited
- hukou*, 5, 156, 160–1, 163, 176, 233
- I
- immigrant laborers, 25
- import licensing, 43
- inadequacy of space, 94
- inclusionary zoning policy, 201
- Independent Development Trust, 191, 195, 196, 234
- India, 83–140
affordability, 95, 98, 99, 104
below poverty line, 98
economically weaker sections, 96
framework, 104
household savings, 110
housing framework, 134
housing shortage, 87–91
Land Acquisition Act, 109
lower income groups, 96

monthly per capita consumption
 expenditure, 92
 population, 85, 86
 urbanization, 85
 Industrial Licensing Act, 124
 inequality, 158
 informal housing markets, 34
Inquilinato Law, 42
 institutions, 145, 149, 168–73, 208
 colonial legacy, 209
 formal, 145, 169
 informal, 145, 169
 social conflict view, 172
 internal passport system, 58

J

Jawaharlal Nehru Urban Renewal
 Mission (JNNURM), 115,
 131
 Jodhpur Development Authority,
 246
 Judith Stone
 When She Was White, 187
 Jung Chang, 145
 Juscelino Kubitscheck de Oliveira, 43

K
 Kenya, 1

L
 Land Acquisition Act, 109
 land pooling (Gujarat, India), 243
 Town Planning Scheme, 243
 land reforms, 143
 land-leasing, 143, 145
 land tenure system, 26

Latin America, 1
 Law on Appeals, 73
 Law on the Fundamentals of Federal
 Housing Policy, 67
 Less Formal Township Establishment
 Act (LEFTEA), 200
 LIG. *See* lower income group
 local government, 148
 regulatory responsibility, 150
 revenues from housing, 148, 149,
 154, 159
loteamentos, 34
 Low Income Group Housing
 Scheme, 123
 lower income group (LIG), 96–7,
 98, 100, 101, 102, 106, 245

M
 Magarpatta Township (Pune, India),
 238
 Magarpatta Township Development
 and Construction
 Company Limited
 (MTDCCL), 238
 Mandela, Nelson, 189
 Mao Zedong, 142
 Mathabane, Mark
 Kaffir Boy, 186–7
 McKinsey Global Institute (MGI),
 2
 MGI. *See* McKinsey Global Institute
 MHUPA. *See* Ministry of Housing
 and Urban Poverty
 Alleviation
 middle income group (MIG), 16, 17,
 37, 97, 98, 103, 119, 245
 migrants, 150, 162
 rural-urban, 163, 164

- MIIF. *See* Municipal Infrastructure Investment Framework
- military coup, 43
- Minha Casa, Minha Vida*, 49
- Ministry of Cities, 36, 48
- Ministry of Housing and Urban Poverty Alleviation (MHUPA), 96
- Ministry of Human Settlements, 201
- Monopolies and Restrictive Trade Practices Act, 124
- monthly per capita consumption expenditure (MPCE), 92–6, 102, 104, 113, 114
- mortgage loans, 77
- mortgage penetration, 37
- movement of homeless workers, 51
- MPCE. *See* monthly per capita consumption expenditure
- MTDCCL. *See* Magarpatta Township Development and Construction Company Limited
- municipal finances, 120
- Municipal Infrastructure Investment Framework (MIIF), 199
- My House, My Life, 49, 52, 228, 231
- N**
- N2 Gateway project, 194
- nail household, 149
- National Building Organization (NBO), 121
- national government legitimacy, 150, 151, 156, 157, 158, 166
- sensitivity to civil unrest, 174–5
- National Housing Bank (NHB), 39, 45, 126
- National Housing Policy, 36
- national housing system, 45
- The National Institute for Colonization and Agrarian Reform, 51
- National Market Housing System, 37
- national minimum salary, 22
- National Party, 185, 191
- National Party Department of Housing, 196, 229
- National Slum Development Program (NSDP), 129
- National Social Housing System, 37
- National Urban Development Policy, 36
- Native (Urban Areas) Bill of 1923, 184
- Native Laws Amendment Act No. 54 of 1952, 186
- Pass Act, 186
- pass system, 187
- NBO. *See* National Building Organization
- neo-liberal, 210–11
- NGOs. *See* non-government organizations
- NHB. *See* National Housing Bank
- Night Shelter Scheme for Pavement Dwellers, 130
- Nirmal Bharat Abhiyan*, 129
- non-government organizations (NGOs), 2, 36, 37, 59, 129
- Northern Europe, 231
- NSDP. *See* National Slum Development Program

O

obsolescence, 91
Olga Tellis, 132

P

People's Housing Process (PHP),
212
perestroika, 64
peri-urban areas, 85
peri-urban police, 187
PHP. *See* People's Housing Process
Plano Real, 40
power, de facto power, 172–3
Principles of Civil Legislation, 69
Principles of Housing Legislation, 69
privacy, 92
property registration system, 37
propiska, 70

Q

quality of houses, 63

R

Rajasthan Land Development Act,
247
Rajiv Awas Yojana (RAY), 131
Reconstruction and Development
Programme, 198–9, 202
Red Guard, 145
REIT, 114
rent control law, 45
restitution of rights, 67
right
adequate standard of living, 49
City, 49

housing, 19, 36, 48, 49, 71, 80,
227, 231

occupation, rents and utility, 57
property and contract, 67

Rio–Sao Paulo axis, 25

RSFSR, 69

of 1991, No 1550–1, 75

rule of law, 169

ruralisation, 118

Russia

affordability, 62

framework, 78

inequalities, 66

registration, 64

tenure, 60

Russian Constitution, Article 40, 68

Russian Federation No 26-FZ, 70

S

scheduled commercial banks (SCBs),
127

SDI. *See* Shack/Slum Dwellers
International

self-construction, 34

semi-permanent houses, 91

74th Constitutional Amendment, 128

Shack/Slum Dwellers International
(SDI), 201

Siddha Infra Projects, 247

Sistema Financeiro de Habitacao, 45

Sites and Services Schemes, 125

slavery, 25

Slum Housing Model, 246

Social Action Plan for the Recovery
of Deteriorated Buildings
for Housing and Mixed
Uses, 241

social housing, 61
 social housing national fund, 48
 social welfare, 1, 3, 10, 18, 48, 117,
 146, 221
 welfare good, 10, 84, 117
 South African Federation of the
 Urban Poor (FEDUP),
 201
 spatial segregation
 Group Areas Act No. 41 of 1950,
 185, 188
 spatial shift, 30
 State Agency for Housing
 Mortgage Lending
 (AHML), 76
 state-owned enterprise, 142
 Sub-Saharan Africa, 1
 SUDENE, 27
 Summer Plan, 47
 system of indexing wages and debts,
 39

T

TDR. *See* transferable development
 rights
 tenure, 60
 toilet towns, 192
 Town and Country Planning
 Organization, 121
 transferable development rights
 (TDR), 247
 2MHP. *See* Two Million Housing
 Program
 Two Million Housing Program
 (2MHP), 130

U

UBSP. *See* Urban Basic Services for
 the Poor
 ubuntu, 194
 UIT. *See* Urban Improvement
 Trust
 ULBs. *See* urban local bodies
 ULCRA. *See* Urban Land Ceiling
 and Regulation Act
 Union of Soviet Socialist Republics,
 57
 Universal Declaration of Housing
 Rights, 49
 Urban Basic Services for the Poor
 (UBSP), 129
 Urban Development Framework,
 200
 urban form, suburban development,
 152, 153, 154, 155, 164,
 165, 167–8
 Urban Foundation, 195
 Urban Improvement Trust (UIT),
 246
 Urban Land Ceiling and Regulation
 Act (ULCRA), 131
 urban local bodies (ULBs), 120, 128,
 129, 131, 245–7
 urban planning, 160
 urban villages, 155, 160, 161, 162
 urbanization
 bottom-up, 160, 161, 162, 163,
 166, 167
 defensive urbanism, 207
 influx control, 188
 low density, 202
 occupation, 193

pre-reform, 142
 sprawl, 188
 top-down, 160, 161, 163, 165, 167
 townships, 189
 urban expansion, 188, 191
 urban form, 191, 202, 206, 209
 USSR, 1, 58, 59, 63, 65, 66, 68, 70,
 75, 80, 227, 228

V

Valmiki Ambedkar Awas Yojana
 (VAMBAY), 129–30
 VAMBAY. *See Valmiki Ambedkar*
Awas Yojana
 Vladimir Putin, 66

W

wage commitment plan, 39
 wage equalization plan, 39
 wage system, 25
 wage variation compensation fund,
 39
Wild Swans: Three Daughters of
China, 145
 Workers Severance Fund, 36, 37

Z

The Zone of Special Social Interest
 (ZEIS), 51, 230
 zones of special interest, 50