

**An Empirical Analysis of Low-Income Housing, Policies and
Public Finance of Pakistan**

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Abstract

The high rate of 3.3 % of annual urban growth in Pakistan has led to a housing shortage of 9 million units mostly among the low income segments. The research focuses on the problems behind the accumulation of the housing backlog in the urban areas. The first objective of the research is to look into the causes of the urban housing problem in contemporary Pakistan and to analyze the public policies both financial and fiscal to address the shortage of housing for the general mass including the poorest segment of the population. The second objective is to identify the nature of the Pakistani State. As urban housing is a basic pillar of any Welfare State in today's world, therefore insufficient provision of it can be regarded as an element which invites discussion of 'End (or Decline) of Welfare State'. The third objective is to see this 'declining' in the actual urban housing polity.

The research methodology is based on the political economy approach. This thesis is based on the idea that (1) government intervention is needed to respond to the problems of 'market failure', (2) but government intervention does not necessarily lead to the complete solution of the problem, and (3) the entire socio-economic system of the capitalist production mode including market and government is prone to fail.

The empirical part is based on government statistics, review of housing policies and housing finance, secondary data from existing literature and original interviews conducted at squatter

settlements in Pakistan. Thirteen in-depth interviews were conducted, some of which in a group discussion in January 2016. These were semi structured interviews: The interviewees are the residents of squatter settlements employed in both formal and informal sectors, owners of squatter settlements, a manager of a private housing development company and staff of a state development authority.

The findings of the research conclude that the housing policies have been contracting from the time of Independence indicating a shrinking role of the state as a provider of the public housing. Moreover, it can be concluded that the increasing housing back log exists partly due to the weak local (provincial) governments responsible for public housing. This has further led to the development of squatters on ‘grey land markets’ as identified and examined in Chapter 2 of this thesis.

The general belief that the poor households are living in poor houses because of their low incomes is only partially true because the phenomenon of squatter growth is also caused by the weak institutional capacity of local (basic-level) and provincial governments. Finally, the mechanisms of developing formal sector housing employed by the state owned development authorities as well as some private developers have led to the rise of land prices in the urban areas further compelling the urban poor to squat on urban lands.

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Dedicated to my mother

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List of Abbreviations and Acronym

CDA: Capital Development Authority

CPEC: China Pakistan Economic Corridor

FATA: Federally Administered Tribal Area

NFC: National Finance Commission

PHA: Pakistan Horticulture Authority

List of Technical Terms

Lahore Canal: Canal Passing through Lahore

Basti: Residential Neighbourhood Settlement

Doab: Region between two rivers

Gujjars : An ethnic tribe of Punjab known for raising cattle

Kanal: Land area measurement system in Pakistan, 1 Kanal equals 4500 sq ft.

Katchi Abadi: Squatter settlement, temporary settlement

Marla: Land area measuring unit. One Marla is 250-272 sq.ft depending on the area.

For example, 1 Marla is 250 sq. ft. in Islamabad whereas 272 sq.ft. in Lahore.

Rs. Pakistani currency (1 Rupee is equal to approximately 1 Japanese yen on

22 June 2016)

Introduction

Pakistan has an ongoing squatter formation phenomenon starting from its birth in 1947.

This phenomenon has seen new forms of squatter settlements in the past five years. The squatting on urban land points out to the inadequate supply of low income housing, inappropriate housing typology suited to the low income living styles and the massive immigrations to the urban areas. Currently, one-third of Pakistan's population is urban. The 3 % urban population growth rate per annum points to the fact that by 2025, half of Pakistan's population will be urban. At the moment there is a housing backlog of 9 million units in the country.

This thesis attempts to study the cause of urban housing shortages of Pakistan.

1 Hypothesis

- 1) The government housing policies are driving up the urban land prices resulting in ever increasing Katchi Abadis (squatters and slums).
- 2) Due to this the poor are forced to squat on urban lands.
- 3) The Black Land Market, and "Grey Land Market" (author's original concept) are filling the gaps of public housing for the low income people. The findings on Black and Grey Land Markets are explained in Section 5 of Chapter II.

2 Objectives

This thesis has three objectives.

- 1) To understand the causes of urban housing shortage problems and to analyze the public housing policies addressing this shortage.
- 2) To identify the nature of the Pakistani state as urban housing is a basic pillar of any welfare state.
- 3) The third objective is to see this decline in the actual housing polity. The housing policies have been contracting over the past two decades.

3 Methodology:

The research methodology is based on the political economy approach. This thesis is based on the idea that (1) government intervention is needed to respond to the problems of 'market failure', (2) but government intervention does not necessarily lead to the complete solution of the problem, and (3) the entire socio-economic system of the capitalist production mode including market and government is prone to fail.

The significance of the institutions is an integral part of the analysis to determine the effect of the policy changes on the housing for the low income segment in Pakistan. The institutional setups at the federal, provincial and the local governments help understand the

reasons of increasing squatter settlements based on the analysis of institutional frameworks both formal and informal.

Although the author suggests the importance of increased public policy for popular housing, he does not subscribe to the idea that the public policy (state intervention) can solve the problem thoroughly. More fundamental solutions (e.g. Land reforms) should be sought.

The research methodology is an attempt to create a holistic analysis by incorporating the study of Public finance and the institutions involved in it. The low income housing studies conducted in Pakistan have either focused on housing policies or housing finance and loan systems. This is a new attempt to discuss the provision of low income housing in the context of public finance system of Pakistan.

This research methodology is designed keeping in view the political economy approach and is still under evolutionary process. The incompleteness of such research methodology is a path towards refinement and innovation striving for completion.

The empirical part is based on government statistics, review of housing policies and housing finance and secondary data from existing literature, field surveys and original interviews.

Thirteen in-depth interviews were conducted, some of which in a group discussion in January 2016. These were semi structured interviews. Some of these interviews lasted an hour and some lasted for 4 hours. Interviewees included:

- Residents of squatter settlements employed in both formal and informal sectors,
- Land owners in the squatter settlements,
- Manager of a private housing developer and a staff of a state development authority

The interviewees were chosen representing different ethnicities, workgroups and gender viewpoints from the three squatter settlements. In terms of income and living standards, these three squatter settlements were rather similar to each other; however, the ethnic, occupations and classes are diverse. A detail of the interviewees is provided in section 6 of Chapter II.

4 Literature Review:

Global Shelter Strategy put forth by United Nations General Assembly in 1998 advised the national governments to formulate their housing policies focusing on enabling the markets.

After three decades the UN Habitat introduced a new housing strategy in 2013 focusing on the decentralization of housing production and wider means of access for a variety of housing types matching the demand. This realization is a result that despite numerous

experiments the national governments of developing countries are still the largest supplier of housing for the poor. However, the national governments alone cannot meet the costs of supplying housing to the poor. The Global Shelter Strategy of 2025 stresses the need for national governments to develop their own national housing policies focusing on the decentralization of the housing production. This decentralization can be understood as devolving the housing production from the central to the local governments. It can also be understood as a means of encouraging the private sector to provide housing for the poor due to the efficiency generally associated with the private sector.

Similarly, the World Bank follows the enabling policy which curtails the public sector role and emphasizes that the public sector should engage the private sector for the supply of land, finance, construction, operation and management of housing. This officially promotes the private sector's participation and encourages the national governments to support and create conditions conducive for the private sector operations such as removing regulatory constraints and supplying infrastructure.

Turner and Fichter (1972) advocated that the poor in control of their own housing develop better and cheaper houses than those provided by the state, agencies and private corporations. Turner (1972) stresses that the housing for the poor should developed by

themselves through self-help and that the squatters should not be taken as eyesore, but as housing that needs to be upgraded.

Burgess (1978), despite his criticism of assisted self-help housing considers that the housing should be done by the poor by themselves being assisted by the private sector, non-government organizations and corporations. The state's role should be as an enabler rather than direct supplier of housing.

The World Bank and other development agencies deviate from the Turner's view point as for them enabling the market for housing are at the center of their policies. The international agencies are proponents of formalizing and regulating the poor housing through assisted self-help project controlled by the government and financed by international organizations.

Turner's viewpoint is that the enablement of the poor is at the center of prime importance.

The state should enable the poor to provide for themselves and that the international organizations rely on the private market and a bureaucracy enabling the delivery of houses.

This debate has resulted in a wider set of policy guidelines stressing plurality for providing housing for the poor. This asserts that wide range of providers should be included that just not only includes the government and the private sector, but the poor themselves, cooperatives and NGOs (Keivani and Werna 2001, Ogu and Ogbuozobe, 2001).

The informal housing debates of the developing world are divided between two major schools of thoughts. The first group includes of social housing experts that support John Turner's (1972) view which is that housing provided and managed by the dwellers by themselves shows the better results rather than the housing administered by the state. Turner was a proponent of self-build and self-management style of building neighborhoods and housing. In Turners view the governments and the private sector should act as enablers for assisting the poor in their self-help housing. His phrase 'freedom to build' challenged the governments as it justified informal settlements subsequently leading the state governments to adopt regularization and upgradation of the informal settlements.

The second group that includes Rod Burgess (1978) opposes this view on the premise that once the informal settlements undergo reallocation or upgradation programs, these settlements will become part of the formal market, thereby exposing the poorer sections vulnerable of being displaced by the stronger groups. This group is of the view that in the bringing the informal settlements into the formal sector will favor the capitalist production system. Moreover, it is expected that once the informal settlements are legalized, the authorities are expected to have a firmer control over the inhabitants of these registered settlements. The political demands by the poor had a strong influence on the modification of policies.

The World Bank's "Evaluation of Sites and Services project (1982); "As all the project houses are numbered and the identity of the occupants known, it has become much easier for the city authorities to trace the whereabouts of the residents" (World Bank 1982, 11).

"Local leaders, some of whom previously tried to allocate plots or evict people, according to their own whims, and interests, are now careful to alienate residents who now possess a sense of access to authorities they did not previously have." (World Bank 1982, 11).

The above two excerpts point out that the people after the upgradation of the squatter settlement enjoy higher recognition of the human rights but also an increased control by the state.

A case study of the participatory budget by Ana Paula Pimentel Walker (2016) explains the upgradation process of a squatter settlement through a participatory budget. The squatter settlement communities seeking local government's assistance for upgradation have to pass through three steps. The community elected nominees along with the residents co-manage all through the stages of land and urban regularization. The three stages of slum upgradations are: topographic and cadastral assessment which is done in the 1st fiscal year in which the planners look for possibilities for removing any extending houses into the street or houses on risky or slope areas. The 2nd phase is the physical regularization of the slum

area which takes place after the residents have agreed to the physical changes suggested by the local government employees. This involves the sanitation and paving of the streets. The 3rd phase is a provision of the public house construction.

The Brazilian model of Slum Upgradation gives importance to the adequate infrastructure and physical upgradation of the settlement. It does not permit the full property and land rights to the occupants. The Brazilian local governments have improved the living quality of the residents with participatory budgeting as well as brought the informal city into the formal city.

Provision of land is one of the most important modes for affordable housing while designing a housing strategy it is important to take into consideration the delicate and complex networks between the state and various agents; social and political context of land and housing supply (Baken & Van der Linden, 1993). Therefore, it is necessary to consider the relevant interest groups involved in the market provision of housing. This opposes to the sole dependency on adjustments of supply and demand for housing provision as advocated by the World Bank and its allies.

These adjustment policies advocated by the World Bank do not take into account the complex networks of the agents and interest groups which are rooted in the cultural political and social situation which can be country or even city specific.

Governments can take positive actions by increasing the basic infrastructure services required for both formal and informal sector housing of the private sector; thereby reducing the housing price. Opponents of the World Banks enabling strategy have also stressed on the need for reducing standard regulations as a way for securitizing the informal market (Baken & Van der Linden, 1993).

In the developing countries context, the landed interest groups and their affiliation with the state machinery through public officials strongly affects the land market. Baken and Van der Linden (1993) have pointed that increased land deregulation and market freedom cannot prevent increase of excessive land prices due to the demand for investment. Therefore a separation should be drawn between investment and use value. This is particularly true for the developing countries since demand for land investment is more appealing because other alternative options for investment are scarce and inflation rates are high (Baken & Van der Linden, 1993). Supporters of formal markets advocate speculation as a logical response arising due to the scarcity of serviced land (Malpezzi, 1994).

Proponents of land deregulation resulting in increased capacity of housing, hail the success of the housing market of Bangkok city between 1980 and mid 1990's (Dowall, 1989). Baken and Van der Linden (1993) suggest that such increase in private housing demand is due to the high economic growth that would have even occurred in a highly regulated market.

The second part of the literature review focuses on the processes involved in the squatter settling. According to the Van der Linden, Meijer and Nientied, 1985. They describe 2 major forms of informal housing. One being unorganized invasions and the other illegal subdivisions of occupied land. According to them, the 1st phase of squatting was unorganized invasion or illegal occupation of land on which a piece of land was identified and the group of people made their squatter settlements on it. These squatter settlements became secure by having more families settling on this occupied land, as is the case of squatters in Jakarta and Pakistan. The politicians had their personal interest in securing these settlements as it was a way to obtain votes. Therefore, providing the basic facilities in the informal settlements. The second form of illegal subdivision includes private persons illegally occupying peripheral government lands described by Van der Linden, Meijer and Nientied (1985). Plotting them and then selling it the poor people. A certain level of

security from eviction is guaranteed by the illegal occupier with the connivance of government officials.

Similarly, Arif Hassan (1999) has divided the Katchi-Abadis into two groups just like Van der Linden, Meijer and Nientied, identifying them into unorganized invasions of state lands up till the 1960s and informal subdivisions of state lands. He further subdivides the informal subdivisions of state land into notified Katchi-Abadis and non-notified Katchi-Abadis. The notified Katchi-Abadis have been marked for regularization for 99 years of lease and the infrastructure of these Katchi-Abadis to be developed by the state land. The non-notified Katchi-Abadis are not to be regularized, because they lie on the state land which is valuable for the public and private sector.

Another example of squatting can be explained from an example from the US. The 'Housing Act of 1949' in the USA enabled the local governments the right of compulsory purchase of property and for resale to the private developers in a bid to clear the slums and for the development of new residential buildings. (Macionis & Parrillo, 1998.) The profit making interests of the developers led to the development of residential schemes that excluded low income residents. Many of the new housing development schemes displaced the poor forcing them to live in ghettos thus exacerbating the creation of squatter

settlements. Moreover, the new housing units developed by the private developers were less than the homes destroyed during the slum clearance (Macionis & Parrillo, 1998). US state intervention to increase the public housing stock was negligible and it grew from 1.2 million units in the 1970's to 1.3 million units in the 1980s (US Bureau of the Census, 1996; Macionis & Parillo, 1998).

Tasneem Siddiqui in the Policy Brief for Wilson center (2014, 3), on the issue of provision of cheaper land for the low income segments of the society emphasizes that the houses provided by the development agencies are beyond the reach of the poor people. Furthermore, he stresses on the exclusion of the speculators from the plot acquisition process (allotment) as means of providing housing to the poor. He points out that the discriminatory aspects and cumbersome procedures of the housing authorities exclude the poor from the plot acquisition processes.

5 Limitations in the Existing Literature

- Arif Hasan and Tasneem Siddiqui both are oblivious of the fact that the low income housing works well when under the domain of local governments. None of these writers is suggesting that the local governments need to be empowered for providing low income housing.

- Arif Hasan and Tasneem Siddiqui are not focusing on the thriving informal land markets (Grey Land Markets; explained in section 4, Chapter II) within the squatter settlements and the low income housing.
- These researchers are also not concentrating on the issue of public finance for the provision of low income housing to the poor. In Pakistan a study focusing on the public finance aspect of housing is unheard of. Chapter 4 of this thesis investigates this issue.
- Arif Hasan advocates the need of local government empowerment for developing infrastructure but does not stress on the need of low income and public housing being a local government domain. His empowerment of local governments is based on interviews and not based on the analysis of public finance of the state.
- Arif Hasan believes in the formal sector financing to the informal segment of the society without providing any solutions for it.
- Squatting as identified by Van der Linden (2013) and Arif Hasan and Mohib (2003) are either the illegal occupations of unorganized or organized invasions on public land or the Informal subdivision of Agricultural Lands (ISAL) at the peripheries of urban areas. However, these researchers do not identify the squatter settlement formations on private lands that the state has ceased land transactions by

instating a compulsory purchase order. This phenomenon gives rise to the squatter formations on grey lands. This research explores and elaborates this phenomenon in detail in section 4 of Chapter II.

6 Structure of the Thesis

Chapter I discusses the evolution of the cities of Pakistan through different eras in history and how the geographical, socio-economic and political forces shaped the urban society in the cities that comprise Pakistan today.

Chapter II analyses the growth of the Katchi Abadis (squatter settlements) in the large cities of Pakistan. The state of Katchi Abadis in three most important cities of Pakistan; Islamabad, Lahore and Karachi during different eras after the independence of Pakistan are discussed. This chapter focuses on the case studies regarding formation of squatter settlements in Pakistani cities and explores the reality behind the poor financing their housing in the squatter areas

Chapter III examines the government's housing policies and the role of the financial institutions for providing financial assistance for housing to the low-income segment in Pakistan.

Chapter IV discusses the role of the public finance system of Pakistan and based on that tries to identify the nature of the Pakistani state. This chapter analyzes the expenditure data at the federal, provincial and local government's expenditure accounts dedicated for housing and social welfare spending.

7 Basic Facts about Pakistan

The government of Pakistan defines poverty as, “a state or condition in which a person or community lacks the financial resources and essentials to enjoy a minimum standard of life and well-being that's considered acceptable in society”. Instead of the common practice of using income as way to define poverty, the government of Pakistan uses consumption as measure of poverty. The consumption is considered as a measure of welfare achievement whereas income is considered as measure of opportunity. The consumption is based on the calorie intake of 2350 per day. According to this definition the poverty declined from 34.4 % in 2001 to 12.4 % in 2010-11. The decrease in poverty is attributed to the cash transfers as a form of social safety nets by the name of Benezir Income Support Program (BISP) and as a result to better agricultural output.

Lahore's population at the current growth rate is expected to exceed 10 million by 2025 and that of Karachi currently at 13 million is expected to reach 19 million. The rapid growth in urbanization has its advantages and disadvantages. The advantages include

economic growth through the innovation and the formation of SME's which are already a major contributor to economic development. The disadvantages include scarcity and feuds over limiting basic services and resources.

The rapid urban growth of Pakistan is the highest in South Asia. It is a result of the migrations right from the start of Pakistan's inception in 1947, when close to 6 to 8 million refugees crossed into Pakistan from the neighboring India. Additional migrations occurred during the wars of 1965 and 1971 when more Muslims migrated into Pakistan from India. Of course many Hindus also left the country from different areas within Pakistan but the incoming migrant Muslims settled into the urban areas.

At the time when Pakistan appeared on the map of the world, the current day Pakistan was largely an industrial backwater for the then British regime and Punjab was the largest bread producer for India as it produced extensive wheat and rice, surplus supported by an extensive irrigational system by using canal networking. The extraction and the production of basic produce and the political economy that was caused by strengthening the local elites, was further entrenched by the colonial Land Alienation Act of 1901. This Act was an implementing tool for investing in the local landed elite for the coercive power and for producing surplus amount of agricultural produce.

At the time of independence of Pakistan, cities in West Pakistan such as Lahore, Karachi, Multan and Rawalpindi and cities of East Pakistan such as Dhaka provided refuge to the incoming migrants from India. These cities provided land for the temporary structures to be built up for housing the refugees. The newly formed state of Pakistan warmly accepted the refugees and large proportional budgets were allocated for providing shelter to them.

The newly formed state took to the five-year planning system, and in the first 5-year plan between 1955 to 1960, the amount allocated to the housing was 10 % of the total expenditures. In 1958, the 1st democratic election was held due to increasing provincial autonomy demands. Soon after a military coup was orchestrated by General Ayub Khan who then became the chief martial law administrator of the country. Economists from Harvard University were imported to Pakistan to develop two five-year development plans. Theorists such as Walt Rostow and Samuel Huntington advocated the modernization by making Pakistan a laboratory of modernization of agricultural sector and state subsidized industrialization.

The agricultural reform was capital intensive and did not explore the possibility of a land reform, which left many agricultural serfs heading towards the urban areas. The state

subsidized private industrialization led to the suppression of leftist trade unions resulting in wage decrease from 45% in 1954 to 25% in 1967 in the manufacturing sector alone (Shaheed, 1983:275).

Ayub Khan went on to develop a new capital city, 'Islamabad', which literally means 'Dwelling of Islam'. The name was symbolic to the general rhetoric that the military wanted to further strengthen. By the late 1960's, the capital was shifted from Karachi to Rawalpindi and then to Islamabad.

The disparity among ethnic classes and geographical inequalities caused by uneven capitalist development and unequal resource distribution led to a popular unrest against the military government. The inequality can be measured from the extent that 66% of the industrial assets 70% of the insurance sector and 80% of the banking sector was controlled by only 22 families mostly based in areas of West Pakistan (Mahbub-ul-Haq in Gardezi, 1991a:31). The end of the 1960's is highlighted by the first leftist movement in the history of Pakistan in which the urban working class, student unions and trade unionists all waged a resistance against Ayub Khan which culminated in the stepping down of him as a president. General Yahya Khan replaced him and subsequently, the 1st general elections were conducted in 1970.

Karachi remained the capital city of Pakistan until late 1960's and the shifting of the capital was first phased to the garrison city of Rawalpindi and then to Islamabad until in 1966 when the basic buildings and infrastructure was capable of housing the government activity and state bureaucracy. The moving of the capital to Islamabad provided the ease of the later military coups orchestrated and planned in the garrison city of Rawalpindi not far from the capitals Parliament, Supreme Court and cabinet divisions.

The 1970 election won by Awami League in East Pakistan were not accepted by the military regime of West Pakistani establishment. The subsequent protests in East Pakistan were met with an iron fist by the Pakistani military resulting in the separation of East Pakistan into an independent Bangladesh. The 1971, separation also saw another major wave of immigrants coming into Pakistan from India and Bangladesh.

The defeat in the war of 1971 forced General Yahya to step down. At that time the bureaucrat turned politician and a populist leader Zulfikar Ali Bhutto came into power. Bhutto led a civilian government with social democratic inclinations. His political party, Pakistan People's Party was politically left winged and gave the country the first democratic constitution which at least in theory than in reality guaranteed universal education, health, shelter, labor rights and provincial autonomy.

The Bhutto led PPP, initiated an unenthusiastic land reform and a nationalization movement. Selected industries were expropriated but Bhutto's government failed to institute a wide spread public sector-led industrialization (Alavi,1983:53). Bhutto also initiated the civil service reforms which democratized the civil service induction process by incorporating geographically more regions inhabited by the middle classes. The nascent industrial bourgeoisie and the dominant civil military oligarchy viewed Bhutto with aversion.

At that time, Pakistani workers in the Middle East, partly filled the jobs required for the construction boom and the remittances sent home by them in exchange of the cheap labor to the Gulf states thrust Bhutto to become a proponent of establishing a 'Third Bloc' comprising of Islamic countries to counter the massive weight of US led capitalist bloc and the Soviet led bloc to which India was also a part. Bhutto's effort towards equipping Pakistan with a nuclear capability in response to India's entry to the nuclear club was also met with firm resistance by the US.

Eventually Bhutto was assassinated through a judicial murder orchestrated by his handpicked Chief of the Army Staff, General Zia-ul-Haq who over threw Bhutto's government on the accusations of election rigging and was aided by Right winged religious

forces, industrial bourgeoisie and the landed classes who saw Bhutto a threat to their existing status quo.

It was these remittances from the Middle East that were used to buy the houses, even now 20 percent houses in the upper middle income houses are financed by remittances from abroad which constitute a major portion from the Gulf States. This further led to the property bubble and the safest investment from these remittances have till now turned out to be real estate.

Zia's re-privatization of previously nationalized state assets and support for economic liberalization along with remittances sent from Gulf States resulted in a middle class moving to higher socio-economic position.

The military expenditures during Zia's times reached 9 % of the GNP (Noman, 1990: 180). Military's involvement in country's economic activity was unprecedented and it can be gauged by the fact that by the end of Zia's regime, the military was the largest land owning institution of the country. The practice of allotting state land to the native military officers in return for their loyalty was first initiated by the British colonialists, a practice that is still practiced in the Pakistani military. The military's interest in the real estate has led to the gentrification of largest urban centers of Pakistan.

It was during the Cold War that another exodus of migrants moved towards the major urban areas primarily Karachi, Islamabad Rawalpindi and Peshawar. More than 1.7 million Afghan refugees started living and developing squatter settlements in the cities of Pakistan, further exacerbating the housing crises.

General Zia-ul Haq's plane mysteriously exploded in the air along with an American attaché. With his death the country experienced a return to formal democracy.

The continuance of a strong military led to a weak civilian democratic government through the 1990s. This weakness can well be translated as response in a lacking representation among the peasantry and the working class and the political parties are dominated by the bourgeoisie and rent seeking landed interests causing to the downfall of the democratic processes. The rising tension between the civilian and the military government after the Kargill War with India in 1999 led to another military coup of General Musharraf.

General Musharraf's 12 years' rule from 1999 to 2008 marked the beginning of the Neoliberal Era counter revolution. Post 9/11 events made Musharraf a favorite figure among the George Bush regime. Consequently, the Americans droned the people out of the tribal areas of Pakistan all through this time and finally by the Pakistani Army taking

up arms against the insurgency in the tribal areas. This has finally led to the most recent immigration wave to the cities.

Another, global event that caused the housing bubble in Pakistan during the first decade of the 21st century was the Global Financial Crisis of 2008, which compelled many Pakistani expatriates to bring their investments back home and invest in real estate further inflating the housing bubble in Pakistan.

Even at this time when I write the introduction of this introduction of my PhD. thesis many Pakistani's are heading towards the urban areas in search for better jobs. Moreover, many people in the rural areas have opted for urban living after the yearly floods forced them to relocate. Another reason is the growing population at 2% annually is a factor for increased urbanization.

Urbanization is a potential aid to Pakistan's economy. SME's generate an almost 85 % of the nonagricultural economy and are mostly based in the urban areas of Pakistan. The educational institutes in the urban areas produce many intelligent people that have found world recognition. The disadvantages the high urbanization holds is the high proportion of unskilled labor leading to unemployment. Moreover, the massive immigrant pressure

exhaust the state's ability to provide important welfare services such as housing, education, health units, clean water and electricity.

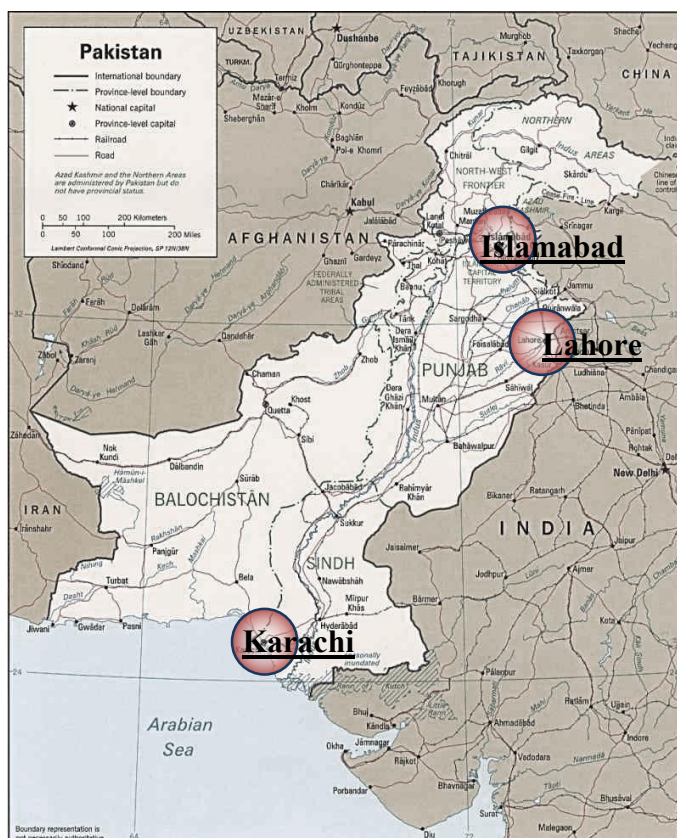
The Pakistani cities are suffering from housing shortages with housing deficits amounting to 9 million units with a supply of only 0.3 million units every year. It is estimated that 50 % of the urban settlers already live in slums.

Chapter 1 Historical, Spatial and Geographical Analysis of Pakistani Cities

1 History of Development of Cities in Pakistan

This section analyzes the historical formation of cities from the geopolitical and socioeconomic conditions prevalent in different eras in the region now comprising of Pakistan.

Figure 1-1 Map of Pakistan and three cities, Karachi, Lahore and Islamabad.



Source: Pakistanpaedia (<http://pakistanpaedia.com/maps/maps-of-pakistan.html>)

1-1 Dawn of Cities in Pakistan

Process of urbanization started in the Indus civilization 4500 years ago. Judging by archaeological proof, there were communities that utilized valuable metals such as bronze, silver, and gold; made sculptures and wheel-turned ceramics; applied cotton fabric, garnished seals and excavated minerals. Production and application of these materials implies presence of remote commerce, giving the ground for the existence of cities. Some scholars consider Indus cities as the outcome of dispersion from Mesopotamia; whereas others think of them as indigenous. At the present moment, there is a growing evidence that Harappan cities had an indigenous origin and grew gradually over a broad area which developed from the Kathiawar peninsula to the foothills of the Himalayas and the north-western areas, and wrapped modern states of Gujarat, Rajasthan, Punjab (both in India and Pakistan) and Sind (Pakistan). This urbanization served as an example of a full-fledged urban system and society.

The ancient city of Harappa served as a collection and distribution centre of harvest produce. It was also a centre for copper and pottery production. Therefore, it can be fully considered as a city that managed trade and production.

During the period of the Harappan civilization, city centers were located in the Punjab. Probably, these towns emerged in the Mohenjodaro (Cholistan) area and later developed to the north and north-east. Settlements were located near river and also close to one another. These centers were situated in fertile areas which sustained their viability. In fact, four settlements were as big as Harappa, which is around 150 ha, with one as far-reaching as Mohenjo-Daro, the original city of the Indus civilization. Big centers were more or less free from the doabs¹ of the Punjab, common size being about 3 ha, which probably were village settlements. Small cities were collection-distribution points, and the average and big cities acted as production and trade points. By the end of the Indus civilization c.1700 BC, urban centers started disappearing from the urban panorama.

1-2 Greco-Indo Cities in Pakistan

Indus civilization is considered to be blended with the backbone of Indian cultural development. It spread north-westwards to Peshawar in Khyber Pakhtunkhwa (KPK) province to Northern parts of Punjab and to Gilgit Baltistan region.

Researchers such as Reeta (2005) are of the view that the start of this era was marked by rural economics and the communities lacked trade ties and gave an impression of being secluded from one another. Between c.700 BC to c. 300 AD, second urbanization started

happening in the Indian subcontinent and several towns started showing signs of early urban settlements. These towns include Charsadda, Purusapura (Peshawar), Sakala (Sialkot), Taxila or Takshasila and Chawinda in present day Pakistan. In the period between 600 BC and 300 AD, those new settlements were consolidated as trade centers of Punjab and KPK province; now north central Pakistan, these regions linked to the neighboring regions in the east and the west and to Central Asia through the seaports of Arabia. The invasion of Graeco-Bactrian king in the 2nd century BC further helped enhancing city development in this Region.

This region in the North Central Pakistan comprises of Taxila which is the best known urban centre of this time. Its inception dates to the Mauryan times in the fifth century BC. Situated close to Taxila is the ancient site of Sirkap dating back to second century BC. Sirkap is said to be typically Greek planned city spreading in an area of 5.63 square kilometers. At the time of Kushanas, the Bactrian kings, Taxila and Peshawar were the capitals by which vast empire from north of Afghanistan, Iran and North Central India were controlled. Coins excavated at Taxila reflected trade with Saka, Parthian and Kushana dynasties. This urban center produced ceramics, bronze mirrors, clay tools and inkwell.

Taxila could also be described as an educational center; where habitants were educated in various fields. According to literary sources, clear urban consciousness was present in this region in that historical period.

The urban centers were constructed with a strong functional layout dividing residential, commercial, cultural and religious activities. These urban centres started disintegrating in the post-Gupta period. Cause of this de-urbanization is considered to be due to the attacks by the Huns, abandonment of various religious institutions and deterioration of retailer and artisan fellowships. Taxila, however could overcome complete deterioration and resurrect later with new settlements and developed new linkages through roads. Deterioration of these cities of the early medieval period is caused by resettlement and by growth of new urban centres.

Shifts of urban development in this era can be characterized as the birth of new towns and the deterioration of the old centres. Generally, formation of new urban centres was shifting occurring around the sites of prior towns.

1-3 Islamic and Mughal Influence on Cities (Eleventh- Early Nineteenth Century)

Punjab and Sindh provinces in Pakistan became more urbanized during the medieval period of the Pakistani history. Al-Beruni wrote a travel account of the early eleventh century, entitled Kitab-al Hind in which he describes the urban centers he visited, that lie in Pakistan now. For him, Multan City in the province of Punjab, looked as a long established pilgrimage centre while Lahore had one of the well protected forts and Debal (Karachi) was a well known port. He also writes about cities such as Sialkot, Peshawar and Jhelum.

After the 11th century, the subcontinent experienced a boom in urbanization brought by the Muslim invaders. Cities grew in numbers and economic activity expanded. Moreover, a new layer of socio-cultural practices spread over the subcontinent.

Minhaj-us Siraj a historian of Islamic dynasties in Asia during the 13th century mentioned urban places such as Uchh, Khushab, Rawalpindi, Bhakkar, Attock, Wazirabad and Kasur. According to his narrations, Bhakkar city, founded by Kishlu Khan, is characterized as a beautiful city that had canals, bazaars and a lot of new buildings under a dignified amir (ruler). In his writings Uchh is recognized as a religious and cultural centre in the South of Punjab province in Pakistan.

Urban characteristics during the 13th and 14th century changed frequently. The Sultans preferred the Turkish aristocracy, craftsmen and servants to live in the city; the urban populations and trade expanded. Cities in Punjab went through a consecutive development process from the 11th to 15th centuries, to stay along with growth and to provide fortifications for the Sultanate of Delhi which used cities for their geopolitical importance.

Significant rise of urban centers in the pre-Mughal time assumes that the power class had an influence on the spread of towns and on their developing economics. Cities were politically and economically organized by Turko-Afghan dominion. Up-country centers, like Multan, Lahore and Delhi were favored business grounds for foreign traders; till today these are the most affluent towns in the region.

European visitors to Punjab during the 17th century portray the visited places in the following way. "Lahore is described as a big city, with houses comparably higher than those in Delhi and Agra; however, they were ruined. It worth noticing that there were more urban units in the 16th and 17th centuries such as Rohtas, Sheikpurra, Kheora, Chiniot, Attock and Naushara. New cities of that period are Bhera and Daska.

In 14th century, Lahore was a politically important place because it functioned as protection for the Sultanate from the Mongol invasions. Lahore served as an imperial

capital for nearly two decades during the time of Akbar's reign after which nobles such as Jahangir, Shahjahan and Aurangzeb enriched the city environment.

During the time of the Mughals, intercity and rural-urban linkages were fortified and city expansion was inconsistent and depended on place, economic capacity and administrative, military and cultural role in the new leadership.

The process of urbanization initiated by Turkish Sultans was carried on by the Mughal emperors by the middle of the 17 century. Mughal period is further characterized by a resurgence of towns which was again related to a high economic activity. Cities continued to be centers of religious, trade and manufacture activities. However, some towns that were present during 16th century cannot be detected in 17th century. Small town's life was a transitory process. Good examples for urban process during the medieval period are the cities that originated along the trade paths from Peshawar to Lahore, Lahore to Delhi, from Multan to Delhi and from Multan to Karachi.

Certain rich towns went through a ravage by troops of Nadir Shah and Ahmad Shah Abdali. Those towns also witnessed fights between the Sikhs and the Mughals. In 1752, the Afghans under the command of Ahmad Shah Abdali took over the ownership of the Mughal regions. Nevertheless, by 1765, the Sikhs had displaced the Afghans.

Consequently, new towns such as Gujrat, Gujranwala, and Jhang in Punjab province of Pakistan started occurring.

The beginning of new towns during this era occurred due to the economic advantages.

However, more than the economic advantage was the locational advantage of a town to serve as a defensive post against the enemy which also contributed to the formation of an urban centre. Except for Punjab the other two provinces of Pakistan including Baluchistan and Sindh had comparably slow growth of urbanization. Quetta City in Baluchistan rose to significance due to its ancient trade ties with other capitals regions such as Tehran in Iran, and other urban centres in Afghanistan. In Sindh many ancient cities such as Thattha grew to a major urban centre because of lying on an ancient trading route from the port to the markets in Punjab and further on to central Asia.

Political process of the 18th century obviously encouraged urbanization and brought several changes. For example, because of the military activity the main trade route was paved from Peshawar to Jammu which resulted in the growth of Jammu as a center of commerce. Meanwhile, Gujar Singh convinced tradesmen to remain in the newly reconstructed Gujrat. Urban centers such as Lahore, Sialkot and Bhera went through a similar process of renaissance. Cities such as Lahore and Amritsar in the Bari Doab (Area between rivers)

region and Multan in the south-west dominated the urbanscape of whole of the Punjab area along with many small towns that started appearing.

1-4 Colonial City Development (1780 to 1940)

By the end of the 18th century events took place that can be considered as the possible cause of the formation of the present Third World. One of the most significant changes is thought to be the Industrial Revolution. By the mechanization of the industry the production process became much faster; the textile mills in England around 1790s could produce many times more thread than a traditional Indian weaver working with all the members of his family. During the same times, England produced around 100,000 metric tons of cast iron which would probably be the same as the entire Indian production having a much larger population. Within 20 years of the industrialization in Europe, the trade flow had been completely reversed; the traditional technological cultures of Asia which exported their produce to Europe were inundated with European products causing a deindustrialization of Asia.

The U.S.A War of 1812, against its former colonizer, became an impediment for exporting cotton into England. Following this decline of the cotton source from the U.S.A, many British industrialists lobbied to allow cotton imports from the subcontinent by removing

the import ban, nevertheless textiles from the subcontinent were not given the same status of being imported into England. The advance technological apparatus required for producing fabrics in England were being produced at much lower costs. Unlike the European markets which had 30% to 60% of custom duties on the same products, the movement of goods entered into the subcontinent almost freely. Thus the subcontinent became a huge market for British textiles. This subsequently was the cause for Indian textile industry's rapid disappearance; however, looking at the success of the textile industries within present day Pakistani cities such as Faisalabad, Multan, Peshawar and Lahore, it is generally concluded that the artisans of that time kept the old tradition of looming alive and passed on to the future generations. During the 17th and 18th centuries, the exports out of current day Pakistani cities and the rest of the Indian cities was not the spices or tea, as is the general belief, but the cotton products.

Deindustrialization of the subcontinent during the British Era had an adverse effect on the employment of urban residents; subsequently the traditional cities were at the forefront. This decline was larger in the traditional cities of Pakistan rather than the largest cities that recuperated with foreign trade; however, many industrial jobs were lost. The larger cities such as Karachi grew quickly and witnessed a rapid increase in population because being geographically advantageous for foreign trade. This foreign trade brought about an

immense increase of population concentrating in a few larger urban centers of Pakistan; on the other hand the decrease in population in most traditional cities was significant. In many cities of Pakistan at that time collected India, after the 1850 an era of accelerated growth started and many large urban areas started seeing an increase in population. These cities included Karachi, Lahore, Sialkot, Gujranwala and Hyderabad, which grew to a 100% in a between 1850 to 1940 owing to the commercial activity.

The rebirth of the urban centers in Pakistani cities during the British era is marked by the effect of reindustrialization created by local entrepreneurs mostly related to the textile sector. Secondly, the export of the raw materials fostered by the British colonialists subsequently expedited the formation of 'Export Cities' (cities where the main local industries are associated with the export sector). Cities such as Jhelum and Khewra (salt exports) in the province of Punjab and Khairpur (dates export) in the province of Sindh rose to prominence due to the increased export of raw materials found in abundance in these cities.

By 1939, the total industry of the subcontinent provided to the majority of the domestic needs. One reason is that the common man was too poor and secondly the developments in infrastructure such as irrigation networks and railways had expedited the industrial

process in the subcontinent. Moreover, metal industries, steel and iron, and chemical industries were also taking root in these modern towns. Around 1930, the cities now in Pakistan surpassed the highest level of population ever witnessed in its prior history. Small industries started functioning which provided jobs to the urban dwellers even though the industrialization remained modest as compared to continental Europe during the 19th century.

Because of the export profiteering by foreign agents the standard of living of urban residents in the subcontinent lowered. No doubt, the subcontinent was an important model of colonization of a big country which had been previously industrialized to a substantial degree.

1-5 Post Partition City Development and Growth of Big Cities in Pakistan

Urbanization and growth of the big cities are similar but different social phenomena. The first is about the general trend of the whole country in which more and more residents leave their villages and migrate to small and large cities. The growth of big cities is associated with the increase in the urban populations. As more people enter into the urban labor markets, the urban areas witness a rise in the consumer and producer class.

At any rate, these two socio-economic processes go hand in hand while the Pakistani economy grows more and more modernized. ‘Modernized’ here means that more and more people become employees of large corporations domestic or global which operate in small and large cities rather than in rural areas. They constitute a core part of urban employment or labor force, but there is another important segment in the urban economies, which is self-employed workers and specialists such as lawyers, certified accountants, small printing firm employees, designers, artists, musicians, photographers, etc. Another peculiar case but an important segment is the large proportion of the labor market having ties to the informal markets.

Table 1-1 The three big cities of Pakistan

| | Feature | Population | Province | Major economic activities |
|-----------|--|-------------------|-----------------|---|
| Karachi | Economically largest city | 23.5 million | Sindh | Trade and Financial |
| Lahore | Cultural center and second largest city in | 10 million | Punjab | Financial, manufacturing and a growing service sector |
| Islamabad | Capital of the country | 4 million | Federal Capital | Government Administrative |

Source : Author

2 Development of a Port and Primate City in Pakistan: Karachi

Karachi is described by Feldman (1960, xi) as a city with a small trading center and a fort at the time of British annexation of Sindh in 1843. In 1839, the British created a military garrison to further annex into the lands of Sindh. The 1st British governor of Sindh, Charles Napier, made Karachi the capital of Sindh. Karachi, after the 1857 War of Independence, gained prominence on the following two accounts: Firstly, the British tried to create a new ally in Punjab by creating a new class of landed elites. This was in consequence to the distrust of the Bengali soldiers who were at the forefront of the rebellion of 1857 and were recruited by the East India Company. The Punjab became the back water of industrialized India and rose to the highest level of agricultural productivity due to the irrigation network of canals implemented by the British. This is one of the world's largest irrigation systems and is present in current day Punjab, Pakistan and resulted in the settling of agricultural castes as well as non-agricultural caste on the fertile beds of a newly irrigated Punjab. This development of Punjab not only served the purpose of gaining allies for the British, but also as recruiting ground for the British Indian Army. This increase in the agricultural productivity in Punjab in turn contributed to the rise of Karachi as a commercial hub.

Secondly, the rise in the Indian cotton prices in the world market due to the scarcity of American cotton caused by the American Civil War of 1861 led Karachi to a status of an important port city. Moreover, this importance was intensified by the opening of the Suez

Canal in 1896; Karachi's close geographical location made it possible to connect the backwaters of Pakistan and Central Asia to the European markets.

Karachi's development as a major center of commerce continued in the consequent decades.

While it was still not a manufacturing hub, the upper class comprised of civil employees of British Raj and the merchants belonging to Gujarati and Memon communities. The skilled workers of Karachi during the early development stages of Karachi city in the British times were mostly of Maharashtran descent and were related to auxiliary sectors such as transport. Unskilled workers were of Sindhi and Makrani descent. The Karachi Port Workers Union was the first unskilled workers' union formed in Pakistan in 1930s by the workers employed on the docks. It is evident that the occupational hierarchy, class and ethnicity were even linked from the start of Karachi's early day of development. Moreover, Karachi's geographical location as a frontier and conduit for the British Military campaigns was centric to its development.

At the time of Indo Pakistan partition, Karachi witnessed turmoil in the socio-economic conditions of the city as migration of unprecedented scale occurred on both sides of the border. The incoming Muslim migrants from north and western India moved and settled into already established cities of West Pakistan including Karachi, Hyderabad and Lyallpur.

The magnitude of migration to Karachi can be measured by looking at Karachi's population between 1941 and 1951, which grew from 387,000 to 1,068, 000 which is 3 times the size of the original population. Hindus, in 1941 constituted about 47.6% of Karachi's population along with 10.4% of other non-Muslims shrank to 4% of the total population after the partition (Shaheed, 2007: 32). The Hindu and other non-Muslims migrants leaving for India were replaced by Urdu speaking incoming migrants from India which were called Mohajars and belonged to an educated class of urban centers. 80% of the population increase in Karachi between 1941 and 1951 was explained for by the incoming Mohajars (Arnold, 1955). This is the 1st of the four major waves of the migrants that Karachi has experienced after Independence. These influxes of migrants had serious implications on the Social classes and ethnic demographics affecting the politics of the city as late as 1956, the top positions of the Federal Government and State Bureaucracy amounting to 93 percent of the seats were held by the Punjabis and Mohajars. 21% of these positions were held by the Mohajars while their population representation in the total population was only 3% (Waseem, 2002, 5).

The indigenous capital class in Karachi were provided with significant state subsidies comprising of the Memons, Gujaratis and Chinioties from Punjab. The extent of uneven development can be measured from the fact that during 1958, out of 1.9 billion US dollars

invested in industrialization, 1 billion US dollars were invested in Karachi alone (Baig, 2008, 74). Between 1950 and 1955, the Korean War increased the demand for the raw materials of Pakistan contributing to the industrial and commercial development of Karachi. Industrial production grew to 72% between 1958 and 1963 in Pakistan alone as compared to 55% growth in the rest of Asia (Noman 1988, 180).

In the 1960's, Karachi was stripped with title of capital city and a new city, Islamabad, was developed as the capital. Eventually homelessness became another factor of Karachi as no large housing programs were launched by the military governments. This led to the development of squatter settlements and inner city slums.

The 2nd post-independence migration to Karachi was due to the green revolution (1960 - 1975) in rural Pakistan especially in the fertile lands of Punjab and KPK. During this time Karachi's growing industries were nourished by the labor force coming mostly from KPK as the majority of the unskilled and manual jobs in Karachi were taken over by the Pashtuns (an ethnic group) flowing from KPK.

The Cold War in Afghanistan¹ (1978-1992) resulted in a third wave of Post-independence exodus to Karachi and other cities of Pakistan. The migrants settling to Karachi essentially belonged to the Pashtun ethnicities.

The annual development budget which includes education and public health rose to a mere 3% per annum in contrast to the rising military's budgets (Baig 2008, 15), Karachi's budget for civic amenities only rose to 1.2 % annually. The dilapidating condition of the civic amenities and the change of ethnic demography and suppression of progressive political voices resulted in the formation of Muttahida Qaumi Movement (MQM), whose purpose was to provide access to state resources, university quotas and jobs to the Muhajirs. MQM and Jamiat Islami took to the weaponizing of their militant wings to counter any resistance and masterminded turf wars to support their agendas and show street power and city control.

The fourth major wave of immigrants was caused by the "War on Terror" waged against the Al Qaeda and Taliban in Afghanistan. American Army droned areas inside the Pakistani borders and displaced millions of people from their homes. Later Pakistan Army's operation against the militants further exacerbated the immigration process.

2-1 Urban Economy and Socio-economic Trend

Karachi's contribution in Pakistan's foreign trade was 95% in the 1990s. The share in national industrial production was 30 % and the share in the total revenue of the federal taxes was 60% (Hasan 1999, 8). These figures remain almost the same today. Most of the headquarters of major international companies operating in Pakistan are situated in

Karachi rather than in Islamabad or in Lahore. One of the most important business centers of South Asian region is Karachi; KSE (Karachi Stock Exchange, the biggest exchange market in the country) is there. 94% of sales and income tax of the Sindh province is received from Karachi, which is 70% share of Pakistan's tax collection. The headquarters or major offices of about 4500 big business firms (domestic and international) in the formal sector are located in this city. Products manufactured there include leather, marble, ceramics, paper, plastic, stationery, electronics and food products. Many of them are exported (Hasan and Mohib, 2003). Recently, economic base started shifting from manufacturing to service sector. Manufacturing progress decelerates because of poor electrical power supply and abusive informal fee for business start-up (CDGK-MPGO, 2007). Consequently, manufacturing share of urban output has regressed from 37% in 1985 to 18% today.

Meanwhile the service sector has been evolving recently at about 8% annually and now amounts to a significant part of gross city product. City land value has become 5 times larger in the past 15 years. Pakistani GDP growth rate was 5.5 to 4.24 % between 2006 to 2016 which is lower than the Pakistani cities economic growth that is 6 to 7% per annum. However, 75% of the households are poor and belong to the low income groups. Living conditions of the poor sections are a major concern, as these have an influence on city

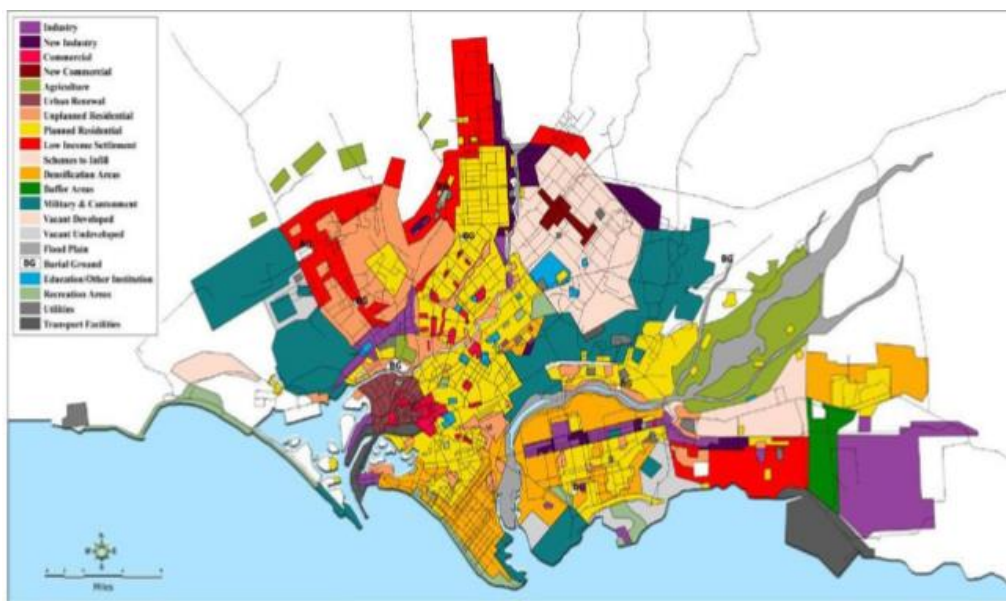
development. There is an urgent demand for creating jobs for the retired population, as they face hardship making their living. Employment rate among them has fallen from 33.25 to 18.74%

Karachi after the Indo-Pakistan war started experiencing civil conflicts. Currently Karachi is zoned into ethnic and social groups area wise. Each of these areas is inhabited by a certain ethnic minority creating barriers of inclusion by another ethnic or social group.

2-2 Urban land use and spatial data

Karachi was developed in several phases and therefore land use characteristics are hard to delimitate (Qureshi et. Al., 2010a).

Figure 1-2 Karachi Projected Land Use for 2000



Source: KDA, 1991

City authorities face challenges for bringing city development plans into practice, because of denial of specific governmental policies by certain ethnic group. 16.91% of the total land is occupied by squatter settlements; this situation is problematic for urban authorities. Moreover, recreation area is only 1.55% of the urban land; it is not enough for a gigantic city.

Table 1-2 Land Use of Karachi

| Group | Category | Area (Sq.km) | Percent |
|----------------|------------------------|-----------------|---------|
| Economic | Industrial | 67 | 7.42 |
| | Agriculture | 50.9 | 5.63 |
| | New Industry | 48 | 5.31 |
| | Commercial | 10.7 | 1.18 |
| | New commercial centres | 4.9 | 0.54 |
| Infrastructure | Recreational | 14 | 1.55 |
| | Transport facilities | 13.5 | 1.49 |
| | Utilities | 8 | 0.89 |
| | Education | 7.7 | 0.85 |
| | Burial grounds | 3.2 | 0.35 |
| | Planned residential | 163.7 | 18.12 |

| | | | |
|-----------------|------------------------|-------|-------|
| Residential | Schemes to infill | 98.8 | 10.94 |
| | Low income settlements | 82.7 | 9.15 |
| | Unplanned residential | 70.1 | 7.76 |
| | Densification areas | 47.8 | 5.29 |
| | Urban renewal | 11.2 | 1.24 |
| Special purpose | Military areas | 121.3 | 13.43 |
| | Vacancy undeveloped | 16.7 | 1.85 |
| | Buffer areas | 14.3 | 1.58 |
| | Vacancy developed | 1.9 | 0.21 |
| | Flood plain | 47.1 | 5.22 |
| Total | | 903.5 | 100 |

***Groups and categories as defined by KDA (Source: Arsalan et.al. 2006).**

3 Canal Intervention in the British Times: A Political Tool to Rule

The change in the cityscape as a tool for political intention has been manifested in Lahore throughout different regimes. The gardens during the Mughal times, the construction of the Lahore Canal and the neglect of the Walled City³ during the British rule and quite recently the construction of the expensive overhead bus system developed by the current Punjab government, shows the political motives of the ruling regimes.

This section refers to how the infrastructure of a canal brought the people together, the governing British and the mediators with English tastes to interpret to the millions of those who were ruled by them.

The western world and its colonies during the mid-nineteenth century witnessed large technological systems. This was a result of two technical innovations that were the steam engine and the electricity that was used for transport and telegraph. This had a manifold incremental effect on the productivity by humans.

The invention of the locomotive engine was the initiating point when the rural hinterlands could transport vast amounts of raw materials and people to the cities. These systems significantly transformed the urban and rural lives and linkages in between. Punjab under the British rule experienced substantial social, demographic and physical changes.

Lahore Canal enters Lahore from the North Eastern part of the district, and following a natural topographic flow along a ridge, it passes through Lahore, with the Walled City in the North and Mian Mir village in the south before falling into the river Ravi. The Lahore Canal was built by the British starting in 1870 and ending in 1876. The British developed a network of canals, roads and railways to strengthen connectivity between the production of the hinterlands to the markets, urban centers and to the ports.

Through the course of history, the Indus valley has been irrigated by the floods of the rivers during monsoons. The canal system designed by the British connected the barren parts of the terrain converting them into productive lands. The development of the canal and other

infrastructure such as the railways and road network intervention by the British affirmed an effective political rule by linking the people with the land as a concerted reform.

The 1860, “Report on the Revised Settlement of the Lahore District in the Lahore Division,” (Davies, Egerton, Temple, and Morris, 1860) by the British officers mentioned that the city and its surrounding areas were fertile that have become arid due to consecutive invasions in the past. Here the officer was referring to the weakening power of the Mughals and the conquests of the Sikhs.

The irrigation by the canals transformed the country side of Lahore. Thereafter the British proceeded on expanding the Provincial capital by establishing administrative zones, public buildings, residential quarters, government functions and recreational spaces between the old Lahore of Walled City and the newly developed canal area. William Glover (2008), in his book “*Making Lahore Modern*”, clarifies the Colonialist position of the Walled City being opaque as it was impenetrable with crowded streets, densely packed multistory houses and inhabited with large familial structures residing in them.

The canal formed a linear axis dividing the old Lahore of the Walled City with the newly set cantonment on the opposite side. In the authors view the canal was a defensive hurdle

for the British cantonment incase the mutiny took place in the old Lahore or from another enemy. This was a consequence of the mutiny for independence of 1857.

Planning was underway to create a new city to put a civil junction, government offices, bureaucrats, residential areas and a new middle class of Indians having western tastes.

Abundant space for the gardens was provided in the new development of Lahore to link the institutional, residential and cantonment areas. The canal irrigated the cantonment and the current day of Lawrence Park. Till today the Lawrence garden is irrigated with the waters of the canal and so are the green fields of the New Campus of the Punjab University in Lahore, a green patch amidst the city.

The later towns like the Model Town based on the garden City concept of Ebenezer Howard was developed in the 1920s for the retired government British officials. The single storey British Bungalows after a generation were developed in the upper storey to house the next generation. Similarly, the residential areas of Gulberg and Garden Towns that were developed much later in time were all provided from the waters of canals.

Gulberg, Model Town and Garden Town were occupied by the richer Indians who vacated their properties from the Walled City and those who came to work for the British Raj. The

vacant houses in the Walled City were subdivided into smaller units by a large number of people coming into Lahore city and so the Walled cities population grew even denser.

Pre-colonial establishments such as the Shalimar gardens, the Walled City of Lahore and the then suburb town of Baghbanpura were closely tied to the primary water source of river Ravi, unlike the new developments of these towns were fed by the irrigated waters from the canal.

The canal formed a central axis (artery) for the new developments to spread along the canal.

The old Lahore was subjected to continuous ignorance and so it deteriorated.

The development of the canal further gave a new order to the future urban growth by orienting it away from the river and giving a new order to the city along the canal. The bipolar Lahore that was developed by the British ignored the old medieval, opaque, impenetrable and congested Lahore. And a new spacious Lahore emerged with gardens between the bungalows and the cantonments that had vast expanses of open spaces between them. The dualistic legacy of the British still continues till today in the current regimes which ignores the Old Lahore and puts a bigger focus on developing sparsely populated developments with no provision of increasing building heights. The expansion of Lahore

is in the southern direction forming single family peripheral housing schemes by taking over the agricultural land.

The difference between the urban tissue and urban fabric is the physical aspect of urbanism, building types, street scape and thorough fares.

Many of the slums of Lahore were the villages that were encroached when Lahore expanded and these villages came inside the urban tissue.

4 Development of the Capital City: Islamabad

4-1 Cities of the Authoritarian Rule:

Cities are matters of interest primarily for urban researchers and for the ruling elites who commission the planning of cities and finally to everyday city inhabitants. The examples of planned cities range from the cities initiated by absolutist rulers, Ebenezer's Garden Cities and the Colonial Cities planned by the Colonial masters. The absolutist regimes require cities planned to create a world appropriate enough for everybody to reside in them.

Architects and urban planners try to achieve forms and structures which are new and reflect their perceptions of the Zeitgeist and sometimes utopian forms deemed appropriate for urban living. Absolutist rulers, architects and urban planners strive to create living conditions for a better society and the designs are born of hope.

As an example of such manifestation of ideas which was an amalgamation of political power and architectural constructivism can be witnessed in the case of Brasilia. The non-conformist style of architect Oscar Niemeyer and urban planner Lucio Costa and the political power of President Juscelino Kubitschek de Oliveira shaped a utopian city of distances bound for the automobile and not for the pedestrians. This was the beginning of a trend for developing new capital cities in the post-colonial era. Likewise, similar examples can be seen in Africa and Asian countries such as in 1979, Julius Nyerere the ruler of Tanzania shifted its capital from Darussalam to Dodoma. The Japanese Architect Kenzo Tange was given the task to conceptualize the new capital of Abuja which was shifted from Lagos in Nigeria in the year of 1982. Houphouet-Boigny the president of Cote d'Ivoire in 1984 shifted its capital from Abidjan to Yamoussoukro. In Asia, the capital city of Almaty was moved to Astana in Kazakhstan. This move represented the independence of Kazakhstan from the Soviet Union and reflected the power of Nursultan Nazarbaev then the president. Recently in 2007 the capital city of Yangon on the coast of Myanmar was shifted to Naypyitaw by the military rulers.

Examples of planned cities in South Asia include start from the design of the colonial capital of New Delhi. The British have invested in New Delhi to create a new imperial city; however, their term ended in 1947 after which Delhi became the capital of India. In 1956,

a legislation divided India into federal states and each state and three new state capital cities were planned. Chandigarh was planned as a capital of Punjab state and rose to fame because the designer was none other, but Le Corbusier. Overly populated city of Ahmedabad which served as a capital of Gujarat was replaced by Gandhinagar. It can be rightly said that the wave of city planning in the Indian subcontinent came from the West.

4-2 Capital of Hope

Just like the many examples narrated above, the center of power was shifted from the port city of Karachi to the newly planned capital city of Islamabad of Margallah hills. Islamabad attracted a lot of attention, since during the 60s the Pakistan's developmental model was taken as model developing city (Pfeffer 1967). The project of designing city was given to Constantinos Doxiadis who had rose to fame on concepts such as ekistics and Dynapolis. Dynapolis which was a search for the city of the future (Mahsud 2001, 2008). Doxiadis envisioned universal city system in which housing and urban models were replicable

The original plan for Islamabad was based on the proliferation and unrestrained growth. Islamabad reflected the confidence in the miracle economic growth of the 1960s and the development of the post-colonial era. It was created out of a yearning for better urban living environment. The great design of Islamabad has been a matter of interest for most researchers focusing on the early development and planning of the city of Islamabad.

Recently, the focus of urban research has shifted from the planning concept of Islamabad to largely concentrating on the effects of urban planning issues.

More than four decades have passed since the inception of Islamabad, still however, most of the researchers take the original master planning concept of Islamabad as a central reference while presenting their analysis on the city of Islamabad. Islamabad has grown out of the original concept and the Capital Development Authority is the administrative body in charge of city planning. The major activity that has been observed of CDA is to develop new sectors for housing in an ever expanding city of Islamabad. CDA is also responsible for infrastructure provision, developing and maintaining commercial complexes and housing developments. These responsibilities also included the vastness required in maintaining the hygiene provision of electricity and energy, adequate waste disposal, sanitation and water supply.

4-3 The development of squatter settlements of Islamabad

In this section, the characters of the low income housing groups shall be discussed. The discussion of the low income housing focuses on two aspects. The 1st is the formation of squatter settlements which is on vacant public and private land within and at the periphery of the cities. The 2nd is the issue of slums which are generally formed due to the degradation of the built environment, downward social mobility of its residents and the devaluation of

the building structures. The earlier discussion related to the discussion of the housing for the poor were about the external appearances, the effects of the use of urban space, livelihood and jobs of the squatter residents in the informal sector in which has recently been changed into the debate of illegal squatter settlements and the legality of claim for possession along with issues of self-help bases. The current debates also include social exclusion aspect of humans and access from resources (Evers & Korff 2000).

Many authors have shown how the poor marginalized people of the society have occupied the land and have defended their right of illegal occupation against the city authorities, the root of the state and from the urban profiteering oligarchies (Hardoy & Satterthwaite 1989; Van der Linden 1986).

In the following section, the question of providing adequate housing to the poor adhering to the original plan of Dioxides and the provision will be analysed. Furthermore, the discussion will analyse how the squatter settlements are dealt with CDA. We will see how Dioxides, the original concept developer of Islamabad, planned the residential sectors of Islamabad and how his plan manifested the social integration of residents. Secondly, how a rapidly growing city has catered to the provision of low income housing. This discussion is related to the housing as a basic human right or housing or a commodity (Werlin 1999).

This ever increasing tension between the basic right of housing and the development authorities or municipal governments in this particular case CDA which is the sole authority and the responsibility of housing for the poor lies with it.

End Notes:

¹ The Cold War in Afghanistan initiated in December 1979 with the Russian forces entering Afghanistan to suppress an insurgency against the communist government of People's Democratic Party of Afghanistan (PDPA). The United States finding it an opportunity to defeat the Russians, courted with countries such as Pakistan, Saudi Arabia, Egypt and others. Soviet Union lost at the hands of the Afghan Mujahedeen and was forced to withdraw in 1989.

² Lahore Development Authority (LDA) was established in 1975. Previously, it was called Lahore Improvement Trust. LDA under the Punjab Acquisition of Land (Housing) Act of 1973 acquires land and after creating serviced plots sells it at the market price. The people it buys land from are either compensated through providing serviced plots in return or through money. During the initial phases, the development schemes it created the people were given 30 % of the developed land. Over time, this ratio has decreased.

Up till 2010, LDA has initiated several housing schemes and developed 120,000 plots, including plots for apartment construction. LDA is also the approving authority for private housing schemes and up till 2010, LDA had approved 216 housing schemes which supplied 130,000 land parcels.

³ Walled City is also known as Interior City of Lahore and was developed around the fort whose foundations were laid by the Mughal Emperor Akbar. The Walled City was fortified by city walls during the Mughal times and some sections of this wall were torn down by the British. The Walled City houses poor people and contains monuments of historical significance.

Chapter 2 Urban Housing in Pakistan

The objective of this chapter is to investigate the state of low income housing in the urban context of Pakistan. The squatter settlements are an integral part of the urban areas of Pakistan and are a means of housing for the poor. This chapter focuses on the causes of the growth of squatter settlements from a historical perspective based on a transforming socio-political context of the country. Furthermore, it discusses the efforts of the NGO sector for upgrading the squatter settlements in Pakistan. The latter part of this chapter is based on field work and interviews conducted in Islamabad to analyze the situation of the poor housing.

1 Katchi Abadi: Conceptual Shifts of Squatter Settlements

First of all, let us look at the change in the conceptual approach to the squatter settlements. According to mainstream economic theory the squatter settlements are regarded as a temporary phenomenon occurring in the early stages of industrial development of a country. Once the market becomes highly developed, the squatter settlements are expected to fade away. Exploiting this approach many governments did not intervene and no active public policy was implemented to tackle the squatter settlements.

During the 1960s many governments were authoritarian so they had very little concern for human rights. The idea of market approach coupled with the authoritarian system led to

the forceful eviction of squatter settlements without providing alternate housing. In Pakistan during the 1960's, the then ruling military government started evicting the squatter settlements in the city of Karachi and new low cost housing schemes such as Al-Azam and Maymaar housing schemes were provided on easy instalments as a substitute.

During the 1970s and 1980s there was a change in the Pakistani rulers' approach that involved public policy having more respect for human rights of squatter settlers. The Zulfikar Ali Bhutto led government campaigned for the regularization of the squatter settlements as a substitute for meeting the huge demands of housing. This regularizing can be seen as a Keynesian approach. This approach encourages economic activity by encouraging demand of housing instead of advocating a supply of low income housing.

The demand side programs such as regularizing the Katchi Abadis have been used in many developing countries to increase access for housing services to the poor. This arises from the perspective of social safety nets that governments are responsible for providing their housing assistance and basic shelter. The transition economies take up housing related relief expenditures to mitigate the planned living costs increase. Housing assistances such as regularizing the Katchi Abadis and other relief packages promote home ownership and support economic development by creating market based housing and infrastructure

development to support economic development by encouraging home businesses and neighborhood developments projects.

Under the new regularizing policy of the squatter settlements, the transference of entitlement to the inhabitant occurs usually by selling the land cheaply and sometimes without any costs to the inhabitants of these squatters. It is expected that the people will invest on their houses for improved living while the amenities such as roads, electricity, water and sanitation will be provided by the government.

As far as the concepts are concerned there was a shift from the mainstream market approach to the public policy approach; however, in reality there has not been a big change.

1-1 Squatter Settlements of Pakistan: Causes of squatter settlements in Pakistan

At the birth of Pakistan in 1947, housing was a major problem for the migrating refugees from India. As the newly formed government of Pakistan could not provide housing to the incoming refugees, squatter settlements started to originate within and at the periphery of the urban centers. During the partition of 1947, 4.7 million Sikhs and Hindus emigrated from Pakistan and 6.5 million Muslims migrated to Pakistan, thereby increasing the population of Pakistan by 1.8 million people.

As large numbers of migrants immigrated from India, the 1951 consensus depicts that over 45 percent of the urban populations in many urban areas of Punjab and Sindh were refugees, however many cities in Khyber Pakhtoonkhwa and Sindh witnessed an emigration as many Hindus and Sikhs left for India.

The new wave of industrialization and introduction of technology in the green revolution of the 1960s in Pakistan left a significant population related to the rural sector devoid of employment. The investment in labor saving technology by farmers such as tractors and threshers left lots of people out of work. This sudden decline of employment opportunities spurred a rural to urban migration.

The third wave of immigrants came when Pakistan was divided into Bangladesh and present day Pakistan and after that during the 1980s when the Cold War (1978-1989) was fought on Afghan land and on Pakistan's frontiers. Till this day Pakistan hosts 1.5 million registered Afghan refugees and approximately 1.3 million unregistered refugees. More than half of these Afghan refugees have found home in the squatter settlements of Pakistan.

In the past 15 years more than 5 million people were displaced from within the country because of the armed conflict against the militants thereby exacerbating the squatting in urban areas. Due to a history of immigrant inflows, Pakistan is a country that has developed

considerable tolerance for the Katchi Abadi (squatter settlements). Whenever a right wing government tries to force evict these squatter settlements, the left wing forces and political parties in the opposition create a lot of discontent and uproar in the country.

Another contributing factor of squatter like settlements within the Pakistani cities were the villages that became part of the city as the city expanded horizontally. These squatter like settlements have been termed as Ruralopolis by Qadeer (1996).

The squatter settlements in Pakistan are called Katchi Abadis. The word Katchi literally means unfired and is driven from the word Katchi Mitti which is earthenware. Since the utensils made from unfired clay were temporary, similarly the Katchi Abadis were mostly made of earth and temporary roofing materials. These housing units were seen as temporary within the concrete urban fabric. The other commonly used term is Jhuggi, which means huts. During the 1998 census survey of Pakistan the housing units were categorized as Pucca Houses (made of Bricks and mortar) and Katcha houses (constructed with clay). The urban poor squat on vacant land and then the settlement starts to develop from there.

The Katchi Abadis sprout up in the urban areas because the government's inability to provide urban housing for the poor. The land prices within the cities are too high for the

poor to afford them. Moreover, the procedures for acquiring land to make houses by the poor are lengthy and cumbersome. The urban poor usually need immediate housing; however, like in many countries even if a poor person gets land through formal process by raising the required funds, it takes the developing agencies years (sometimes 10 years) before the plot is registered in his name for construction. And even once the plot is registered the credit required for house construction is not an easily accessible. Detail of the Housing finance system of Pakistan is explained in chapter III.

The Housing Policy 2001 of Pakistan incorporates a Katchi Abadi section that specifies that all the Katchi Abadis existing before 1985 and comprising of at least 40 dwellings or more be entitled property rights. The Katchi Abadis that need to be relocated will be shifted to other areas after devising resettlement frameworks by the concerned land owning authorities. The regularized Katchi Abadis have the right of entitlement and the basic amenities like, water, sanitation, electricity and gas. It also means that the inhabitants of these settlements will invest on their houses and also on the living quality.

The Katchi Abadi Acts (Sindh Katch Abadi Act 1987, Punjab Katchi Abadi Act 1992) have regularized the Katchi Abadis formed before the 1985, however those formed after 1985 fear displacement. The passing of these acts was the result of long struggle between the

policy makers and the inhabitants of these Katchi Abadi's, left wing forces and bureaucrats that thought housing is a basic human necessity. This was also a result of the failed policy of seeing the squatter settlements as temporary and many events of uprooting these Katchi Abadi's was met with strong resistance and the settlers went off to occupy other vacant lands. A further Elaboration of these Acts is provided in section 1-3 of this chapter.

According to Hasan (1992) the formal sector provided less than 10 % of the houses needed annually thus created a housing backlog of 9 million units that has been increasing incrementally.

1-2 Characteristics of the squatter settlers in Pakistan

Most of the general characteristics of squatter settlements also apply to Pakistan. The squatter settlers migrate to the city for improving their livelihoods by escaping the unemployment or seasonal employment of the rural areas. The squatters usually squat on unguarded public lands, close to railroads tracks, river banks, greenbelts and garbage dumps. Unlike the slums the squatter settlements are mostly illegal. Another difference is that the squatter settlements are deficient of basic amenities such as water, sanitation and electricity. The squatter inhabitants find work in low level jobs in the government and nongovernmental organizations as petty clerks, office boys, laborers and household workers in rich people's homes and their children go to schools in urban areas. A common

practice in many countries is providing land entitlement to the squatter settlers in urban peripheries. But since the squatter settlers are kept out of the house financing schemes it is difficult for them to build their houses on the allotted land. Subsequently, the squatter poor sell their allotted properties due to the expensive transportation costs involved in commuting from home to the employment areas. Moreover, the allotted areas have scarcity of proper services such as schools and hospitals.

In Pakistan the cleaning of other people's houses and low level jobs are considered socially inappropriate for Muslims. Historically these jobs as street sweepers and cleaners in other people's houses were associated with low caste Hindus. With the arrival of the British many low caste Hindus converted to Christianity with a hope of upgrading their social status. However, after parting from the Hindu cast system it did not upgrade the social status of these people and they still had to retort to the low level service sector jobs such as sanitary workers and cleaners. After the Partition of the subcontinent, there was a scarcity of people that could clean the streets and care for the sanitation of the city. So this segment of the poor filled up this sector of the service.

In the case of Islamabad, when the city's foundation stone was being laid, the new capital city required laborers and construction workers. To compensate the labor demand,

construction workers, skilled and unskilled migrants started pouring in to the city and started living in the then Katchi Abadis in Islamabad. At that time the city authorities viewed these Katchi Abadis as temporary structures. However, when the city developed it had no provision of housing for these urban poor and the Katchi Abadis became a permanent phenomenon.

Squatter settlement communities such as the Afghan squatter settlers in the Katchi Abadis of Pakistan are known to squat on urban areas that have closer proximity to green pastoral grounds and open places as it helps them retain their original lifestyle and aids in keeping animals; a way of making a living by selling milk and chicken eggs to the urban residents.

The strong interlinkage of formal and informal sectors in the cities of Pakistan is similar to that of many developing countries. In Pakistan, all the formal businesses lying within the formal sector employ informal sector facilities. A large proportion of the informal sector jobs lie in the construction, manufacturing, agricultural and transport sector. The formal sectors such as education and health too employ skilled and unskilled services from the informal sector.

The reasons for the squatter settlement formations have been widely expressed as the consequence of mass migration to the cities through the “Push” and “Pull” factors such as

the mechanization of the agricultural sector leading to reduction in employment opportunities and the better employment opportunities in the urban areas attracting them. Another reason that has been widely misunderstood for this rapid migration is the expansion of trade liberalization and the formation of Foreign Direct Investments (FDI) in developing countries which led to upward adjustment of wages of unskilled labor in developing countries.

The squatter settlements of Pakistan have changed in nature over time. In the early phases of the squatter settlements the squatters were constructed of mud and thatch as most of the squatter settlers belonged to rural areas and were only familiar with basic traditional construction techniques with them. With the modernization of the construction sector, these days the squatter settlers use concrete blocks and prefabricated roof materials to build their squatters.

1-3 The First phase of the Squatter Settlements in Pakistani Cities.

Initially the squatter settlements were un-organized invasions of public or private land. This method of squatting in the Pakistani cities started almost 40 years and the evidences are in the form of initial squatter settlements of Islamabad, when the city was still in a nascent period. As a general rule most of these squatters were at the outskirts of the then

cities which were of smaller in size. As the cities grew many of these squatters became part of the city and their locational prices increased, consequently these squatters were bulldozed and the residents relocated to other areas. Now many of these locations host other commercial activities. The bulldozing of the squatters from public land was seen as an act to protect state land and the governments and the International agencies considered the squatters as a threat to the supply side housing initiatives of the state.

1-4 The Second phase of the Squatter Settlements in Pakistani Cities.

The second shift of informal settlements was through organized invasion of public and private land. In this way a middleman, generally a leader would select a location for squatting, mostly on the banks of a passing stream and having an access road. The land to be occupied was divided into lots before occupying so that all the squatting team knew where to erect their walls. Upon nightfall the squatting team on the leader's approval would start building their squatters and by morning they would have built their walls, the rest of the roof would come in the next few days. The leader connived with the local authorities through bribes until the squatter settlement was completed. The planned invasion of land led to better squatter layouts and circulation.

As pointed out by Hasan and Mohib (2003), another form of informal settlements in Pakistan similar to those in other developing countries are the 'Informal Subdivision of Agricultural Land (ISAL). The formal land prices within the urban areas have steeply risen in the past few decades leaving the poor with no option but to buy land on the urban peripheries. The new shift of ISAL is also through a middle man in which he negotiates the settlement plan and the price with the land owner. Subsequently the agriculture field is subdivided into several land lots and then the poor start constructing their squatters. Most of the ISAL's are developed along the road sides. The farther away the land lot from the road the lesser the price. Since, there is not enough of government help financially for the poor to build the houses, the plots of ISAL's are paid back to the farmer in installments in 4 to 5 years.

1-5 The Reallocation Schemes

The government provided reallocation schemes to the squatter settlers have been in distant locations (usually 20 to 30 kilometers) from the urban areas and without the proper infrastructure. The residents in these reallocation schemes have employed the same informal incremental techniques of house building. Although these are formal settlements

but due to lack of social and physical infrastructure give an impression of informal settlements.

The movement for regularizing the Katchi Abadis in Pakistan gained strength during the 1980s and the Sindh Katchi Abadi Act (SKAA) was passed in 1987, a few years later in 1992, the Punjab Katchi Abadi Act was passed in Punjab, which stipulated that all Katchi Abadis that existed before 25 March 1985 be given a regularization status.

The regularization is a commendable action that bears the states intention of providing housing while at the same time the states inability to provide public housing for the low income segment of the society.

The regularization Acts for Katchi Abadis were enacted at a time when the Afghan Cold War (1978-1989) was about to end and so was General Zia's military dictatorship. The International agencies and donors were interested in development program in Pakistan, UNCHR was monitoring the influx of the Afghan refugees into Pakistan. In the backdrop of all these happenings, the provincial governments following the federal government's initiation of providing land lots to the homeless, the provincial governments enacted the Katchi Abadi Acts. The year of 1985 as the ending year of squatter settlement regularization is an act to discourage future formations of squatter settlements.

2 Socio-economic Conditions of the Slum Dwellers of Karachi

Karachi city consists of two types of squatter settlements, organized and non-organized spaces. Non-organized space is also known as non-permanent settlements. Arif Hasan (1992) distinguishes these non-permanent settlements into two categories.

1) Settlements built through unorganized encroachment on lands owned by the state: These encroachments occurred at the time of separation and most of them were erased and dislocated in the 1960's. The ones that survived the 60's have been regularized.

2) Informal Subdivisions of State Land (ISD): These ISDs can be split into two:

i) Notified Katchi Abadis: These reserved settlements are to be regularized. In other words, for 99 years, people inhabiting those will not be dislocated to another location.

ii) Non-notified: These are settlements will not be regularized. Because these lands are economically beneficial to the state; in other words, private sector wants to buy it or these areas are unsuitable for living as they are situated in ecologically hazardous sites.

In addition to the two types of squatter settlements Arif Hasan and Mohib (2003), points to two more kinds of Katchi Abadis, which can be categorized as slums. The 1st kind may be referred to localities belonging to the working class residential areas originating from

pre-independence times. These inner cities traditional due to over densification have become detrimental for living as the infrastructure has been collapsing for decades. The 2nd kind are goths or old villages, which due to the urban sprawl were engulfed into the urban areas. The villages situated near the down town area have already undergone some kind of a development scheme and have developed in to high density working class habitats.

As explained earlier the origin of the Katchi Abadis in Karachi was caused by the refugee migration in 1947. The squatter settlements resulted from unorganized encroachments of state owned lands inside Karachi and in areas close by the city at that time.

During the 1958-68, Katchi Abadis were relocated to the west of Karachi, then the peripheries of the city, however later on these Katchi Abadis such as Baldia and Orangi (names of Katchi Abadis) have grown to populations exceeding one million each. Currently the creation and expansion of the Katchi Abadis is occurring exclusively to the west and north of this city due the factors explained below.

- i) Due to the availability of government land and road infrastructure;
- ii) Due to the better connectivity of these areas to other employment generating localities;

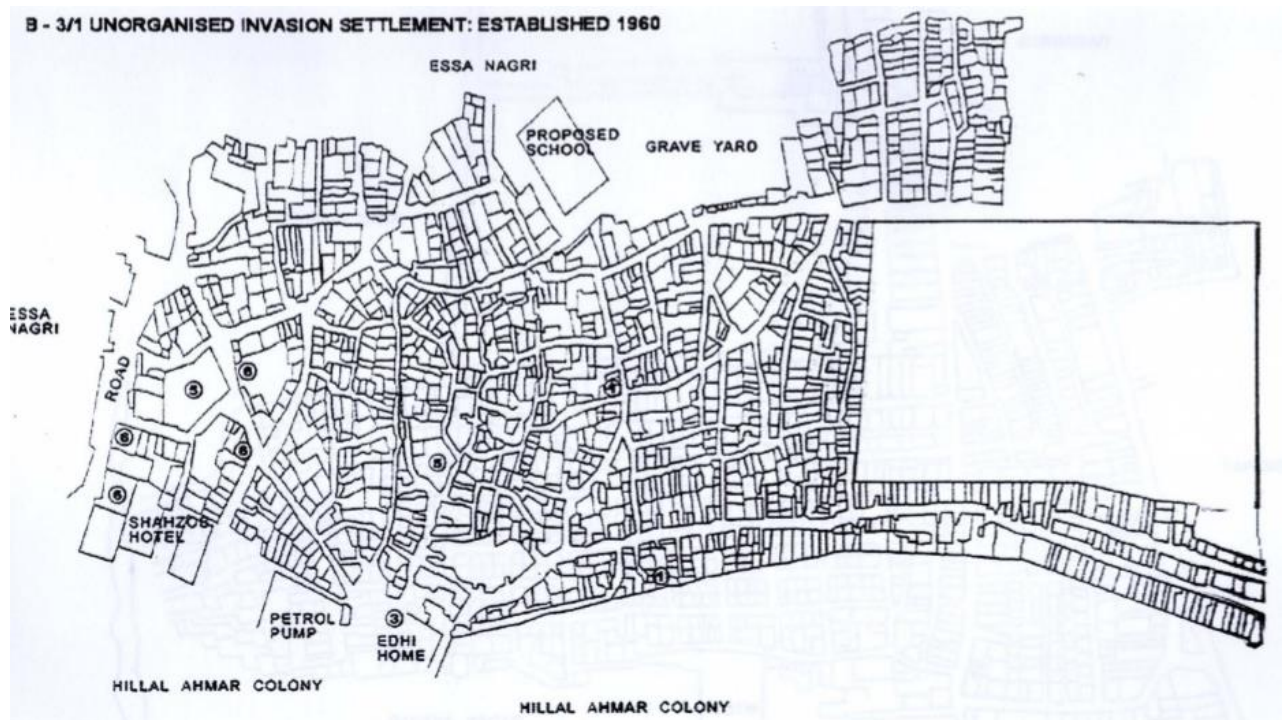
- iii) Closer proximity with larger Katchi Abadis which are hubs of informal industrial activity and containing larger populations thus creating employment opportunities related to manufacturing and services.
- iv) Other localities are privately controlled or owned by cantonments.

2-1 Squatter Settlement trends in Karachi

Unorganized encroachments were situated in and on the periphery of Karachi of the 1940's and early 1950's. These unorganized Katchi Abadis are organic in plan with narrow winding streets, unavailability of open spaces and irregular plots (see Fig 2-1 below). Currently these unorganized Katchi Abadis have access to water and electricity, however, the sewage and wastewater infrastructure is in an appalling state. Privately run educational and health facilities offer services in these localities, people have invested in concrete roofs and spent private money for the provision of water and sewage at the neighborhood level. Meanwhile, government invested in open drains, water lines and access road paving through the Katchi Abadis Improvement and Regularization Programme (KAIRP). According to a survey of 100 Katchi Abadis, residents invested nearly 1.5 million US\$ in

water and sanitation; whereas, government's investment share amounts to 3million US\$ (Arif and Mohib 2003) ¹.

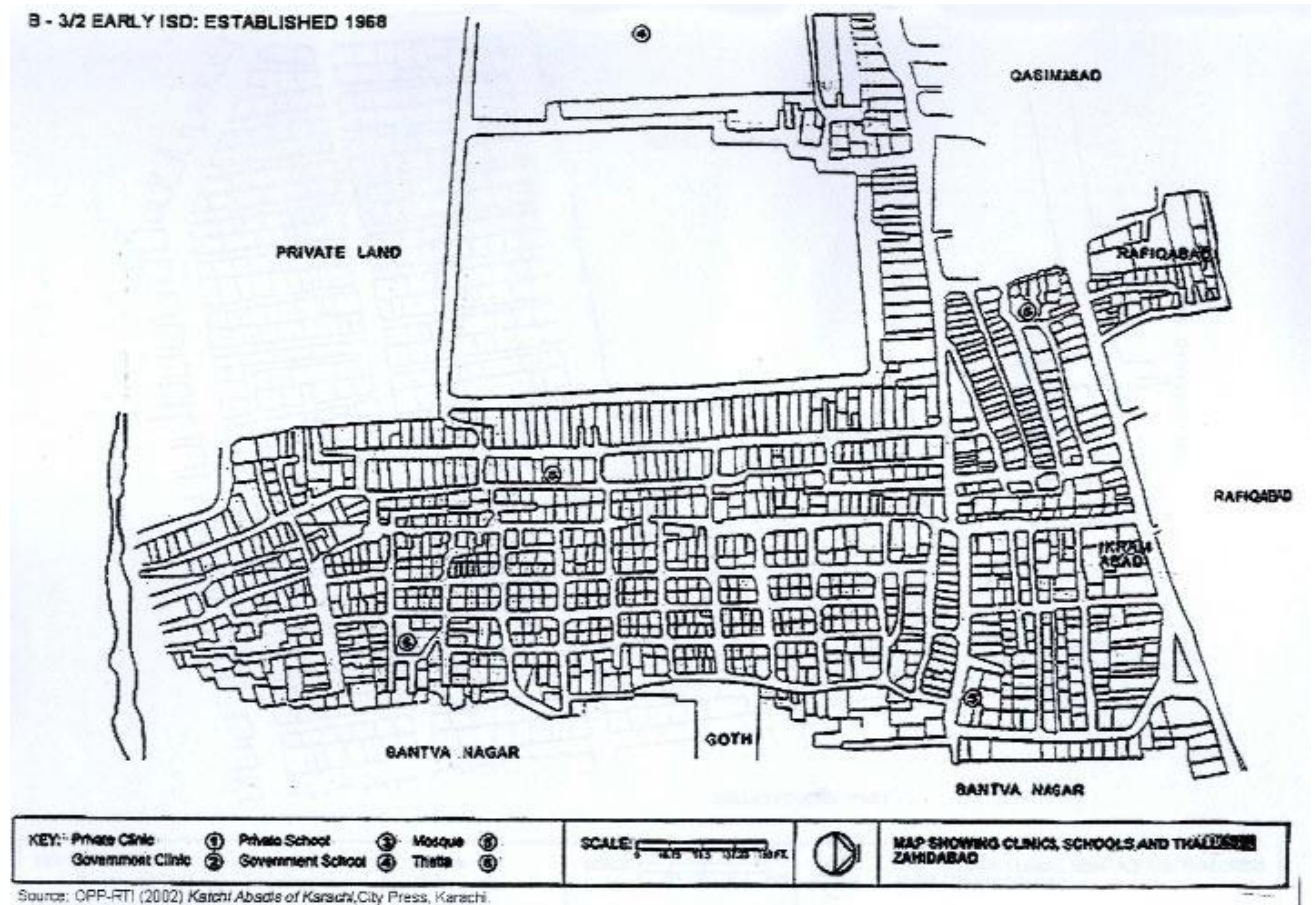
Figure 2-1 Unorganized Invasion Settlement; Established in 1960



Source: OPP-RTI (2002), Katchi Abadis of Karachi, City Press, Karachi

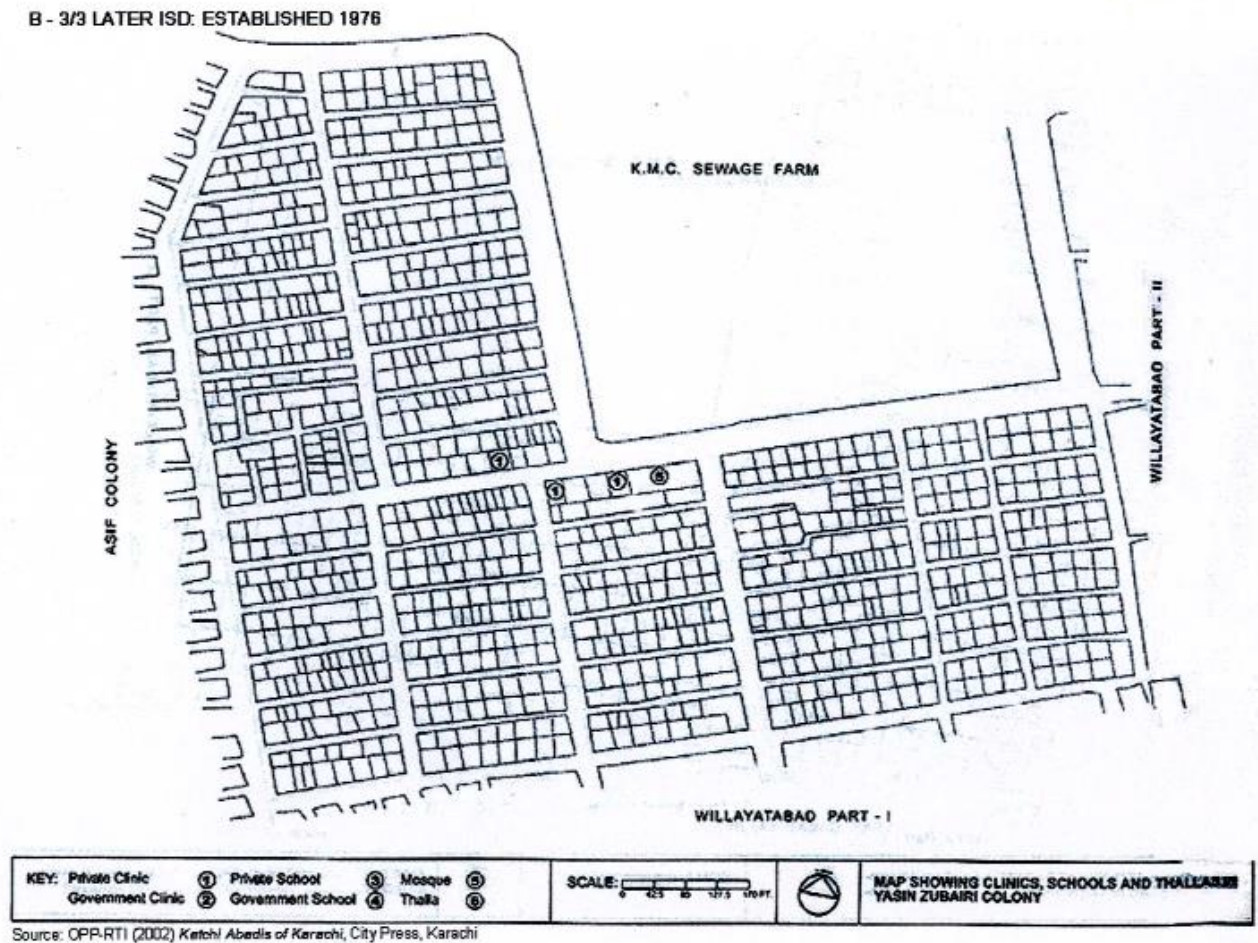
¹ "The Case of Karachi, Pakistan" (2003) by Arif Hasan, Masooma Mohib

Figure 2-2 Early Informal Subdivision of State Land, Established in 1968



Source: OPP-RTI (2002), *Katchi Abadis of Karachi*, City Press, Karachi

Figure 2-3 Later Informal Subdivision of State Land, Established in 1976



Source: OPP-RTI (2002), Katchi Abadis of Karachi, City Press, Karachi

Above three figures depict the progression of the layout of squatter settlements. The fig. 2-1 is of a plan of a squatter settlement resulting from an unorganized invasion of land in 1960. Fig. 2-12 is a layout plan of a squatter settlement resulting from an informal subdivision of state land developed in 1968 and fig. 2-3 is from a squatter settlement of informal subdivision of state land in 1976. It can be noted that within a span of two decades

the squatter settlements layouts plans were improved owing to the invasion strategy from an unorganized invasion to an organized invasion of state land.

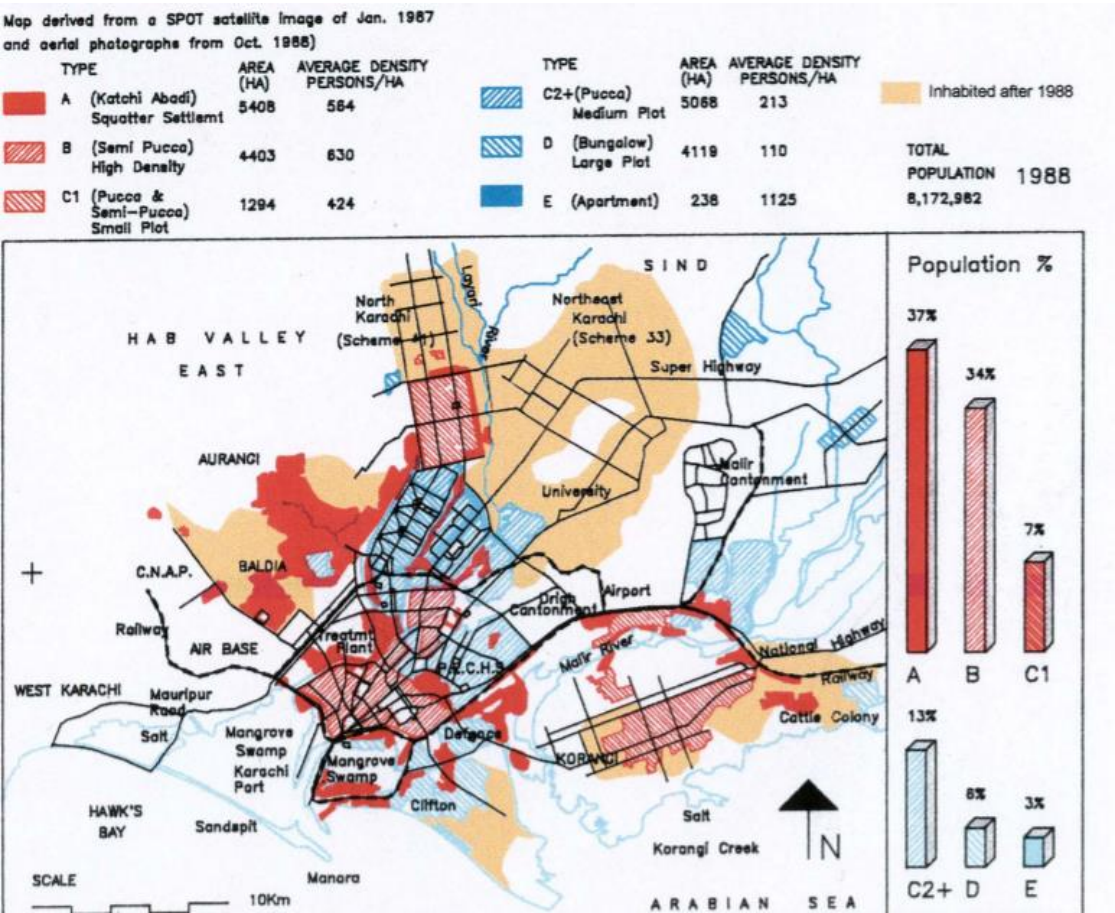
There are only two definitions concerned with under-serviced or un-serviced settlements that are officially recognized. These are Katchi Abadis and slums as explained above.

However, the unofficial definition relates to the beliefs of the rich class of Karachi which refers to slums as housing of temporary nature and of an extremely poor quality. The rich class of Karachi associates the deprivation of essential necessities to the poor, such as access to water, sewerage and electricity as a consequence of the poor's inability to pay for these services. Unlike the rich, the middle class citizens are better connected to squatter settlers and are aware of the poor class's housing challenges and try to help solve their problems.

Formerly, unorganized invasions were allowed with good intentions to provide temporary refuge to the incoming migrants as a result of the subcontinents partition. Refugees were allowed to squat on state lands; moreover, they were assisted with water, mats and bamboo to construct a shelter for themselves. This phenomenon is hard to call an invasion, since the refugees were supported by government and people. However, a decade later, military government decided to destroy the Katchi Abadis within the city and relocate residents to

two townships that were far away from the center of the city, thereby making it hard for the Katchi Abadis dwellers to commute to their working places.

Figure 2-4 The Use of Satellite Images for Urban Planning, Case Study-Karachi



Source: Bertaud, Marie-Agnes (1989) The Use of Satellite Images for Urban Planning, Case Study-Karachi, The World Bank, Washington

According to Arif Hasan (1999), an annual production of 80,000 housing units is needed to meet the housing demand of Karachi. However, only 27,000 construction permits are issued. He estimates that approximately 28,000 units are developed in the Katchi Abadis

annually, thereby adding the rest of the housing demand to the already existing Katchi Abadis.

2-2 Katchi Abadis Improvement Projects

The 1st major squatter development and poverty reduction investments were proposed in the 7th Five Year Plan (1988-1993) of the country. Program's agenda included social and physical infrastructure development. During the late 1990s, Katchi Abadis Improvement and Regularization Programme (KAIRP) became popular as the most effective program for squatter improvement. Its ultimate aim was to regularize and improve the Katchi Abadis in the provinces of Sindh and Punjab. Initially it was financed and managed by local councils and later by International donors such as World Bank and Asian Development Bank also provided loans for this project. Provincial government grants have also been granted since 1980s to 2001 to members of the National Assembly (MNA) and members of the Provincial Assembly (MPA) to spend for infrastructure improvement in their districts. Social Action Programme (SAP) started in 1993 with a large budget to support NGOs for development of basic facilities such as provision of clean water and health facility to the poor neighborhoods.

In the late 1990's, the Government of Pakistan proposed three valuable poverty reduction programs.

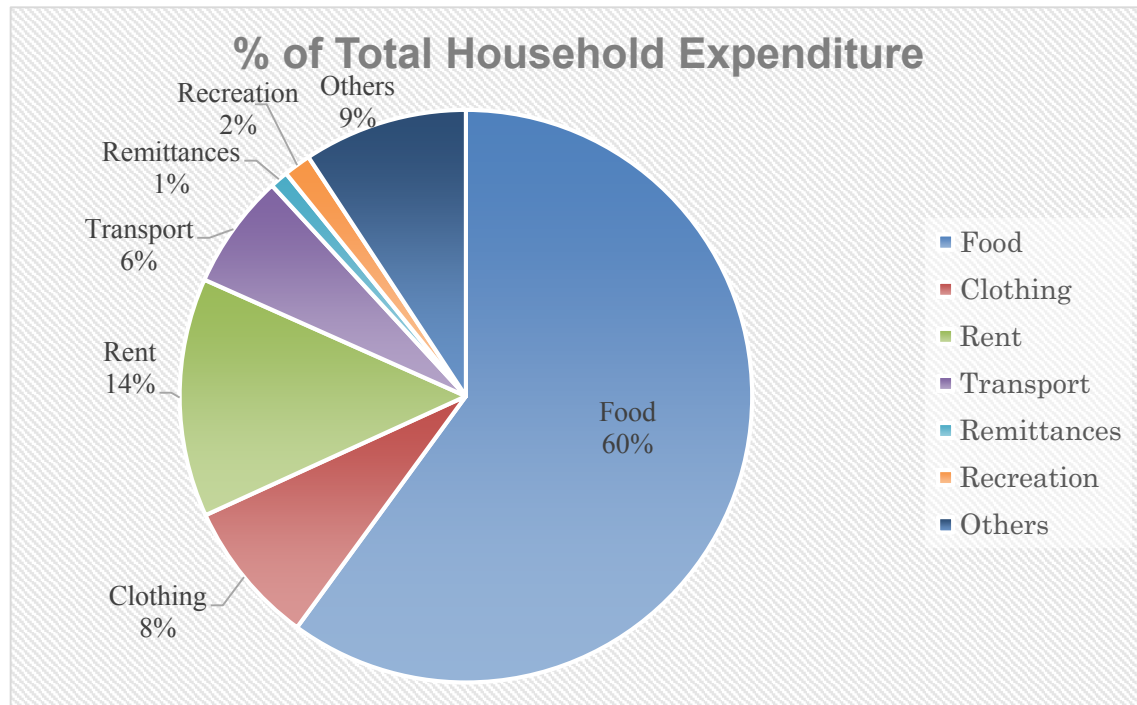
- i) Pakistan Poverty Alleviation Fund which provides grants, loans and revolving funds to the NGOs for improvement of social and physical infrastructure and micro credit.
- ii) Khushal Pakistan Fund which provides grants to local governmental institutions.
- iii) Khushali Bank (a retailer) provides grants, endowments, loans for micro credit and revolving funds to NGOs, CBOs and private individuals.

Orangi Pilot Project in Karachi is the most successful NGO led squatter upgradation project. Through this project 93000 houses in Orangi were serviced with an underground sewage system partly through self-help basis at the neighborhood level in city of Karachi. Success of the squatter settlement upgradation projects are based on good quality research, sound funding and good principles of governance such as transparency, accountability and participation. Reasons of unsuccessful projects can be attributed to inconsistency between theory and practice leading to incorrect and wasteful solutions and corruption.

2-3 Costs of Living in Slums

Payment for energy services like water, electricity and gas depend on the amount a household consumers. Households living in the planned areas spend considerably less money for the basic amenities such as energy supply and water than those living in unplanned areas inhabited by low-income classes. The planned areas are connected to water and gas through pipes whereas the unplanned areas resort to water tankers and gas cylinders which cost more than the water and gas supplied through state provided infrastructure. Average rent of a two room house in a squatter settlement costs between Rs. 2,500 to Rs. 3,000 per month (1 Rs. = to 1 Yen approx.). Usually, a household that consists of 7 to 8 individuals spends around Rs. 20,000 to Rs. 25,000 to keep their monthly household. Among all expenditures, the greatest proportion of household expenditures is spent on food.

Graph 2-1 Household Expenditure Composition



Source: Authors compilations based on data from Hasan and Mohib: The case of Karachi, Pakistan. In: UN-Habitat. *Global Report on Human Settlements 2003* page 23

3 Katchi Abadi's of Islamabad and Lahore

The capital city of Islamabad is the 10th largest city of Pakistan having a population of 0.8 million people. According to Akhtar Hameed Resource Center (www.ahkrc.org) about 30 % of the population lives in the Katchi Abadis. At the time of capital city's development phase the labor force for construction projects came from other towns, cities and rural areas of Pakistan. To provide the labor with housing, two labor camps at Muslim Colony and G-8/3 were set up for the laborers to put temporary shelter structures made of mud or tents.

In 1976, work on the construction of the Pakistan Institute of Medical Sciences (PIMS) was initiated in the sector G-8/3 of Islamabad and the labor camp at that site faced forced evictions. The residents of this site resisted fiercely and after long negotiations the Capital Development Authority (CDA) came up with relocation plan for the residents. This eviction started the process of establishing the 1st phase of squatter settlements in urban planned sectors of Islamabad (a sector is the basic unit of urban planning of Islamabad and is 4 square mile in area). The evicted labor camp of G-8/3 was relocated on unusable land and mostly along natural drains in the urban planned sectors of F-6, F-7, G-7/1, G-7/2 and G-8/1. These new quarters turned into squatter settlements when more people started pouring into the city and occupying these sites. In 1974, the CDA started land acquisition process in the sectors of I-11, but the settlers started filling cases against the CDA and eventually CDA had to abandon acquiring these sectors. In the meantime, lots of afghan refugees started pouring in a squatter settlement close to the fruit and vegetable market in the above mentioned sectors. A land that was owned by the railway carriage factory. In 1980 to 1981, CDA started a low cost housing development in Ali Pur Farash. The purpose of this housing development was the relocation of the squatter settlers to this new site.

A total of 34 Katchi Abadis are existent on Islamabad out of which 11 Katchi Abadis have been recognized by CDA as legitimate for regularization. The growth of these Katchi

Abadis is still on the rise as 2 of the evicted Katchi Abadis of Shezad Town evicted in 2009 and Afghan Basti evicted in 2015, the evictees occupied land in H-11 and started squatting on the green belt.

The CDA's response towards these Katchi Abadis has been to bulldoze these developments till as recent as 1995 without providing the settlers with an alternative land to reside on.

The initial master plan of Islamabad did not cater for the poor residents. Therefore, CDA set up three sites known as 48-quarters, 66-quarters and 100 quarters to provide residents to its low income staff mostly working as sanitary workers.

As late as 1980's the CDA did not acknowledge the government of Pakistan's directions of regularizing the Katchi Abadis. In 1990, CDA for the development for the construction of low-cost housing allotted 190 plots around the existing Katchi Abadi of F-6/2. For the 1st time in 1995, with the support of UNDP a socio economic survey was undertaken in 11 Katchi Abadis. As a result of this survey, the Hansa colony in G-8/1 was upgraded. Small plots were allotted to the Katchi Abadi dwellers on the subsidized rates.

Moreover, the CDA started construction of small houses for its lowly paid staff. By the end of December 1995, CDA was forced to recognize the Katchi Abadis in June 1998, under the directives of the Federal Government, CDA took the steps of demolishing the Katchi

Abadis encroaching the right of ways of roads and these were relocated moreover, the Katchi Abadis existing on unusable land were to be upgraded

3-1 Capital Development Authority's Response to Katchi Abadis

Up till 1980, CDA has tried to evict the Katchi Abadis by demolishing them. Until 1985 resettling the squatter residents in residential sectors by allotting small plots to the Katchi Abadis dwellers. The early 1990s marked the removal of squatter settlements by reallocating the dwellers to new areas some as far as 20 to 30 km away from the city center.

Formation of the cooperative societies to rehabilitate the dwellers by allotting 190 plots around Katchi Abadis of F-6/2. A project that was never realized due to the violations of the society. Upgrading the existing Katchi Abadis with the support of UNDP by improving the shelter, sewerage roads and water supply.

3-2 Capital's Katchi Abadis Relocation Plans

In order to prevent the spread of the squatter settlements in Islamabad city, the CDA invited a renowned name in the low-cost sector, a name much revered in the low-cost housing projects of Pakistan and the inventor of Khuda ki-Basti to chair a National Committee on Kachi Abadis and Slum Upgradation organized by the ministry of environment and local government. His name is Tasneem Siddiqui and this thesis quotes him at many instances.

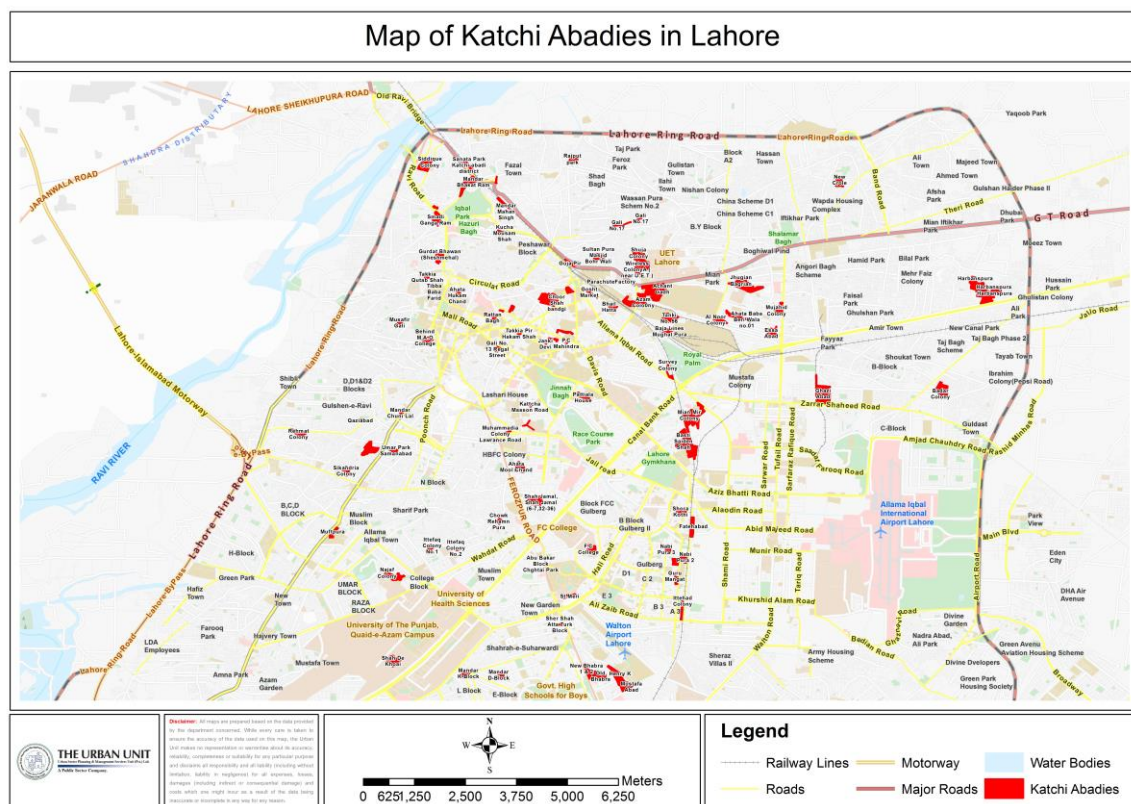
As a consequence of the meeting in the committee, it was decided that CDA would develop a Model Urban Shelter Project (MUSP) to relocate the dwellers of the Katchi Abadi by the end of April 2001, the existing site of Ali Pur Farash was chosen to relocate the residents. The residents of Muslim colony having 993 households of resisted to be relocated. They demanded permanent regularization of the Muslim colony by opposing relocation, allotment of free plots, bigger plot sizes, health and educational facilities, reduction in payments and infrastructure facilities before moving to Ali Pur Farash. Since CDA was unable to meet their demands many plot owners in Ali Pur Farash sold their plots and squatted back to Muslim colony.

3-3 Katchi Abadis of Lahore

The Lahore Development Authority lists a total of 308 Katchi Abadis situated in Lahore out of which 117 Katchi Abadis have been excluded from the regularization of the Katchi Abadi program. Till present 76 Katchi Abadis out the remaining 191 Katchi Abadis have regularized and 115 Katchi Abadis are still pending. Majority of the Katchi Abadis of Lahore have squatted on lands belonging to Pakistan Railways, Defense, Lahore Development Authority (LDA) and Provincial Government.

According to the authors estimation the population living in the 308 squatter settlements amounts to approximately 0.35 million people based on an average of 200 squatters per settlement and having an average household size of 6 people (National Census 1998).

Figure 2-5 Map of Katchi Abadis in Lahore



Source: The Urban Unit, Lahore

4 Black and Grey Land Markets:

In the following section, case studies related to the squatter developments, the author will introduce a term of “Grey Land Markets”, which is different than the illegal land markets and legal land markets. A further explanation is given below.

4-1 Grey Land market

‘Grey land market’ is a new phenomenon in Islamabad which occurs when the government plans to acquire lands from the land owners (mostly private entities) by means of orders and proceeds to freeze the private land transactions and private development activities in that area. The government offers financial compensation to the original land owners but the offered price is lower than the market level. The owners invent mechanisms to sell their lands or lease them to private parties defying the state orders. The original ownership is legal and the area is not a squatter area, but the transactions after the order are illegal. Due to this legal-illegal mixed nature, the author proposes to call this as ‘Grey Land Market’. An important issue is lack of public intervention or slum upgrading projects there due to this grey nature of the site.

The poor people pay better prices for the Grey Land in comparison to the state agencies, so the owners are tempted to sell their lands to the poor people. An example of a Grey Land is the area of Mehrabadia in Islamabad (Mehrabadia details are in the section 5-6 of this

Chapter). Mehrabadia is close to an employment center (market for day laborer such as construction workers and drivers), an ideal place for the poor to build their houses due to the locational advantage. A large quantity of the squatters are built by the land owners for sale and for rent in the housing markets this grey land zone. In a matter of weeks the density of the squatters and its population is large enough to confront the state power against eviction of a squatter settlement. This kind of land market for housing carries immense transactional wealth worth studying; estimation of the size of such wealth is a subject of our future research.

A well-known cause of squatter settlement formation is the forced evictions taking place as a result of compulsory purchase order by the state. Due to a dearth of housing developments responsible for the poor segment of the society, the poor are forced to squat on other part of the city. As mentioned earlier in the literature review section, after the US Housing Act of 1949 gave the local governments the right of compulsory purchase, the local governments evicted many slum dwellers and sold that land to private developers in the USA. Consequently, this eviction led to an increase in the squatter settlement formation as the new housing units for the low income segment were much less than required (Macionis and Parrillo, 1998). The formation of squatter settlements because of forced eviction is in contrast to the grey land markets as in the latter case the squatter

settlements start growing on the very land that is under compulsory land acquisition order by the state. Furthermore, another difference of the squatter formation on Grey Lands than the commonly known squatter formations as identified by Van der Linden (2013) and Hasan and Mohib (2003) are squatter formations either through illegal occupation of unorganized or organized invasions on public lands or the Informal subdivision of Agricultural Lands (ISAL) at the peripheries of urban areas. However, these researchers do not identify the squatter settlement formations on private lands that the state has ceased land transactions through a state order. The Grey Land markets are different than the regular ISAL informal subdivisions of the agricultural land as in that case there is no compulsory purchase of land by the state.

In contrast to the US case as explained above where the evictees' squat on other parts of the same urban areas, in the grey land zones the land owners started selling land to the poor people thereby developing a city of squatters.

Due to the legal ownership of their ancestral land, any land transactions by the customary owners for development or for the formation of squatters does not fall into illegal land transactions. Furthermore, the land owners and the new squatter residents that have negotiated their transactions on deed papers are exempted from legal actions. Another

impediment for the state to execute forced evictions is illegal by law and in case the state authorities must acquire these Grey Lands, the land owners and the squatter owners will be compensated for the land and also for the built structure (squatter) on these grey lands.

The objective of highlighting this issue is to identify the precarious living conditions of the poor as no public action is being taken because of the grey nature of this land market. This process has led to a state of vacuum and the states authorities' negligence has left almost 200,000 people without proper municipal services in the grey lands of Mehrabadia in Islamabad. This implies a major flaw in the state land and urban development institutions.

The forthcoming section will elaborate on it.

4-2 Black land market: When somebody occupies a land that does not belong to him or her, any kind of the transaction involving that land lies under the black land market. These land transactions generally exclude the rightful owner from the land transactions and can consequentially face legal actions.

5 How The Poor Shelter Themselves?

The case studies in the following sections are based on interviews and case studies conducted by the author between January 6th and January 24th. The interviews give a reflection of the socio-economic condition of the poor, the process through which the poor provide shelter for themselves and the impediments they face for it. The interviews in this

section ranged from residents of the squatter settlements belonging to the formal and informal trades, squatter settlement owners, land grabbers and government employees belonging to development authorities.

A description of the interviewees is provided in the table below. The names have been changed due to privacy purposes.

Table 2-1 Interviewee description and their role in the squatter settlements of Grey Land Markets

| Persons Role | Given Name | Occupation | Gender | Age (years) | Religion | Castes |
|-------------------------------|-------------------|------------------------------|---------------|------------------------|-----------------|------------------------|
| Squatter tenant on Grey Land | Nikko | House Maid | Women | 16 | Muslim | Punjabi Changarhs |
| Squatter tenant on Grey Land | Nikko's Mother | House Maid | Woman | 45 | Muslim | Punjabi Changarhs |
| Squatter Owner in Grey Land | Mrs. Phirkee | Government Peon | Woman | 30 | Muslim | Punjabi Farmers |
| Land Owner of Grey Land | Mr. Sayasi | Squatter developer | Male | 60 | Muslim | Punjabi Farmers |
| Squatters developer | Mr. Hawalदार | Retd. Army Sepoy | Male | 48 | Muslim | Punjabi Farmers |
| Squatter Tennant on Grey Land | Mr. Sarkari | Grade-II Government employee | Male | 38 | Christian | Punjabi, service class |

| | | | | | | |
|--|-------------|--------------------------------|-------|----|-----------|------------------------|
| Squatter owner on Government occupied Land (Black Land) | Mrs. Changi | Government Employee | Woman | 42 | Christian | Punjabi, service class |
| Squatter house constructor | Mrs. Mai | House Maid | Woman | 55 | Muslim | Landless Farmers |
| Site and Quantity Surveyor for Public Housing schemes | Mr. Afsar | CDA Employee | Male | 60 | Muslim | Punjabi Farmers |
| Land acquisition expert for private housing developments | Mr. Seth | Upper income housing developer | Male | 45 | Muslim | Punjabi Farmers |

Source: Author (2016), Note all names provided are given names to conceal the true identity of the people. “Service Class” here means people who traditionally were not land holders but used to earn a living by servicing others such as working in people’s homes, or would labor for exchange. Changarh are the nomadic tribes of Punjab and are not landed elite. Many more people were interviewed in group discussions that have not been mentioned in the forthcoming sections.

5-1 Self-financing a Squatter Construction: Case of Mrs. Mai

It’s been a year and a half since Mrs. Mai started financing the construction of a 3 Marla (81 sq.m) house in the agricultural fields of Mehra Sumbal. Mehra Sumbal is a village situated in the prime urban location of Islamabad and is under compulsory purchase order by the state. The customary land owners have not yet been compensated for their lands by the state, thereby making it a Grey Land. Mrs. Mai has been working as a domestic maid for the past 25 years in the upper and middle class homes of Islamabad. She has raised large sums of funds to marry two of her daughters in the past and has single handedly bore

the finances to educate all her children up to high school as her husband did not contribute in household finances.

Currently, Mrs. Mai along with her seven family members is residing in a two room government apartment that she shares with another family of five members making it 12 persons in a two room apartment. She pays Rs. 7,000 [1 Rs. (Rupee) is approx. equal to 1 Japanese yen] as rent for the one room while the other room is paid by another family, and both families share the toilet and a kitchen.

Mehra Sumbal is under compulsory purchase order by the Capital Development Authority (CDA) and all formal land transactions based on land registry system have been ceased by the state making room for the land transactions to fall in the Grey Land market zone. The original agriculturist owners have started land transactions based on stamp papers as they cannot sell it on land registers. Moreover, in case the CDA pays money to the farmers for their land the money is paid in return for the land register. In case of an existence of a built structure on the agricultural land the structure is valued and its price is paid in addition.

5-1-1 Acquiring the land and financing the house

Mrs. Mai had bought this 3 Marla land 2 years ago for a price of Rs. 1.5 lac (One lac is 100,000 Rupees). The land was bought on a contract stamp paper from the owner who has a registry of land. Since the government has ceased land transactions, Miss Mai bought the

land on court issued stamp paper. Stamp papers are used for deed contracts in Pakistan and this is a common practice for land transaction taking place in the Grey Land zones. The layout of the house consists of two bedrooms, one guest room, two toilets and a kitchen all arranged around a central court. Mrs. Mai has spent Rs. 700,000 for the construction costs up to the grey structure as shown in the figure 2-6. All the loans to finance the construction were borrowed from various people she works for as a house maid and the largest loan amount was Rs. 100,000. Other than borrowing from her employers Mrs. Mai has also borrowed from relatives. So far she has not been able to repay any of her debts but has vowed that her sons will repay her debts in case she fails to pay them back. Mrs. Mai was fortunate to acquire loans from the rich employees as she is well trusted, however, most of the poor people find it hard to borrow money without paying interests. The government has no scheme through which the poor people can borrow money from the financial institutions, making it harder for the poor to provide themselves with the accommodation. The next chapter is dedicated to the housing policies, the financial institutions and the Public finance of Pakistan to investigate the state's policies regarding low income housing provision.

Figure 2-6 House under construction on a three Marla (75sq.m.) land/plot bought on a stamp paper agreement deed



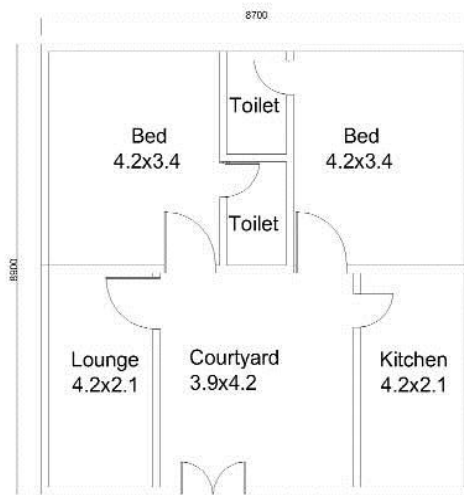
Photo taken by author on 16th January 2016

5-1-2 Building materials and process.

The house of Mrs. Mai is constructed of concrete blocks and a few concrete columns as shown in figure 2-8. The roof is made of pre cast concrete slab supported by concrete girders. The walls are waiting to be plastered, the doors and windows need to be fixed, the floors have to be plastered and kitchen and toilet fixtures need to be installed before Mrs. Mai's family can move into their house. Mrs. Mai has exhausted all her finances and borrowings on the house till now. These days she and her family is putting up anything they save onto the house. The family finds it important to move into the house as quickly as possible so that they can save the rent amount they are already paying. Mrs. Mai's

youngest son on holidays goes to do labor work on the construction by himself to save the money.

Figure 2-7 Plan of Mrs. Mai's house



Source: Author

The layout of the house is composed of two rooms with attached toilets, a guest room with a separate entrance and a large kitchen around a small central courtyard (Figure 2-7). The courtyard in vernacular architecture is used as a multipurpose space and for allowing natural light into the house. The courtyards are an important element of traditional architecture as many functions take place in the courtyards. The plan is devised by the family itself in collaboration with masons and other relatives.

5-1-3 Construction expertise and design and process

The masons have been the ones who have given options for design, the building materials though not very costly are time consuming to construct and expensive. The building

industry has not been developed to suit the needs of the poor. The concrete blocks consume up a lot of space as wall area. The poor unfamiliar with the structural strengths of the materials cannot wisely use the space. Lack of construction experts (architects and engineers) accessible to the poor for their housing consultancy is a contributing factor in not utilizing the best of the meager resources the poor have.

Since the Grey Lands are not developed, houses such as those of Mrs. Mai lacks the basic amenities such as sewerage and sanitation facilities and no system for managed garbage disposal exists. On self-help basis, the resident neighbors of Mrs. Mai have pooled Rs. 2000 per household to lay sewerage pipes that is drained into open fields located on a lower topographical terrain. The streets are unpaved and the low hanging electric wires in the streets are life hazard. Due to the unavailability of the government provided gas supply, the residents burn wood or use gas cylinders for heating and cooking purposes.

Figure 2-8 Concrete Block Construction



Photo taken by author on 16th January 2016

5-2 Squatters on Rent: Case of Ms. Nikko the Maid

Nikko is a 16-year-old girl and works as a house maid employed by upper middle income households. 14 years ago Nikkos family moved to Islamabad city from a village in Sargodha district. While residing in the village, Nikko's ancestors and parents were landless farmers and used to work on other people's lands in exchange for grains from the harvest. The mechanization of the agricultural sector significantly reduced the labor worth of such landless farmers consequently reducing the wages in the agriculture sector.

Moreover, her father owned a Tonga (horse cart) to serve as a mode for transporting people.

When the horse died, the family decided to move to Islamabad in search of better work opportunities. These days the father sells fruit door to door on a bicycle and her elder brother and mother work as domestic servants.

Presently Nikko resides in a 2 Marla (544 Sqft.) rented house in a squatter settlement of Mehrabadi situated in the Grey Land zone of sector G-12, Islamabad. All the neighboring squatters are identical and built by a single squatter developer for renting purpose (Figure 2-10). The layout of the small squatter comprises of a one room, one toilet, a kitchen and a small central courtyard (Figure 2-9). The ladies of the house have built a clay oven in the courtyard and burn wood to cook their everyday meals. The existing kitchen is used as a storage space for kitchen utensils and food items. The ladies of the house complain that the kitchen is small and the exhaust system is inefficient causing them to suffocate with smoke in case they cook in the kitchen. Nikko shares the one room squatter settlement with her parents and two brothers. The water tap in the house is connected with the public water lines and is serviced once a day, therefore the family has to store water in buckets. The toilet has an underground pipe which is discharged into a stream close by. The electricity bills are a fixed amount that they pay to middle man who by bribing the officials provides many households in the Grey Lands of Mehrabadia with electricity. The family works all

day and gets together at home in the evening to watch T.V. Everyone in the family is employed and contributes between 30 to 35 thousand Rupees per month.

The family still possesses their ancestral home in Sargodha which is a two room katcha house made of thatch-clay walls and a wooden roof. Nikko's mother explains that her house in the village is similar in size than the one she is living in and moving to the city was a better decision as all the household members are employed in urban area.

During the 1970's, land/plots of Five Marlas⁴ (1361 Sqft.) were given free of cost to families who did not possess land for constructing homes during Bhutto's rule. Nikko's parents were one of the recipients of this free land scheme.

In two months' time Nikko is getting married to her cousin. The boy she is marrying is her paternal uncle's son and the marriage is an exchange of brides in which Nikko's elder brother will marry her husband's sister. Exchange marriages are very common among the low income groups and is traditionally accepted as mean of marrying their children in reliable families. Furthermore, it helps them to manage the finances for dowry.

A few years ago Nikko's mother got ill and was diagnosed with a tumor in the stomach. Instead of going to public hospital Nikko's mother chose to get operated from a private hospital for which she had to pay expensive fees. Many poor show mistrust in the public

hospitals as the doctors do not treat the patients with care and many public hospitals are not equipped with the proper facilities. The poor have to spend their hard earned savings for heavy medical fees at times when they become sick.

Figure 2-9 Plan of Nikko's House (53. Sq.m)



Photo taken by author on 15th January 2016

When the author/researcher tried to give Nikko and her mother some reward in Japanese yen as compensation for the information they provided, they refused by saying that if they went to the money changer or to the bank with foreign currency, the staff will consider them thieves and it might end them in trouble, so they requested the author for Pakistani currency bank notes.

Figure 2-10 Identical Squatters on both sides of a street built by the Squatter Developer for renting



Photo taken by author on 15th January 2016

5-3 Committees for Incremental Residential Construction: Case of Phirkee the Second Wife

Ms. Phirkee is a 63-year-old lady and lives with the families of her two sons in the same two storey 5 Marla house in the Grey Lands of Mehrabadia. She shares the house with 8 grandchildren, two sons of whom one is married to two wives and the other son has one wife. A total of 14 people share the same house which has 4 rooms. 8 years ago when Ms. Phirkee bought this land on a stamp paper while she was still working at a government college as a peon. At that time, she had a regular salary of Rs. 11,000 per month. This

land transaction was done in the grey land markets as the government had ceased any transactions.

Within eight years the family grew as one of her son married twice and now has children from two wives. The trend of having two wives in Pakistan has declined immensely, however still it's a practice observed rarely among the very rich or the very poor segments of the society.

For the increasing family members, Ms. Phirkee needed finances for an incremental extension of the house she lives in. To extend their house the ladies of the house opted for community pooling. In this system Ms. Phirkee and the wives of her sons pooled money with other women of the neighborhood. By this way pooled bulk money was given to one of the pooling members each month and it was repaid back in installments. This system is still common among many households in the low and middle income groups. Through this mechanism a collected amount of pooled money is available for meeting small financial needs. This system is an important replacement for the micro finance system.

It can be inferred that the poor to compensate the lack of interest of financial institutions for doing business with them have utilized an interesting method of community pooling of

money. Even in the case of community pooling it is the women that are considered more responsible and trustworthy among poor households.

Lack of scientific knowledge regarding intermarriages among the poor segments of the society has led to practice of inter marriages. The government has not tried to educate the poor about the consequences of intermarriages and the effects it has on the future generations. This is a problem that needs to be addressed if a healthy and intelligent generation of children is to be produced.

5-4 Squatting in 1982 and Squatting in 2012 (Squatter Settlements in Islamabad City; Esa Nagri, H-9 Green Belt and Mehrabadia)

The squatter settlement of Esa Nagri² is predominantly a Christian settlement and was established in 1982. The narrow but regular street pattern depicts an organized land invasion as seen in the satellite image in Figure 2-11. The streets of Esa Nagri are narrow (approx. 5 to 6 feet wide) only allowing a motorbike or two people to pass at a time. An average house in Esa Nagri is approximately two and half Marla (680 sq.ft.), constructed in brick and mostly a two storey structure.

Majority of the resident men work for the Capital Development Authority (CDA) and in other government offices as sweepers and cleaners. The women work as house maids for the middle and upper class people. Average household income is 30 to 40 thousand rupees

(approx. 45000 yen). Most of the residents are uneducated but 95 percent of their children go to school and the parents are concerned for their children's education.

Figure 2-11 Squatter Settlement of Esa Nagri



Source: Google Map

A few years ago an NGO, World Vision helped improve the sanitation conditions by creating latrines and by laying underground sewerage lines and paving the streets. The sanitation has helped the people fight disease, however since the squatter settlement is located at the edge of a dirty Nala Laee (stream that inundates in Monsoon season), the residents are prone to water borne disease such as dengue and hepatitis. Furthermore, the

residents throw garbage into the Naala creating further health hazard. There is improper disposal of waste leaves heaps of garbage at the banks of Nala Laee.

Figure 2-12 Interior courtyard in a 5 Marla squatter in Esa Nagri



Photo taken by author on 12th January 2016

The residents with the assistance of World Vision have laid water pipes in the streets and water is extracted illegally from city pipelines. The NGO has also financed a church in the vicinity of the squatter settlement. The residents hook wires to access electricity illegally. Furthermore, the residential density is two adults and two children per room.

As a compensation for self-evicting, CDA has offered reallocating a plot in Farash Town, however, no one has moved out of here due to the locational advantage of residing in the city center as Farash Town is situated 20 km. away from Islamabad city.

The weak institutions are a blessing for the squatter settlers, it's easy for generations of the squatter settlers to continue to grow in these cheap housing with basic amenities. By conniving with the government inspectors and by presenting bribes to electric meter checkers and municipal service provider the low income has found informal ways to sustain in the cities. The squatters are identified and squatted with the help of the municipal inspectors with bribes until the squatter grows and becomes difficult for the authorities to forcefully evict.

The settlers still require basic amenities and standard living conditions from the governments. Certain governments like the previous Peoples Party government and the military governments have flexible policies towards the squatter settlements; however, the residents complain that they are currently living under the threat of eviction in the tenure of present government headed by Nawaz Sharif.

The residents of Esa Nagri desire No Objection Certificates (NOC) and registries (land entitlements) of their land/plots, so they can freely develop their squatter areas and invest

in their houses. Almost 80 percent of the houses are in good condition with a small central courtyard, two bedrooms on the ground floor and one bedroom above (Figure 2-12).

Box 1.

Case of Changi Bibi: Resident of Esa Nagri (Squatter Settlements 650 households in I-9 Islamabad.)

The author has known Changi Bibi personally for more than a decade now as she has helped with the authors household service. She Bibi's husband is a government contractor who hires people to sweep the streets of Islamabad and collect waste garbage door to door.

Changi Bibi and her eldest son are hired by her husband to collect waste from door to door. As a part time job after collecting the waste Changi Bibi does house hold chores like cleaning, washing dishes and laundry in other people's homes.

Changi Bibi has three sons and two daughters, the eldest daughter is married and the eldest son helps in the running expenses of the household, the rest of the three children go to private schools as Changi Bibi is very concerned about her children's education. She realizes this is the way out of poverty. Changi Bibi's husband rides a motorbike and the family possesses a television. The family earns roughly 50- 60 thousand rupees with three members of the house working.

The residents of a Esa Nagri are Christians and have lived on this centrally located vicinity of the city for the past 40 years. The street lanes of Esa Nagri are straight and the plots are equally divided which indicates that it was an organized land invasion as it has straight lanes and is strategically situated on the edge of the city. The residents of Esa Nagri, pay a small amount for the electricity service to a middle man who with the connivance of the electric supplier employee provides cheap electricity by hooking wires on the passing electric cables. In between the Esa Nagri colony flows Nallaa Lai (Nullah) which is used for many purposes. The residents have invested in water wells for the community with the help from NGO's. Changi Bibi' however has her own bore hole in her house.

Even though Changi Bibi's family makes enough to rent an apartment but it doesn't suit her family life style and status quo.

Box 2.

Case of Dil Sher: Resident of Afghan Basti H-10 (Squatter Settlement on University Land in Islamabad)

In 1994, the Author moved to the then sub-urban and a newly developing middle income housing district of Islamabad by the name of I-10 Sector. The country had just played its part in the cold war and the Soviet forces had withdrawn from Afghanistan. But that said, more than a million Afghan Refugees still lived in Pakistan and most of them had developed squatter settlements in the suburbs of Pakistani cities like Islamabad, Rawalpindi, Peshawar and Quetta. One of these squatter settlements was the Afghan Basti of H-10 and squatted on the university land. Since the Afghan Basti was hidden behind an elevated train track built by the British, the authorities kept a blind eye to it for more than a decade.

Dil Sher was an Afghan national and was 35 years old. He lived in a two room mud thatched house with his two wives and many children. Dil Sher had moved into this Afghan Basti with his brothers and cousins' families. The H-10 Afghan Basti comprised of 170 squatters. Dil Sher had three buffaloes, 3-4 goats and sheep, a horse and a cart. The buffaloes and the horse were kept away from the house in a covered compound made of clay and thatch. His family lived by selling milk and by his wives doing household works in the middle class residences situated close by. Every morning both his wives and the children would get on the horse cart and go cut grass and search for dried wood in the grass lands of Islamabad. By noon they would have gathered enough grass to feed their buffaloes. Close by was a fruit and vegetable market from where Dil Sher's family would get cheap consumables and drinking water they would get from the municipalities taps. Some of the Afghan ladies started doing household services for the middle class for minor wages and received used clothes from the middle income.

The residents of Esa Nagri are ethnically Punjabis and mostly Christians. In Islamabad the cleaning and sweeping tasks of the city are carried out mostly by Christians and therefore the residents of Esa Nagri belong to the service sector while on the other hand the residents of the now evicted Afghan Colony were mostly of Pakhtun origins and are famous for

being resilient for hard labor and work as laborers on construction sites, as masons and workers in the fruit and vegetable market.

Women of Esa Nagri and Mehrabadia mostly work in the houses of middle and upper income households, Pashtun women work in fields and have less opportunity of class interaction.

5-5 Case study of H-9 Green Belt squatter settlement started emerging in 2012

The grid design of Islamabad allocated green belts between the sectors through which pass infrastructure lines for water, sewerage and overhead main electrical lines.

In 2012, around 20 squatter settlers from Mehrabadia had to evict fearing of a sectarian violence, when a Christian girl was accused of desecrating the Muslim holy book in the Mehrabadia. These evicted squatter settlers later occupied the H-9 Green Belt ⁽⁴⁾ with a planned invasion of government land. In the beginning of the public land invasion all the squatters were constructed with mud walls or with tent structures as are depicted in Figure 2-13. Initially there were only 20 squatters which have now exceeded more than a thousand squatters within 3 years.

Figure 2-13 The first steps of squatting

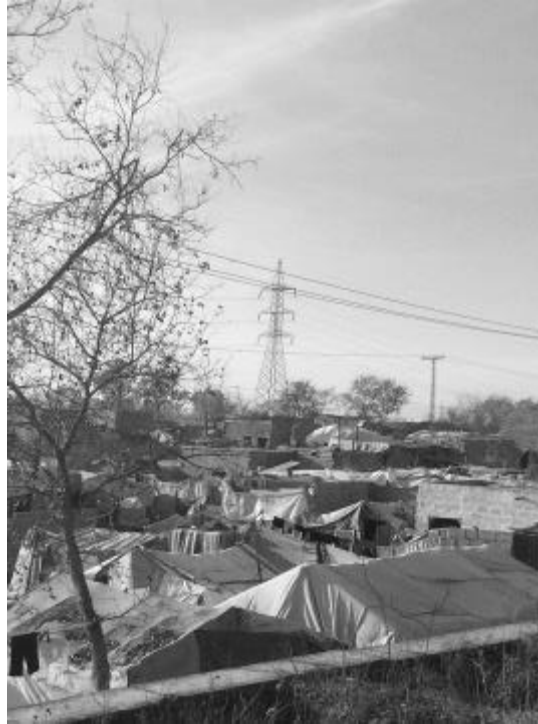


Photo taken by author on 13th January 2016

Sector- H of Islamabad is a city district dedicated to the institutional building use and grave yards. This new squatter settlement invades the green belt of this institutional zone of Islamabad but is nicely hidden among the green trees and a road which is scarcely used as a thoroughfare. Furthermore, no construction can take place on the green belts according to the Islamabad City Building laws. Green Belts are serve the purpose of dividing two sectors and for the passage for infrastructure services making it ideal for the squatters to

squat on. The institutions are least concerned with who is living in their back yard if the institutions are of lesser importance. The residents of this squatter settlement are mainly Christians. The straight rows of the houses lined up and wider streets (approx. 20 feet) of a similar size indicate that it was an organized invasion of Islamabad city's land (Figure 2-14). In the organized invasion, the leader identifies the land with the connivance of the employees of municipal authorities. Then at night the squatting team fixes bamboos to demarcate a boundary for each squatter and tie cloth to create temporary walls, till for the time the squatter settlers can bring the concrete blocks and start building walls. The squatter settlers have recently started using concrete blocks which are easier to build with and cheaper than bricks.

Many of the homes in this squatter settlement have implanted suckers to the underground public water supply lines for fresh water, about 25 percent of the houses have built septic tank styled pits for latrine pits and is drained in the public sewerage lines. The electricity is stolen from the overhead passing electric wires as the government does not allow sale of services on illegitimate land tenure. About 90 percent of the squatter settlers have relatives in other squatters of the city and a few possess homes in other squatter settlements.

Figure 2-14 Straight pathways of organized land invasion



Photo taken by author on 13th January 2016

The lot size in this squatter settlement is bigger than in the previous squatter settlements pointing to the fact that the squatter settlers are becoming aware of their future needs, courageous and aware of the laws which state that no forceful eviction can be carried out. A trend which indicates that the squatter settlers know they have the power to resist the state under the current law.

The new squatter sizes are better, the streets are wide enough for a car to pass through, the streets are cleaner with generally a septic tank or an underground drainage pipe discharged into a close by stream.

5-6 Case study Mehrabadia (Squatter settlement comprising of 200,000 residents)

Mehrabadia is a squatter settlement located in the G-12 sector of Islamabad. Up till the end of 1980's, Mehrabadia used to be an area comprising of four villages. When the Islamabad city expanded, the Capital Development Authority (CDA) froze all land transactions through a compulsory purchase order as CDA planned to develop Mehrabadia into high income residential sector. Presently, the grid plan of Islamabad has surrounded Mehrabadia as can be seen in the satellite image in Figure 2-15. During the 1980's the land prices offered to the land owners by CDA were much less than the prices paid these days in real terms. Some of the land owners accepted the price money, yet many of them did not. CDA delayed in acquiring the land from the villagers for more than ten years and in most instances the land owning villagers did not receive the prices of their lands. With the passage of time the land prices in this area became ten times the original prices. Now, the villagers have set new price conditions and want serviced plots too in exchange for their

land, in case CDA wants to acquire these grey lands. However, it seems impossible for CDA to provide free developed plots in exchange to such a big population.

Figure 2-15 Google Image of Mehrabadi

Source: Google Image

Figure 2-16 Squatter settlements for rent at Mehrabadia



Photo taken by author on 15th January 2016

5-7 Squatter Developer and his Tenant: Case of Mr. Sarkari and his Landowner

Mr. Sarkari is a government employee and works as a plumber for the District Court in Islamabad. He is a grade two government employee (blue collar) and has a basic pay scale of Rs. 13,000 per month. In addition to this he is entitled to a house rent subsidy of Rs. 3,000 per month. Since Mr. Sarkari is a Christian, he likes to live in the Christian colony in the Mehrabadia squatter settlement.

The rented house Mr. Sarkari currently resides in is a 3 Marla (67 sq.m.) single storey house. He shares this two room squatter with 7 family members, including his wife, three small children and his parents. Mr. Sarkari's father too was a government employee and

worked as a gardener for the CDA. Since he is retired the pension he receives also adds to the household income. Mr. Sarkari pays Rs. 4000 as rent for the house, pays his electricity bills on monthly basis and pays Rs. 500 for water which is provided from the landowners well. All the squatters in the neighborhood are identical and developed by a squatter developer. In the Fig. 2-17, Mr. Sarkari can be seen in front of identical squatters rented by the landlord squatter developer.

Figure 2-17 Mr. Sarkari in front of his rented squatter



Photo taken by author on 15th January 2016

Mr. Sarkari's eldest daughter is 6 years old and goes to a private school. He is very particular about his children's education and his wife is a house wife dedicated to the upbringing of the children. The assets include a motor bike, a laundry washing machine and a cable television.

Similar to Mr. Sarkari's case, his father during his service as a government employee also did not receive government residence instead was paid a house rent amount included in the salary. He complains that the government did not provide him with the government owned residences as the current practice of transferring the same government house to the next to kin enables the son of the same employee to entitle the house under his name. This has affected the other employees as they cannot enjoy the government owned housing stock.

In Pakistan, all federal, provincial and local government employees are entitled to housing subsidy. Since the government built residential stock dedicated for the government employees is not enough to cater to the housing needs for all the employees, the employees that cannot get government provided accommodation are entitled to house rents included in their salaries. The government owned apartments and houses are provided to approximately 25 % of the federal government employees in the city of Islamabad.

Due to a lack of government's housing stock majority of the government employees keep waiting for their turns to be shifted into the government housing.

It is ironical that the same state agency that ceases the land transactions of an area, its employees are renting the squatters. CDA has to approve the rental agreements before the employee starts receiving the rent in his salary.

5-7-1 Magical Land registry

Mr. Sarkari's landowner is a retired army soldier. He is a native inhabitant of the Mehrabadia village and this land is his ancestral land. He has developed thirty, two room row houses on his ancestral land and rented them out to the low income people. He provides electricity meters and drinking water connections which runs once in a day. Mr. Sarkari's land owner manages the squatter settlement by himself and is mostly present on site as can be seen in figure 2-13. His monthly income from the squatter rents is Rs. 120,000, which puts him in an upper income group.

Figure 2-18 Squatter settlement owner



Photo taken by author on 15th January 2016

During the interview with Mr. Sarkari's landowner, it was inquired if he wanted to legitimize his land or if he wants to have a legitimate plot in a developed scheme in return for his current squatter development; his answer was that he did not want to evict and is very happy with the present status quo. He added that he wants CDA to provide electricity

and gas supply to Mehrabadia area. Unlike other squatter residents, the squatter owners do not want plots in return of their eviction from the Mehrabadia.

With the annual income from the rented squatters (Rs. 120,000 per month) the landowner by saving the money can buy a one Kanal (4500 sq.ft.) plot in five years in the best localities of the capital city.

The surge in squatter population in the past two decades has invited lots of business and service providers to locate themselves within the Mehrabadia. The road fronts are occupied with wedding halls, construction material shops, utility shops and large shopping markets and parking areas (Figure 2-19). Long gone are the days when CDA could evict these people as the natives have consolidated themselves with investments and self-based infrastructure developments.

Figure 2-19 Parking facility on Grey Land



Photo taken by author on 15th January 2016

In the case of Mehrabadia the state's failure to evict the villagers turned into an opportunity for the poor to access affordable living within the capital city of Pakistan. If they state had evicted the villagers during the 1980's, by now this area would had been a residential area belonging the upper income groups. Presently in Mehrabadia, land is being used as collateral on a stamp paper for borrowing money within the community. The residents of Mehrabadia have invented ways to do business informally.

For the low income class, the locational advantage is a priority as the poor make their livings by working as domestic help, taxi drivers and laborers etc. Even the Mehrabadia and other squatter settlements have provided shelter to the poor, however, the bad quality of living conditions is a matter of concern. The poor class people are hardworking but their hard work does not provide them with a decent living. Most of the squatter settlements lack sanitation and hygiene. The sewerage system opens up close to the natural streams polluting the water tables. The water quality is not always good and the poor are prone to many water borne disease.

The tenants have cheap accommodation and the rents range between Rs. 2500 to Rs. 4000 per squatter. Figure 2-20 shows interior of a rented squatter. The price of land available on stamp paper ranges from Rs. 50,000 per Marla to Rs. 300,000 per Marla.

Figure 2-20 Interior of a rented squatter



Photo taken by author on 15th January 2016

The local inhabitants possess a vote bank of approximately 1500 votes. In November 2016, local body elections were held in Mehrabadia after 8 years of Pakistan's return to democracy. The inhabitants are hopeful that with local representatives in place the sanitation system and municipal services will be provided to this area. The local inhabitants desperately want to have access to gas connections for cooking and heating.

The low income households of Mehrabadia earn an average of Rs. 30,000 out of which they pay about Rs. 4,000 as a house rent per month, which is approximately 1/7th of their

earnings. In 2007, the government led by Pakistan People's Party initiated a scheme of Benezir Income Support Program (BISP) according to which women belonging to the poorer households would receive a basic income of Rs. 1500 per month. All the women interviewed above are receiving basic income through this program.

6 Lack of Democratic Procedures in Urban development: Land Acquisition Process of the State Development Agencies and Private Housing Developers

At the time of Islamabad city's inception in the 1960's, all of the land that constitutes the city now was agricultural land belonging to villages. The Capital Development Authority (CDA) practiced buying land from the farmers and the farmers were compensated in return either by providing developed plots or in exchange of money. The villagers at Mehrabadia even though offered compensation at a rate of Rs. 1600 per Kanal in 1985 by the CDA, the local inhabitants of 4 villages having a population of 1500 people did not vacate their lands and continued to live there. During the 1980's a constructed 10 Marla single storey house cost was Rs. 300,000. The native villagers even though lost the power to hold land transaction in the formal market of their lands, CDA could not acquire the land as the villagers vowed to resist and fight with guns and axes against forced evictions. The price at which CDA or other land development authorities in Pakistan acquire raw land from the local inhabitants is 25 times less than at what these development authorities sell serviced plots for.

The acquired land after development consumes up approximately 30% to 40% percent as open land in the form of parks, roads and open spaces and the rest of the land is sold to the general public on lucky draw basis since there are more buyers of these serviced plots. In the case of Islamabad, the price at which CDA sells the plots is 25 times higher.

In Islamabad in the year 2015, the area of Mehra Sumbal now a residential sector⁷ F-13, CDA had priced the land for Rs. 11 lacs (1.1 million) per Kanal. After buying the land from the registry owners, CDA planed the development by leaving 40% (sometimes 30 % depending on the planning byelaws) of the land for open spaces and roads. The rest of 60% percent of land is plotted and sold at a price of Rs. 1 crore per Kanal, (1 Crore = 10,000,000). Thousands of buyers apply for plots and the plots are drawn through a lucky draw.

A simple arithmetic can help understand the magnitude of profits the CDA earns from these developments.

Price of land = Rs. 1,100,000

Open space = 40% (Open space is usually 30 to 40 % depending on CDA's planning byelaws for different sectors.)

Remaining Land Cost usable for selling = $1,100,000 \times 40/100 = 440,000$ (assuming 30 to 40 % land is used for open spaces, roads and infrastructure)

(Adding the 40 % of the land into the land for sale as development plots costs as below.)

Total cost incurred per Kanal = 1,100,000+ 440,000= 1,540,000 Rupees, (cost of land per Kanal including the open space)

Infrastructure costs per Kanal (sanitation, water supply network and higher tanks, gas supply, road networks etc.) costs around Rs. 500,000 per Kanal. {Based on an interview with a site inspector of Pakistan Works Department (PWD)}

Adding the infrastructure costs per Kanal = 1,540,000 + 500,000= 2,040,000 Rupees

Maximum costs per plot is approximately Rs. 2,000,000 per Kanal and CDA sells it for a minimum of Rs. 10,000,000 per Kanal on an open draw system, making a profit 5 times the initial plot price.

The bigger the plots CDA sells, the less infrastructure costs it has to incur on the development charges because the population density ratio per plot is reduced.

Similar is the case of other development agencies and big housing developers like DHA and Bahria in Pakistani cities. These development agencies are pushing the prices of urban land to five times the original price excluding the poor from the urban areas and leaving them forced to squat on public and private land.

The issue of the Grey Land developments arose because the state development agencies and the private developers discourage public participation at planning and land acquiring stage. The profit maximization policy of the developing agencies is another impediment for encouraging democratic processes in development projects.

6-1 Private housing developers strangling the villagers to acquire land

The private land developers have invented a ruthless mechanism to forcefully evict the villagers from their ancestral lands. First of all, the housing land developer identifies an agricultural land prospective for speculation and developing a housing scheme. In Pakistan, the village houses are generally traditionally encircled by the agricultural land belonging to the inhabitant of the village. These village is connected with secondary roads linking to the main road. Generally, one village has only one road enabling them access to the main road further connecting them to the markets in the urban areas.

The developer starts buying land along this secondary link road even if the price is higher than the general land price in that area. The developer's motive for buying land along the link road connecting the village to the main road is to block that road eliminating the villager's access to the main road. This inability of the villagers to access the main road leaves them incapable of using the services and the markets in the urban areas. Thus, the

developer by strangling the villagers' mobility forces them to sell the other adjoining land parcels at cheaper prices.

The largest housing developers such as Bahria and Defense Housing Authority (DHA) in Pakistan use similar techniques to forcefully evict the villagers from their homes. Thus, exacerbating the poor to squat on urban lands. CDA and other developing agencies in the major cities are driving the land prices higher and have no policies for the very poor segment of the society.

6-2 House Building Finance Corporation's Loan Calculator

House Building Finance Corporation Limited (HBFCL) has been the largest house loan provider in Pakistan. A more detailed analysis of the housing finance institutions is provided in the next chapter. This section applies the case of Mr. Sarkari with a monthly salary of Rs. 22000 per month to see how the HBFCL online loan calculator determines his borrowing capacity and loan to mortgage rates. With this salary Mr. Sarkari belongs to upper low income household in Pakistan. He wants to buy a house and for this he has saved up to Rs. 500,000. The price of the house in the informal land market is Rs. 100,000. Let us assume that he asks the HBFCL that he can pay it back in 10 years because of his saving situation. The Bank tells him to pay back the money in 10 years, but for that he has to pay an installment of Rs.6730 per month that amounts to Rs. 970000 after 12 years which is

almost twice for what he borrowed. For one the poor cannot afford high interest rates on investments which are not bringing them any monetary returns and secondly the Banks will not do business with him because land as collateral in the grey land markets is not worthy for the banks.

6-3 The poor people's bank accounts and saving deposits? What do they save for?

The institutional setup related to the poor is a matter of careful study. The improvement in basic necessities such as education, health and shelter are less prioritized in government development projects. Though health and educational structures are accessible to the poor the quality of service is below standards. The state educational system has been incapable to provide quality education and to retain the children in school. The student dropout rate in the rural areas by the time a student reaches the 10th grade among the poor class is more than 50%. Many urban poor though are familiar with the benefits of educating their children are unable to as an extra earning hand is required to meet the household needs. An increasing trend among the poor is to put their children in private schools which adds to the cost of living for the poor. The quality of health service in the state hospitals is also depressing. Many poor prefer going to private health facilities which is very expensive for them. When a poor person becomes sick, all the household savings are spent on medical

expenditures. The household savings of the poor are a cushion for un expected events such as floods and natural disasters. In case of floods or heavy rains, the poor people living in hazardous areas are most prone to human and capital loss.

Cultural events, weddings and funerals are also expensive which take away the poor's household savings.

End Notes

- 1) Mehrabadia The largest squatter settlement that the government after repeated attempts has failed to evict. This settlement is located in the G-12 sector of Islamabad and it occupies an area of 16 sq.m.
- 2) Esa Nagri A squatter settlement existing since 1982, it was formed through unorganized land invasion.
- 3) Nala Laee A big stream that passes through the twin cities of Islamabad and Rawalpindi and floods during the monsoon season
- 4) Green Belt The grid design of Islamabad incorporates Green Belts at the edge of the sectors. Green Belts are green areas through which passes

infrastructure service lines including high voltage electric wire, water supply and sewerage pipes.

- 5) Sector A sector is basic urban planning unit in Islamabad. One sector covers an area of 4 square miles. Sector in Islamabad are divided according to function such as residential, educational and administrative.

Chapter 3 Housing Policies

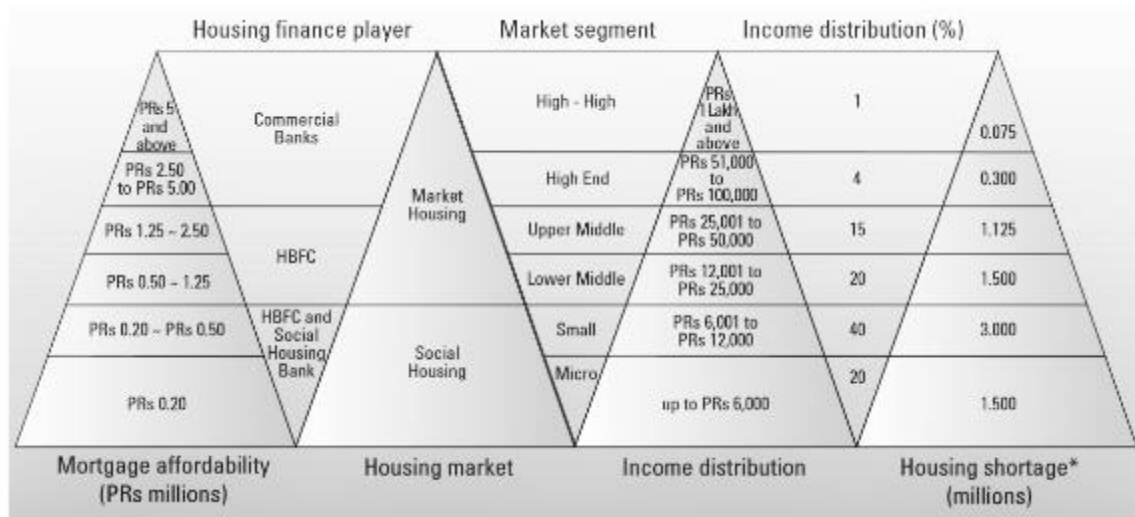
1 Housing Finance

The largest money lending institution for housing finance in Pakistan is the House Building Finance Company Limited (HBFCL). It was founded in 1952 by the name of House Building Finance Corporation which was privatized in July 2007. Currently, 62.50% of the shares of this company are held by the government and 37.50% is held by the State Bank of Pakistan. HBFCL has the largest active loan portfolio among the housing loan providers; it is widely trusted within the development and construction industry and with businesses related to the housing sector. By 2015, HBFCL had financed 456, 256 houses since its inception in 1952 and had a total disbursement of Rs. 4782 million. Even though HBFCL has the largest housing finance portfolio in Pakistan, this meager figure does not fulfil the need of housing finance in Pakistan. HBFCL faces difficulties such as political pressures for approving loans, delayed customer loan repayments, lengthy law suits with defaulters and recovery processes. The high nonperforming loans of HBFCL amount to 38 % of the total outstanding amount.

The stringent procedures of HBFCL for lending money include assessing the credit worthiness making borrowing for the lower classes difficult, even though HBFCL claims

to favor the low income finance markets. The rigid rules of HBFCL make it accessible only for the middle and upper income groups. Furthermore, the lengthy procedures imposed on the borrower's side requires a minimum of twenty steps, including going to 9 different agencies for getting validations and attestations as requisites to the loan. The time and money required to complete these loan procedures certainly makes the low-income households leaving out the option for going to the bank. The largest customer market for HBFCL belongs to the middle income group, which is able to buy a plot from the formal market and can pay 40% of the construction cost.

Figure 3-1 Housing Market, Income distributions and Financial Institutions of Pakistan in 2010



Source: Rizvi 2007, "Affordable Housing for Low-Income Groups." Presentation prepared for the Third International Conference on Construction Industry, Karachi, Pakistan, August 28.

<http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1269620455636/6907265-1284569649355/PAKSARHousingFinanceOctober2010.pdf> (Last Accessed on 3rd March 2016)

Copy Note from Rizvi: Housing shortage is estimated at 7.3 Million units. The shortage in various income segments is assumed in the same proportion as per income distribution pattern. However, shortage is much higher in low income groups as opposed to higher income groups.

1-1 Micro credit system and community loan system for houses of the poorest

In Chapter 2, Mrs. Phirkee needed money for an incremental extension of her existing house. Instead of going through the lengthy procedures involved in getting a loan from the bank or looking for a micro-finance, Mrs. Phirkee chose to put up a neighbourhood committee (rotating savings and credit association) as she was aware that living in an informal settlement and belonging to an informal working trade does not qualify her for a loan. Such small loans come under the micro-finance schemes. In 2005, a private Norwegian telecom group established a Tamir Micro-finance bank in Pakistan which is proving more accessible to the lower income groups. This bank is useful for customers seeking extension, maintenance, and renovation of their homes. Credit worthiness is stringently conditional to the ownership and entitlement of the house which therefore leaves a large number of urban squatter resident's ineligible for acquiring the loan and for people related to informal trades. Three to five years' repayment period makes it feasible for the borrowers for house improvements, even though the average weighted interest rate is relatively high at 13.1%. Recent international studies (Amin 2003; Chowdhury, Ghosh & Wright 2005; Karim 2008) on micro credits are becoming increasingly critical against

microfinance as the complex socio-economic problems have caused the loan programs to fail. It is yet to be determined if this type of micro credit system for housing is an effective and sustainable way for providing loans to the poorest still remains to be evaluated. Further studies are required to determine the effectiveness and soundness of this type of loan system.

Table 3-1 Average Interest Rate in Public Sector Bank

| | Weighted Average Interest rates (%) | |
|---------------------|-------------------------------------|-------------|
| | Mar-2015 | March -2014 |
| Public Sector Banks | 13.7 | 14 |
| Private Banks | 10.8 | 13.2 |
| Foreign Banks | 14.0 | 14.0 |
| Islamic Banks | 13.4 | 13.1 |
| All Banks | 12.2 | 13.3 |
| DFI's | - | - |
| HBFCCL | 14 | 14 |
| Total Average | 13.1 | 13.7 |

Source: State Bank of Pakistan, Quarterly Housing Finance Review, 2015

The most important step for lending institutions for loan is to qualify a land title as clean and guaranteeing that the borrower will not default. The focus of the financing institutions for approving loans is based on regular and clean land titles which automatically filters out the squatter settlers of un-regularized settlements. This is how the exclusionary practices of the government institutions such as Katchi Abadi authorities, city district governments

and lack of one window operations affects the working of the private sector. Eventually the poor class is left to borrowing from relatives, employers and friends or through other informal means and usurers.

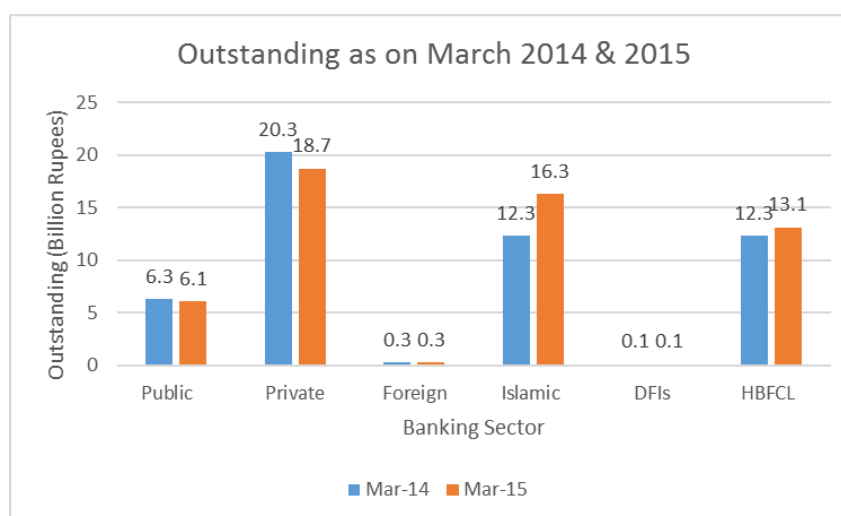
Relatively new comers among the financial institutions of Pakistan are the Islamic banks. These banks have captured a relatively large share of the housing finance loans in a very short time (30 % of the Gross Outstanding is by the Islamic Banks in March 2015). These banks mostly cater for the middle and lower middle class. Islamic Banks conform to Islamic laws of financing and ownership in business. Instead of using interest as means for doing business, these banks become partners in the investment by claiming a share in the profits. The loan contracts for house purchase are based on co-ownership of the house; the banks take back their share through the rental amount of the house. For example, Meezan bank finances 85% of the property, but does not lend money for purchase of land or to anyone earning less than 20,000 Rs. per month. This is relatively a high earning level for low income class; the minimum wage rate for unskilled labor in the law is Rs. 13,000 per month.

Commercial banks in Pakistan are less aggressive for marketing their housing loans. They cater for upper middle and upper income class and the loans size can reach up to Rs. 10

million. Commercial banks are mostly interested in the consumer market and view housing loans as risky investments and only provide loans upon qualifying stringent conditions set by the banks. Their customers are advised to pay a strong attention on the legality of the property rights and ensure that the purchase has no conflicting shortcomings; thus, making it hard for the commercial banks to expand their businesses in a market layered with informal transactions.

With the arrival of the commercial banks, the consumer finance increased thereby changing the financial options for housing loans over the past three decades. Subsequently, this increase in the consumer finance resulted in increase of total housing finance available for borrowing and the total available amount increased by 400% in 2003 reaching a volume of Rs. 3.5 billion. At that time, it was estimated that still there was an unmet housing finance need amounting to Rs. 70 billion (The Dawn, 25 January 2004). Due to the sudden rise in the consumer finance the housing loans increased by 15.5 % during the same era. However, more recently the growth in housing loans has been slow and according to the State Bank of Pakistan's latest figure the housing loans increased by 1.49% during the previous quarter in 2015 making the total housing loan portfolio to be Rs. 54.5 billion.

Graph 3-1 : Outstanding as on March 2014 & 2015



Source: State Bank of Pakistan, 2015, page 1

(<http://www.sbp.org.pk/departments/ihfd/QR/Housing/2015/Mar-15.pdf>)

Although, entrants of housing finance providers have proliferated and come about with new product schemes such as for extension, maintenance, renovation or housing construction and the loan ceilings have become more flexible, still the strict conditions for borrowing requirements such as documentations, formal land and formal trade remains the same.

HBFL offers the widest range of loan products making it a specialist in housing finance.

Tamir Micro-finance bank also offers loans ranging from 50,000 Rs to 500,000 Rs of housing loans useful for the low income households. Commercial banks, national banks and Islamic banks all offer a variety of house financing loans over a maximum of 20 years and a loan ceiling of Rs. 30 million. Going back to the case of Mrs. Methab's building a

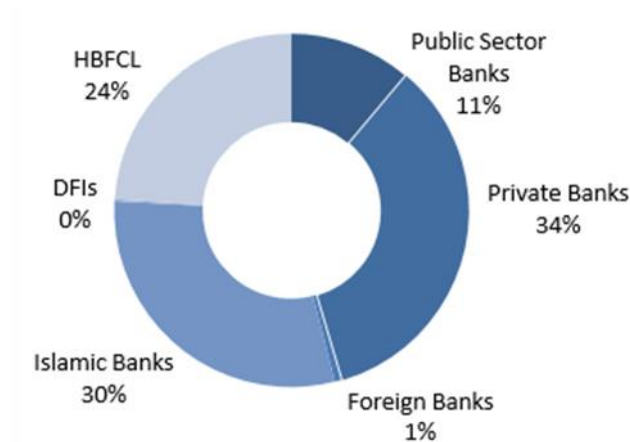
house in Chapter 2, all her loans for construction came from the informal market. The loans were interest free and she promised to her lenders that two of her sons will repay the loans in case she is unable to do so in her life time. This demonstrates how the poor seek long term interest free loans. With all of these formal banking services and their innovative products, a large demand of housing loans is unmet due to the noncompliance of the loan conditions tied to the formal land ownership and formal employment. A study on housing finance conducted by The Asia Foundation in 2008 revealed that 24% of application related to construction, 7% for land purchase and 11.5% for house purchase are rejected plainly because of improper documentation. The delays in application procedure also occur due to a lack of application procedural knowledge and the use of English language which is not the common men's language.

The graph 3-2 below shows the share of the gross outstanding of the financial institutions of Pakistan. It depicts that the three big financial institutions with large share in gross outstanding are the HBFCL with a share of 24%, Islamic Banks 30% and private banks catering to 34 %. The significantly high share of the HBFCL and the Islamic Banks is due to long loan tenure of 15-20 years and to individuals earning over Rs. 20,000 per month, provided the individuals can purchase the plot by themselves. There are no schemes for

individuals earning less than Rs. 20,000 and for residents of squatter settlements which comprise half of the urban population of Pakistan.

Graph 3-2 Share of Financing Institutions in Gross Outstanding as of March-2015

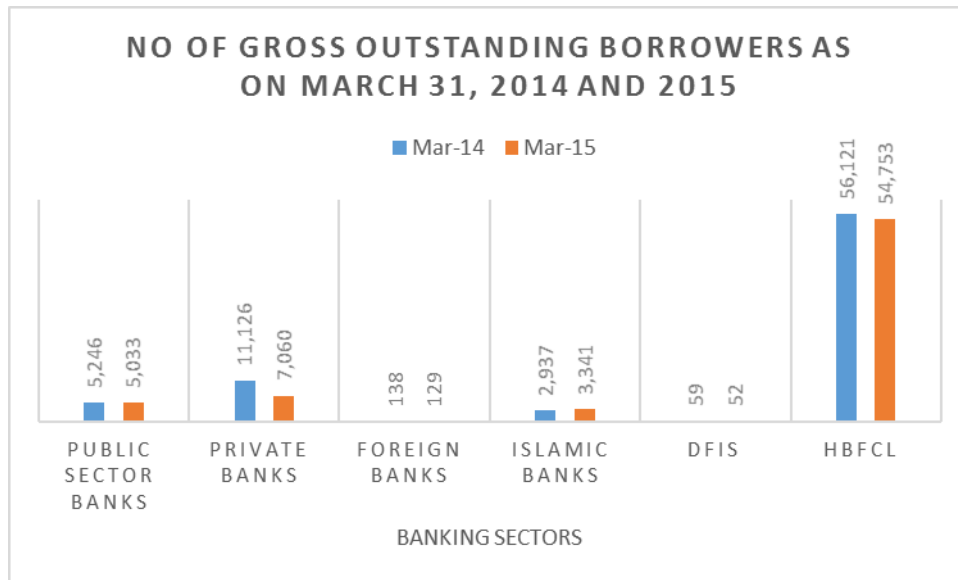
for housing



Source: State Bank of Pakistan, 2015, page 3,
(<http://www.sbp.org.pk/departments/ihfd/QR/Housing/2015/Mar-15.pdf>)

Till now the largest share of borrowers is associated with the HBFCL, however the Islamic Banks which are new comers in the financial market are gaining the market share as can be seen in the Graph 3-3.

Graph 3-3 Number of borrowers as on March 2014-2015



Source: State Bank of Pakistan, 2015, page 6, URL: (<http://www.sbp.org.pk/departments/ihfd/QR/Housing/2015/Mar-15.pdf>)

The directives by the State Bank of Pakistan clearly mentioned that the monthly amortization, payments of loans should not exceed more than 50% of the borrower's monthly income for the purchase of land/plot for construction. State Bank also allows the banks to provide loans for the purchase of land/plots specifically for the purpose of constructing a house. A maximum of 50% of the loan limit can be allocated for the purchase of land. However, the bank will ensure that the rest of the 50% is utilized for the construction of the house. Moreover, the state bank of Pakistan encourages the banks to provide loans for housing construction in the rural areas. Even in the light of clear directives,

the banks are reluctant to provide loans for purchase of land/plots and also do not lend money for rural house construction.

The surge in the housing finance institutions has been unable to meet the loan requirements of the population estimated around 70% which includes the lower middle and lower income groups. Careful mortgage lending is a rational suit for the banks to follow considering the consequences of the sub-prime mortgage crisis in the US in 2009. The public sector remains distant from the problems faced by the low-income housing needs and is reluctant to create a link between a market and the housing finance for the low income as no financial institution exists for the lower income groups except for the following Islamic banks and community loans. Table 3-2 shows that HBFCL caters to the largest number of mortgage borrowers. It also has a significantly high proportion of non-performing loans as compared to other financial institutions.

Table 3-2 Number of Mortgage Borrowers

| | Mar- 15 | | | Mar -14 | | |
|----------------------|----------------------|-------------------------------------|------------------------|----------------------|-------------------------------|---------------------|
| Banks/ DFIs | No. Active Borrowers | No. Of Borrowers Classified as NPLs | Total O/s of Borrowers | No. Active Borrowers | No. Borrowers Classified NPLs | Total O/s Borrowers |
| Public Sector | 4,091 | 942 | 5,033 | 4,594 | 652 | 5,246 |
| Private Banks | 5,392 | 1,688 | 7,060 | 9,272 | 1,854 | 11,126 |
| Foreign Banks | 19 | 110 | 129 | 25 | 113 | 138 |
| Islamic Banks | 3,071 | 270 | 3,341 | 2,640 | 297 | 2,937 |
| | Mar- 15 | | | Mar- 14 | | |
| DFIs | 40 | 12 | 52 | 47 | 12 | 59 |
| HBFCCL | 18,173 | 36,580 | 54,753 | 14,219 | 41,902 | 56,121 |
| Total | 30,786 | 39,582 | 70,368 | 30,797 | 44,830 | 75,627 |

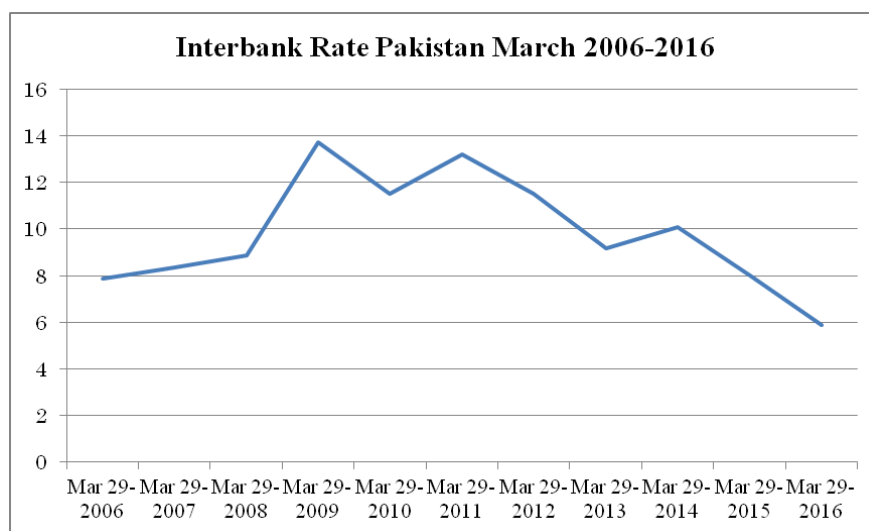
Source: State Bank of Pakistan, Quarterly Housing Finance Review, March 2015, page 6

The house financial institutions do not provide loans for buying plots. However, the most important need for borrowing by the lower middle income groups is for buying a plot for constructing a house. It is vital to devise financial mechanisms to assist the low middle income for buying plots in the formal markets which will provide them of a secure tenure and asset. The reluctance of the financial institutions for lending money for land purchase

is due to the non-uniform land registration system prevalent in the Pakistani cities. The financial institutions are also reluctant in providing loans outside the bigger cities due to weak property ownership system.

The story of Methab's borrowing the money from acquaintances explains how the low-income are reluctant to pay high interests rates. A major proportion in the high interest rates offered by the banks is because of the high rate of the interbank interest rate. Currently, the interbank interest rate KIBOR declined to 6% as shown in Graph 3-4. However, the banks are unwilling to let go of the profit margins by reducing the interest rate.

Graph 3-4 Interbank Rate Pakistan March 2006-2016



Source: Author's Compilation based on State Bank of Pakistan,

As explained earlier, the low income groups find it difficult to provide the documents required to qualify for a loan; these documents include formal income tax filings and proofs of registered businesses. Consequently, majority of the low-income households seeking a loan are excluded due to their employments in the informal sectors.

Community credit, generally is another untapped financial tool which the financial institutions can rely on for safe returns of their lent money. Such community credit tools have been successful in homogeneous communities with strong religious or cultural bonding. The banks could support mutual saving funds to help improve community initiatives for self-help housing.

As the interviews in Chapter 2 describe, Mrs. Methab, Mrs. Phirkee and Ms. Nikko work as house maids in the homes of well to do residents of Islamabad City. Ms. Nikko and Mrs. Phirkee are living in the squatter settlements whereas Mrs. Mai shares a two-room apartment with another family, who are also her relatives. This apartment is government owned and allotted to her relatives because he is a public sector employee. Since the neighborhood belongs to government employees it makes it un-viable for Mrs. Mai to reside in the same locality due to different social status and background. Therefore, Mrs. Mai is constructing a house in the Grey Land area. This unearths a dearth of diverse housing

schemes catering to different social segments of the society. Many people live in rented accommodations because of unsuitable house ownership. As in the case of Mr. Sarkari in Chapter 2 who still being a government employee is living in a rented house in a squatter settlement due to a lack of governmental housing categories. Mostly in Pakistan, the entire poor household is dependent on one male person as the female employment to population ratio is 15 %.

The private developers in the Pakistani cities have developed apartment buildings in the periphery. The high prices of these apartments makes it impossible for the low income segment to buy them due to stringent loan conditions. During the author's experience of working for a developer in Islamabad City in 2013, the developer complained that the corrupt government regulatory authorities and the utility agencies increase the apartment price by 20% due to their bribes and kickbacks.

Location issues such as commute expenses between the house and the workplace are also a determining factor for the choice of resident for the poor. Availability of loans on leasehold property will encourage the poor to buy land despite the availability of infrastructure services.

As a concluding note most of the financial institutions do not cater to the lowest segment of the Pakistani society; the poor are automatically excluded due to the stringent loan conditions set by the banks, which is a general trend worldwide. However, in welfare state regimes the low income households are protected or rescued not by housing loans but through a public finance system or with municipal low rent houses.

2 Housing Policy of Pakistan

2-1 Pre-modern era

Let us briefly study a question of housing policy in the pre-modern era in Pakistan. Generally speaking, all houses of the general public (mostly peasants and agricultural serf) were constructed by the residents themselves either individually or collectively. This was true in Pakistan in the 19th century or before that time in the rural villages. In those eras there was no concept of housing shortage on a large scale, hence no need for formulating a housing policy. Kings and queens or feudal lords were not responsible for the provision of houses for the masses, although they were concerned about urban planning due to defense and security reasons for their feudal domain. But there certainly was a problem of housing shortage even during such pre-modern era on a smaller scale as compared to the modern era. The two Walled Cities of Lahore and Multan which were erected during the

Mughal rule did not have provision for housing the poor. The poor used to live farther away from these cities in temporary structures made of clay and tents.

Housing policy emerged in the US when the phenomena of housing shortage started to break out in cities in the 1910s and 1920s. In Europe, housing shortage occurred in the process of rapid urbanization during the Industrial Revolution. This means that modern housing shortage and modern housing policy as a governmental reaction to it is a by-product of development of a modern labor market in the capitalistic way of economic development. At this new stage, people started to obtain their houses either by purchasing the houses offered by the market, by the government sector or renting the houses offered by the market and the governmental sector. This means that a person without sufficient purchasing power cannot buy or rent a good house to live in. Housing shortage problem broke out in this way, but another factor contributed to the housing shortage. Lack of government's efforts to provide for public housing also resulted in housing deficit. Housing policy in the modern era can be defined as a body of public policies (1) to promote provision of public houses to low-income residents and (2) to prompt the market sector to offer affordable houses to low-income residents.

2-2 Housing Policies in Pakistan: Post- Independence

Housing policies in Pakistan has gone through many stages since its inception in 1947. It may be possible to draw demarcation lines and recognize “three” main periods between 1947 and today. We can argue that these "three periods have been an era in which Pakistani Welfare State started to form. The first period can be named as a period of “Housing and Re-Settlements”, a name given due to the first five-year plan formulated by the government. The second period can be called a period of “Free Land Transfers for Housing and Regularization of the Katchi Abadis” and the third period can be termed as “Enabling the Market” to provide housing.

Most researchers such as Jan Van der Linden (1986) have generalized that there are three phases in the development of housing policy of the 20th century around the world. The first phase is the “Public Housing” which emerged in the 1945 as a consequence of the housings shortage arising due to the Second World War and also because of the Great Economic Depression of 1929. The second phase, as generalized by the researchers is the phase of “Sites and Services and Self Help” which started in the 1970’s. The third phase after the 1980’s is described as “Market Enabling”.

Pakistan’s case is different from the general global trend explained above. In Pakistan, the state functionaries were eradicating squatters and providing cheap housing based on

ownership while the general global trend was to provide public housing. Pakistan during the 1980's was determined on regularizing Katchi Abadis and squatter settlements as opposed to the then general global trend of enabling the market for the provision of housing. Pakistan entered into the privatization and enabling the market and private sector after the 1990's.

After the Second World War, the role of International organizations such as United Nations, World Bank and IMF has been significant for shaping the housing policies in many developing countries, as the expenditures of the developing countries depended on aid and loans from the borrowing institutions.

2-2-1 The First Period of Housing Programs in Pakistan

The first period of "Housing and Re-Settlements" in the newly born state of Pakistan started immediately after 1947. The cities started seeing the immigrants coming from across the border. At that time the newly formed ministry of Rehabilitation was given the responsibility to house the refugees. For this locations were identified for setting up refugee colonies. The first five-year plan from 1955-1960 laid emphasis on the housing and subsequently 10.49 percent of the total expenditures was dedicated to it. The second five-year plan (1960-65) was also similar to the first five-year plan and the government kept being directly involved in the planning, execution and management of the housing for

the low income and refugees. However, the shortfall in housing was apparent as the first batch of squatter settlements started emerging.

Table 3-3 Plans Development Expenditures: Total and on Physical Planning and Housing (PP&H)

| Five Year Plan | Total Development Expenditure (Rs Billion) | Development Expenditure on PP&H (Rs Billion) | Ratio of Expenditure on PP&H to the Total (Col 3/Col 2) |
|------------------------------------|---|---|--|
| First Five Year Plan (1955-60) | 4.86 | 0.51 | 10.49 |
| Second Five-Year Plan (1960-65) | 10.61 | 0.96 | 9.05 |
| Third Five-Year Plan (1965-70) | 13.20 | 0.70 | 5.30 |
| Fourth Five Year Plan (1970-78)* | 75.54 | 5.69 | 7.53 |
| Fifth Five Year Plan (1978-83) | 153.21 | 9.00 | 5.87 |
| Sixth Five Year Plan (1983-88) | 242.41 | 22.72 | 9.37 |
| Seventh Five-Year Plan (1988-93) | 350.00 | 20.00 | 5.71 |
| Eighth Five Year Plan (1993-98) ^^ | 752.00 | 6.80 | 0.90 |

Source: Pakistan Bureau of Statistics, Yearbook 1995.

Fourth Five-Year Plan was abandoned after East Pakistan's separation in 1971, but its priorities were followed during the eight-year interregnum till the fifth Plan came into force.

^^ From the Eighth Five Year Plan.

Between 1950's and 1960's, Pakistan witnessed a miracle growth and the squatter settlements did not fit Pakistan's rhetoric of high GDP growth. Therefore, many Katchi Abadis were eradicated and new constructed houses or plots were offered at the same location of the previously existing Katchi Abadi. Many of these resettlement schemes did not fully succeed in providing houses to the evictees as they were un-affordable for the low income households. Consequently, schemes such as Township in Lahore and Orangi in Karachi were developed.

The third five-year plan from 1965- 70 covered an era when a new capital city was constituted. The public funds were diverted to the construction of capitals in Islamabad and Dhaka, subsequently reducing the expenditure proportion on housing to 5.3 percent of the total expenditures. During this time the private sector was encouraged to be engaged in the business of housing developments in return for tax incentives.

2-2-2 The Second Period of Housing Programs in Pakistan

The second period of housing policy in Pakistan can be called as the era of, "Free Land Transfers for Housing and Regularization of the Katchi Abadis". This era can be marked as the coming to power of a populist leader Zulfikar Ali Bhutto and the return to democracy. Bhutto gave the Constitution of Pakistan in 1973, in which the fundamental rights restricted the forceful eviction of Katchi Abadis.

The slogan that brought Bhutto into power was, “Roti, Kapra aur Makaan,” (Bread, Cloth and Shelter) and took pro people initiatives by introducing policies which provided low cost plots inside existing housing schemes instead of re-locating the poor to the peripheries of the city. Instead of eradicating the slums policies, slum improvement programs were introduced and land was acquired within cities for developing low income housing schemes. Bhutto’s government introduced Peoples Housing Organizations and free 3 Marla (74 sqm.) plots in urban areas and 5 Marla (116 Sqm.) plots in rural areas were given to the poor free of any cost.

Pakistan had all the inclinations of becoming a welfare state. The left inclined populist leader Zulfikar Ali Bhutto nationalized privately owned industries. Most of these industries were owned by the 22 prominent families that had emerged after the independence due to the support received from the military governments. Bhutto attempted to nationalize these industries and introduced a half-hearted land reform. The land reforms failed due to the military that has roots in the landed elite and eventually his government was overthrown.

As Islamic system is considered to have an inherent welfare system, Bhutto’s left inclination in the beginning and later his alliance with the Islamic bloc countries, had all the trends towards Pakistan becoming a welfare state.

After Bhutto's overthrow, Zia's military regime started breaking up the left wing forces. Major blows were delivered to the leftist politics on the premise of being anti-Islamic. Islamisation of the society was being orchestrated in the back drop of a bigger plan to fight a Jihad against the Soviet Union backed up by the US- Saudi support. The left-wing politics in Pakistan has been a staunch support for a welfare state.

Zia's regime upheld Bhutto's policy of regularizing and improving the Katchi Abadis and in the fifth five-year plan (1978-83) and sixth five-year plan (1983-88) the National housing policy was formulated and Katchi Abadi departments were established.

Junejo, the then prime minister under Zia's administration tried to tackle the housing shortage problem by introducing a housing scheme for the low and middle income groups.

Junejo, in an announcement in April 1986, regularized all those Katchi Abadis that were squatted before the 25th March 1985 and comprised of more than 40 dwelling units.

Moreover, funds were allocated to elected representatives for spending 50 % on low income housing in their constituencies.

Junejo's government set up a National Housing Authority to provide 1.5 million houses by the end of the 7th five-year plan (1989-1993). The important characteristics of Junejo's housing plan included more than 2 million 7 Marla plots to be freely distributed among the

rural areas of Pakistan and allotment of 3 Marla plots to the impoverished in urban areas on minimal prices. Moreover, Junejo's plan consisted of construction of one million houses for the homeless which included constructing 20,000 houses in rural areas and 15,000 houses in urban areas in each province. Another feature of Junejo's Housing policy was the allotment of 10,000 small plots ranging from 90 square yards to 140 square yards to the low paid government employees in Islamabad city. Furthermore, the Katchi Abadis that existed before 23 March 1985 were given the status eligible of regularizing and developing; the proprietary rights were passed to their residents.

During this phase, 4-five year plans were presented. The fourth, fifth and sixth five year plans showed relatively larger percentage of spending on the public housing development. House building Finance Corporation (HBFC) started expanding the credit facilities for houses. Later however HBFC was unable to retrieve all the spending because many source full borrowers became defaulters.

By the Sixth five-year plan (1983- 88) the policy makers had concluded that housing was a capital intensive act and that government alone cannot play a direct role. However, during this time, the land allotment remained with the government.

During the 1980's, free 100,000 entitlements of the squats were offered to the Katchi Abadi dwellers in Karachi. This offer was taken up by only 10 percent of the dwellers as the residents did not consider paying the administrative charges worthy enough or they considered remaining un-exposed to paying the property tax.

The seventh five-year plan (1988-93) brought with it recognition for the informal and squatter housing. Informal supply of land was therefore accepted and a Katchi Abadi up-gradation program was formed.

2-2-3 The Third Period of Housing Programs in Pakistan

The third period of Housing and urban planning can be explained as “Enabling the Market”.

As the 1990s saw the return to democracy, the political governments of Pakistan were unable to take large scale measures for housing other than regularizing the Katchi Abadis, even though Pakistan had successful models of self-help of squatter settlements such as Orangi Pilot Project and creation of cheap land for low income housing such as Khuda Ki Basti by then. Subsequently, the Ninth five-year plan (1998-2003) laid greater emphasis on the private sector participation reducing the governments support for housing.

In Pakistan, housing lies under the domain of the provincial governments and therefore the housing cooperatives were being registered under the housing authorities of the provincial

level. In Japan, public houses for low income residents are the responsibility or function of municipal governments, although there are systems to provide for public housing both at the national and provincial (todofuken) levels. One of the reasons why municipal governments are able to take care of public housing in Japan is that they have strong municipal taxes including municipal income tax. In Pakistan, municipal governments are still fiscally too weak to take care of public housing.

In October 1999, Musharraf, the then Military Chief of the Armed forces, took control of the country after a bloodless coup. This newly formed military regime ordered the Ministry of Housing and Works department to formulate a housing policy. The housing policy of 2001, emphasized on incentives for home ownership, developers and constructor's incentives, land availability, resource mobilization and research and development to produce cheap construction materials. This policy also continued with the Katchi Abadi policy which encouraged regularizing and upgrading Katchi Abadis that were formed before March 1985. The land owning agencies were to create an inventory of the Katchi Abadis on their land after 1985. In case the relocation of the pre-1985 Katchi Abadis is needed, the Provincial Governors were to identify land preferably within the cities and towns. The largest proportion of the government land occupied by the squatters belongs to the Railways department. Therefore, the Ministry of Railways worked with the Ministry

of Housing and Works to regularize, upgrade and relocate the Katchi Abadis to newer locations. It was instated in the then housing policy that all new housing policies launched by the development authorities at the provincial or federal level will have houses for the low income segment of the society.

Forced eviction is strictly discouraged in the National Eviction Policy on Katchi Abadis and negotiations are rather encouraged for securing alternative places for relocations.

The Pakistan People's Party (PPP) coalition government launched a program on March 29th 2008 which stated that in order to provide shelter to the common man the government would launch a program for constructing one million housing units annually. Also, better residential opportunities will be provided to the government employees and upon retirement, a house will be given to the government employees. Five Marla plot schemes and 80 square meter houses and apartments would be provided to the common man on affordable grounds. However, these programs did not materialize.

The PPP government of 2008 under the leadership of Asif Ali Zardari introduced Benazir Income Support Program (BISP) which provided a basic pay to 6 million families for buying food and medicine.

The public sector spending on Physical Planning & Housing has been at the peak since the first five-year plan and has been gradually decreasing with the limiting role of the government in housing, leaving more room for the private sector. As is often the case in other social sector developments, physical planning and housing has had a lower priority in the development plans. The urban and housing programs function under five areas which are the housing and Katchi Abadi improvement, secondly the provision of community services such as electricity, water supply, sewage etc., thirdly institution building for designing, planning, building, local planning and housing departments, fourthly government buildings, housing as well as building the capital and finally the projects for tribal and Azad Kashmir areas.

The National Housing policy of 2001 was formulated by the 'Ministry of Housing and Works'. A large number of public and private representatives took part in its formulation. The objective of the policy was to recognize the shortage of housing, create opportunities for the private sector, create practical and research based promotion of materials for efficient construction for the low and middle income groups. This policy further limited the role of Government to that of a facilitator.

The banks and other investment agencies did not have a mechanism to offer finances for housing the low and middle income groups. Similarly, the House Building Finance Corporation (HBFC) had issues of becoming compliant to the sharia laws and retrieving back its former loans.

The cost of building materials has increased significantly leaving the 81 % of the households with an income less than Rs. 8000 per month with no choice of affording a house.

Creating and managing public housing projects in Pakistan is the responsibility of Pakistan Housing Authority (PHA). The PHA creates apartments for the lower middle class and then sells them on instalments. In addition to this, the government institutions and ministries also develop and provide apartments for their staff. All the government institutions such as the Army, Judiciary, and the government ministries construct residential structures to house their employees starting with the high ranking officers.

During the 1980's large quantity of residential apartments was developed by the government to house the lower ranks of government employees.

Mostly the low earning employees of the private sector do not have much options but to rent out apartments from the market. Unlike Japan, where subsidized homes are available

to low income households belonging to any sector, no subsidies for housing have been provided to private sector workers in Pakistan.

The table 3-4 shows that the proportion of housing expenditures reduced from .08% in 2005 to .046 % in 2015 as the total current expenditures also reduced during the same time period.

Table 3-4 Current and Development Expenditure 2005, 2014-15

| Classification | 2005 | % of Total expenditure in 2005 | Budget 2014-15 (Rs in Million) | % of Total expenditure in 2014-15 |
|-----------------------------------|----------------|---------------------------------------|---------------------------------------|--|
| A.CURRENT | 866,771 | 86.58 | 3,463,245 | 80.50 |
| -General Public Service | 468974 | 46.85 | 2,543,334 | 59.12 |
| -Defence Affairs & Services | 216258 | 21.60 | 700,148 | 16.27 |
| -Public Order and Safety Affairs | 17546 | 1.75 | 86450 | 2.00 |
| -Economic Affairs | 62172 | 6.20 | 47585 | 1.10 |
| -Environmental Protection | 136 | .01 | 936 | .02 |
| -Housing and Community Amenities | 866 | .08 | 2012 | .046 |
| -Health Affairs & Services | 3280 | .32 | 10017 | .23 |
| -Recreation, Culture and Religion | 2,245 | .22 | 7060 | .16 |
| -Education Affairs and Services | 12340 | 1.23 | 64014 | 1.48 |
| Miscellaneous | 188436 | 21.74 | - | |
| B. DEVELOPMENT | 119,672 | 11.95 | 838500 | 19.49 |

| | | | | |
|-----------------------------------|------------------|------|----------------|-------|
| Disbursements | 52,739 | 5.26 | 525000 | 12.20 |
| Other development expenditures | 66,933 | 6.68 | 161813 | 3.76 |
| Adjustments with loans and grants | 14,563 | 1.45 | 151688 | 3.52 |
| TOTAL EXPENDITURE (A+B): | 1,001,006 | | 4301746 | |

Source: Authors compilations based on data from the Finance department of Pakistan

Bhutto, while he was still a minister in the late 60's rallied support for regularizing the Lyari² Katchi Abadi in Karachi. Another Katchi Abadi is the Kausar Niazi Katchi Abadi which got regularized during Bhutto's rule. Both of these Katchi Abadi dwellers have remained loyal to Bhutto's political party for decades and PPP always won in these constituencies. However, these Katchi Abadis faced threat of eviction when the opposition party came into power. More than 40,000 Katchi Abadi dwellers of Layari had to evict for the construction of Layari Expressway (LEW) between 2002 and 2009. The political party governing at that time was Muttahida Qaumi Movement (MQM), a political rival for the PPP in the primate city of Karachi.

² Lyari is a low income house hold district lying in the low lying terrain of Karachi which used to be Lyari river bed.

2-3 Housing Policy and the Welfare State

The spending on housing, the basic pillar of welfare state, fell dramatically from 10.5 % of the total expenditures in the first five-year plan (1955- 60) down to 0.90 % in the eighth five-year plan (1993-98) and to 0.08 % of the total expenditures in 2005. Finally, the housing proportion decreased to 0.046% of the expenditures in 2014-15 (table 3-3 & 3-4).

This contraction in the housing expenditure by the government created space for the private sector to fill the gap; however, the private sector caters only to the upper segments of the society, unlike in the developed countries such as in the United Kingdom, where the developers are incentivized to provide cheaper housing options for the low income in their housing development projects. Also the housing finance has not played a conducive role catering to the low income housing. Moreover, the title documents are not protected by the state and possession of land is enough to provide tenure security. The Katchi Abadi encroachers are well aware of this fact as argued by Willcox (1991).

Chapter 4 Empirical Analysis of Intergovernmental Fiscal Transfers and Public Finance of Lahore

The objective of this chapter is to study the effects of Pakistan's public finance policies on the provision of public goods and housing and to assess the role of Pakistan's state in welfare spending.

The study analyses Pakistan's state structure, intergovernmental fiscal transfer system and assessment of the roles and functions of different governmental tiers along with their fiscal capacities to understand the provision of basic welfare amenities with a focus on low income housing.

The study of the state's institutions responsible of fiscal expenditures and of development funds shows state's inclination towards priority areas. The research focuses on the local governments, particularly emphasizing the city of Lahore's public finance. Moreover, the study draws a comparison with the Japanese public finance system to disclose the convergences and divergences between the two countries.

This analysis is based on the study of public finance statistics issued by government agencies, white papers, Government Acts, and statistics issued on Pakistan by International agencies such as World Bank and UN-Habitat. The research methodology constructs a

comparative analysis of intergovernmental fiscal transfer of Pakistan and Japan. The purpose is to clearly understand the features of Pakistan's public finance system. The comparison helps understand the unique features of the public finance system in Pakistan.

The first section of this chapter explains the state structure, intergovernmental fiscal transfer system, fiscal resources, policies and horizontal transfers between the existing governmental structures of Pakistan.

The second section of this chapter analyses the public finance of the Punjab province in Pakistan. Punjab is the most densely populated province with the largest number of local governments and comprises of the economically important urban areas. This section explains the province's fiscal capacities, roles and functions lying within its domain and investigates the state of the public housing projects taken up by the Government of Punjab.

The third section deals with the changing trends of the local governmental fiscal powers, roles and responsibilities in the context of the local governmental acts of 2001 and 2013.

The difference between these two laws gives insights into political intentions of the military and democratic regimes running the country at that time.

Section Four discusses the city of Lahore's municipal finance and its functions. The analysis of the city expenditures is to look for low income housing projects within the

domain of a metropolitan city and to understand city fiscal capacity. The study tries to investigate for possible sources to build city's fiscal capacities and to cater for low income housing within city domain such as Lahore. An analysis of revenues and expenditures of Lahore after the devolution acts of 2001 and 2013 give an account of the city fiscal and functional capacities originating from the two acts.

Section Five of this chapter compares Pakistan's Intergovernmental fiscal transfer system with the public finance of Japan. There are two purposes for this comparison: one is to find clearer features of the Pakistan's local finance system and another is to compare the governance structure and the spending on housing and other welfare services. For the comparative analysis of local government expenditures, public finance data of Punjab is used. The Punjab generates a larger share of the own revenues and receives the largest proportion of federal grants as compared to other provinces in Pakistan. An analysis of this system is elaborated at the end of section 1.

1 State Structure of Pakistan & Federal-Provincial Fiscal Relations

Pakistan is a federal state system with much power vested in the central government. At the time of Pakistan's inception in 1947, the federal system was adopted as already envisaged in the Act of India 1935. This is in contrast to most of the federal systems, in

which the sovereign federating units voluntarily collaborate to form a federal system for the mutual benefit. The Government of India Act, which was a highly centralized federal system, provided the base for a federal system adopted by Pakistan. The country faced big problems in evolving the federal system as at the time of freedom movement the voices of ethnicity started coming out from the four provinces that were to constitute Pakistan. To counterbalance regional and ethnic differences the state invoked Islam as a state religion and tried to create unity based on Islamic principles. Pakistan has experienced both parliamentary and presidential systems but all the constitutions retained the federal order.

A federal system is a political union of diverse regions and people belonging to different ethnic backgrounds establishing a constitutional and legal framework to determine the relationship between the federal and its constituencies.

Islamic Republic of Pakistan is a parliamentary federation state comprising of four provinces, Federally Administered Tribal Area (FATA), Gilgit Baltistan and the federal capital Islamabad. The FATA region is directly governed by the federal capital. The Local governments in Pakistan comprise of 102 Districts Council, 588 Tehsils and a 3455 Union Councils only in Punjab. The District councils are elected bodies constituted in District

areas. The District areas are further subdivided into Tehsil areas and villages. The Union Councils are the village level elected bodies.

The federal order in the constitution of 1973 (hereinafter the constitution means the constitution of 1973) gives significant degree of authority to the central government.

According to the constitution the central government has the authority to legislate and so do the provincial government; however, the central government's legislative organ reigns supreme over the provincial government's legislature in case of a conflict between the two.

Moreover, the central government can exert absolute authority over provincial governments in urgent situations such as in times of war, calamity and in case of conflict of interest. The center already exercises considerable control over provincial administration by the bureaucrats chosen through Pakistan Central Superior Services (PCSS) and through the provincial governor instated by the president.

Pakistan federation comprises of three tiers of Government; according to the devolution acts passed by the 4 provincial governments in 2013, the local government's structures are more or less similar. The local governments are divided into urban and rural areas once again after 2013.

Below is a figure representing the tiers of government according to the 2013 local government act of Punjab.

Figure 4-1 Tiers of government



Source: 2013 local government act of Punjab

1-1 Pakistan Tax System

In this section the federal and provincial tax system will be explained with a specific focus on the reasons of low tax to the GDP ratio. Tax rates, tax expenditures, revenue losses because of concessions and exemption and the size of the tax evasion will also be highlighted in this section.

The significant portion of the tax is levied by the federal government and is stipulated in the constitution under the Federal Legislative List (FLL) which is attached to Article 70

(4) in the Constitution of Pakistan of the year 1973 (whenever the word Constitution appears in this chapter it refers to the constitution of Pakistan 1973. Otherwise the year will be specified each time.)

Table 4-1 Taxes falling under the federal government jurisdiction

| | |
|----|--|
| 43 | Duties of customs, including export duties. |
| 44 | Excise duties including duties on salt. However duties on alcoholic liquors, opium and other narcotics are excluded. |
| 47 | Taxes on income. However the agricultural income is not levied by the federal government. |
| 48 | Taxes on corporations. |
| 49 | Taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed. The only excluded in this criteria is the sales tax on services or Service tax which is authorized to the provinces. |
| 50 | Taxes on the capital value of the assets, not including taxes on immovable property. |
| 51 | Taxes on mineral oil, natural gas and minerals for use in generation of nuclear energy. |
| 52 | Taxes and duties on the production capacity of any plant, machinery, undertaking, establishment or installation in lieu of any one or more of them. |
| 53 | Terminal taxes on goods or passengers carried by railway, sea or air; taxes on their fares and freights. |

Source: 4th Schedule Federal Legislative List (FLL), Constitution of Pakistan 1973.

The duties on customs in Pakistan is levied on goods imported at the prescribed rates, however concessionary rates and zero rating are also applicable on raw materials, capital

goods in case they are not manufactured in Pakistan and are important for development projects such as machinery related to power projects and oil and gas exploration etc.

The Federal excise duties are levied on the specific goods manufactured within Pakistan or imported and on services provided in Pakistan. These include excise duty on objects such as tobacco, edible oils, cement, and vehicles.

The Agricultural income tax and a small proportion of the property tax as a collection fee have been placed under the provincial authority. Also due to the 18th amendment the sales tax on services has been brought under the provincial jurisdiction. The provincial governments are thereby justified to impose taxes such as stamp duties, motor vehicle tax and entertainment tax.

A major contributor to the federal revenues is the income tax levied under the Income Tax Ordinance of 2001. The income tax is accrued at the source which is a presumptive or withholding tax, voluntary payments with the filing of returns and collection on demand followed by an assessment. The deductions at source are 56% and the voluntary payments are 33 % of the total income tax revenues.

1-2 Federal - Provincial Fiscal Relations

The revenue sharing occurs at 4 stages, Jaffery and Sadaqat (2006). The first stage is between Federal and Provincial governments; the second is between provincial and the local governments; third is between federal and local governments and fourth is within the local governments for example between local governments and town municipal authorities.

The provinces for their development funds are heavily dependent on the fiscal imbursements from the center. Most of the larger revenue contributors lie under the jurisdiction of the federal government. According to Khan (2006), the Federal Government generates 91% of the revenues and 9% is generated by the provincial and local governments, however the share of total expenditure by the federal government is 72% while 23 % expenditure responsibility is by the provincial and local governments.

The constitution of 1973 authorizes the federal government to levy and collect important taxes such as income tax (excluding income from agriculture, mining, oil and natural gas), general sales tax, wealth tax and capital gains tax, customs, duties, excise and export tax.

The provinces are authorized to collect taxes on land revenue, stamp duties, vehicle tax and income from agriculture.

The constitution of 1973, article 160 includes the formation of a National Finance Commission (NFC) to administer the distribution of the resources to the provinces and to

fix the grants to the provincial governments. The NFC is to be reconstituted with regular intervals by the federal government. The NFC is a step toward decentralization as the provincial government's elected representatives decide on the fiscal distribution from the divisible pool. As Akramov and Khan (2008) emphasize that decentralization creates accountability.

The NFC award of 1997-98 distributed the award money based on 82 % on population and 14% based on collection of excise duty, profits on hydroelectricity and royalty and surcharges on gas. The provinces wanted a raise in the share from 37.5 % to 50 % from the divisible pool. General Musharraf, the president in 2006 announced the NFC award and increased the provincial share out of the divisible pool from 37.5% to 45.33% and promised a 1% yearly increase so it would reach 50 % in 5 years. This NFC award also retained more emphasis on the population as a factor for fiscal transfer to the provinces thereby making Punjab province the beneficiary.

The 7th NFC award of March 2010 increased the provinces share in the divisible pool to 56% for the first year and 57.5% for the remaining years of the NFC award period. Historically the NFC award based its horizontal distribution on criteria such as population and income generation criteria; however, in the 7th NFC award, more criteria

were included to the list in addition to the population criteria. These newly included criterions include poverty, revenue collection/ generation and inverse population density. Moreover, the federal government has reduced the collection charges from 5 % to 1%, thus increasing the fiscal pool.

Table below shows percentage weightage given to the factors in the provinces.

Table 4-2 Percentage weightage given to the factors in the NFC awards of 1997 and 2010

| S.No | Indicator | % weight NFC award (1997-98) | % weight NFC Award 2010 |
|------|--------------------------------|-------------------------------|-------------------------|
| 1 | Population | 82 % | 82.00 |
| 2 | Poverty/backwardness | - | 10.30 |
| 3 | Revenue Collection/ generation | 18% | 5.00 |
| 4 | Inverse population density | - | 2.70 |
| | Total | 100% | 100% |

Source: Author

Table 4-3 the NFC awards percentage share of provinces in the divisible pool

| | 5th NFC Award 1996 | 6 th NFC award 2000 | NFC Awards 2006 (Gen. Musharraf) | 7 th NFC Award 2010 |
|--|--------------------|--------------------------------|---|--------------------------------|
| Total provincial share out of the divisible pool | 37.5% | Interim | 46 % the first year and increase to 50 % in 5 years | 57.5% |

Source: Author

The table above shows an increase of the provincial fiscal share in the divisible pool. However, the population criteria remained the major factor for distributing the divisible pool throughout the history of NFC. These population criteria mostly benefited Punjab and then Sindh. This population as a criterion for proportional fiscal transfer has adversely affected Baluchistan's development, the province with the least dense population.

The table 4-4 below shows proportional share of the four provinces from the divisible pool expressed in percentages.

Table 4-4 Proportional share of the four provinces from the divisible pool

| Provinces | 1 st NFC Award 1974, | 2nd NFC Award 1979 | 3rd NFC Award 1985 | 4th NFC Award 1990 | 5th NFC Award 1996 | 6 th NFC award 2000 | NFC Award 2006 | 7th NFC Award 2010 |
|-------------|---------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------------------|----------------|--|
| Punjab | 60.25 | 57.97 | Interim award | 57.88 | 57.88 | Interim award | 53.20 | 51.74 |
| Sindh | 22.50 | 23.34 | Interim award | 23.28 | 23.88 | Interim award | 24.96 | 24.55 div pool + .66 OZT= 25.21 |
| Pakhtoonkha | 13.39 | 13.39 | Interim award | 13.54 | 13.54 | Interim award | 14.78 | 14.62 div. pool +1.80 war on terror = 16.42% |
| Baluchistan | 3.86 | 5.30 | Interim award | 5.30 | 5.30 | Interim award | 7.05 | 9.09 |

Note: Octroi¹ is abbreviated as OZT in the table above.

Source: Author's compilations from data on different National Finance Commission Reports

In 1974, as population was the sole criteria, Punjab was the biggest beneficiary while Baluchistan had a considerably low share.

In the 1990 NFC award, the excise duty on tobacco and sugar was added to the divisible pool. Moreover, the provinces were given straight transfers on the net power hydel profits, surcharges on Gas and excise duty on oil. The volume of money transfers to the provinces had increased in the 1990 due to the inclusion of more taxes into the divisible pool; however,

the ratio of the horizontal distribution remained unchanged, as population was the sole criteria.

In the NFC award of 1996, all the taxes and duties collected by the government became part of the divisible pool, except the duty on gas. Moreover, surcharge on gas and royalty on crude oil was also given to the respective provinces. Additionally, matching grant was introduced and given to provinces exceeding revenue growth target of 14.2 %.

Table 4-5 Provincial distributional share in the 7th NFC's divisible pool

| Province | % Share on the basis of previous award | % Share on the basis of 7 th NFC Award 2010 | Grant for War on Terror | Grant for Compensation on account of OZ&T | Total % Share |
|-------------|--|--|-------------------------|---|---------------|
| Punjab | 53.20 | 51.74 | | | 51.74 |
| Sindh | 24.96 | 24.55 | | 0.66% | 25.21 |
| Pakhtunkhwa | 14.78 | 14.62 | 1.80% | | 16.42 |
| Baluchistan | 7.05 | 09.09 | | | 9.09 |
| Total | 100.00 | 100.00 | | | |

Source: Author, data from 7th National Finance Commission

Generally, the intergovernmental fiscal transfers are used to develop a common economic union and promote national agendas such as equity and fairness. The intergovernmental

transfer systems in many countries are a tool to develop the poorer regions at an average national level by allocating more financial sources for them.

Unlike Pakistan's intergovernmental fiscal transfer system many intergovernmental transfer systems in other countries allocate larger proportion of the divisible pool to the poorer regions for a balanced and harmonized development of a country. The fiscal system in Pakistan on the contrary allocates larger proportion of the divisible pool to the richer province such as Punjab thus making the already richer provinces more rich based on the population criteria as a means for fiscal distribution.

Ever since the formation of NFC, Punjab has been receiving the maximum share of the divisible pool even though it was the highest revenue generating province with the highest provincial GDP in Pakistan. The process of dividing the NFC award has been a cause of growing disparity between the provinces.

Over time the inclusion of more taxes into the NFC divisible pool has increased the proportional share of the provinces, however still the much valued population criteria for fiscal transfers benefits the densely populated provinces. Recently, only in the last NFC award of 2010, other criteria such as inverse population index and underdevelopment index were introduced, thus increasing Baluchistan province's share in the divisible pool by

reducing the share of the Revenue Collection/ Generation as a criteria for dividing the pool.

However, still the population criteria holds the maximum significance when fiscal allocations are done. The failure of the fiscal equal mechanism of the NFC has not been able to cope with the equality in infrastructure and service throughout the region thus exacerbating the immigration to urban areas from the less developed areas to more developed urban regions.

2 Analysis of Punjab Province's Pubic Finance

From the four provinces of Pakistan, the province of Punjab is selected for further study.

The reason for studying Punjab is that it comprises the largest population in Pakistan, has the largest share of the NFC award and the largest number of local governments. Studying Punjab will provide us with an understanding of Pakistan's local public finance as other provinces do follow suit.

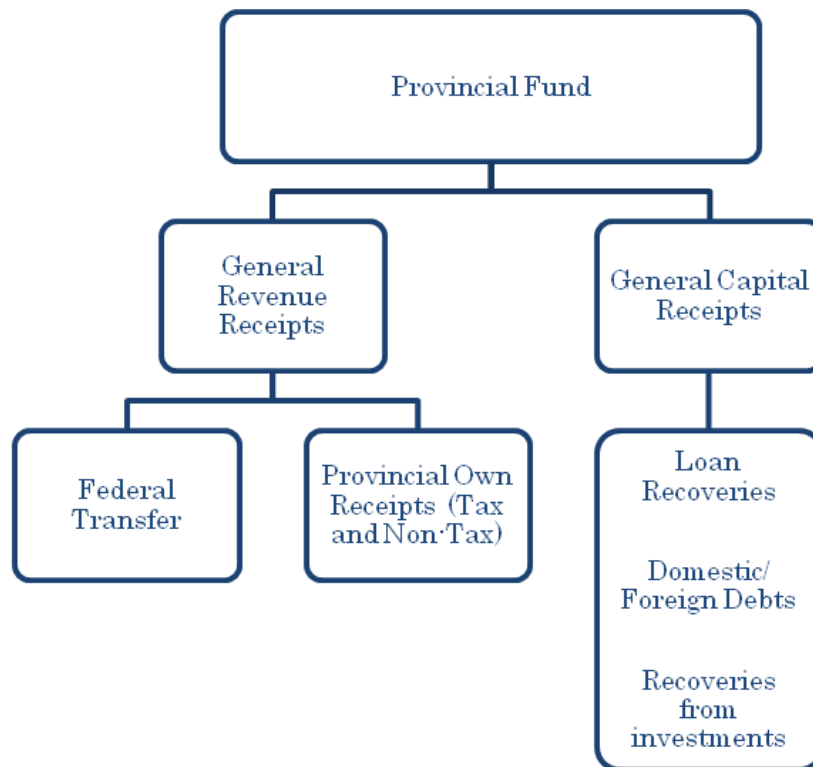
The two components of provincial receipts are:

1) General Revenue Receipts

2) General Capital Receipts

The following flow Graph provides sub-categories of the receipts leading to the two major heads of receipts mentioned above.

Figure 4-2 Revenue Receipts of Punjab Province



The General Revenue receipts for the provinces of Pakistan are as follows.

2-1 Federal Transfers:

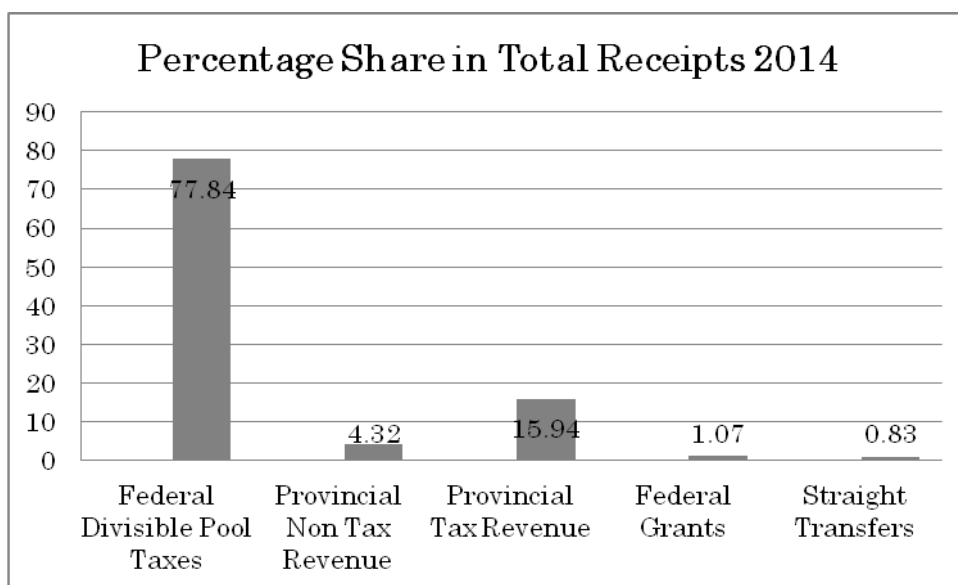
This is the share of finance coming from the Federal divisible pool of Taxes and account to 78 percent of the general revenues.

2-2 Punjab Provincial Own Receipts

In 2014, the Punjab province generated its own revenues of 19 percent as shown in graph 4.1. This accounted for provincial taxes receipts of 16 % and non-tax revenues accounting to 4.32 % of the provincial own receipts generation. The non-tax revenues refer to straight transfers as stipulated in the article 161 of the constitution of 1973 which directs the

royalties on oil and gas and excise duty on natural gas to the provincial governments. The non-tax revenue also includes the federal development and non-development grants to the executing agencies.

Graph 4-1 General Revenue Receipts in Punjab 2014



Source: Authors compilations based on data from Finance Department, Government of Punjab, Pakistan. 2013

A major proportion of the provincial government revenue comes from the federal government's divisible pool share in the form of Federal Transfers. This is because the fiscal structure allocates almost all of the buoyant taxes such as income tax, customs and excise duties and sales tax to the federal government of Pakistan. Therefore, any shortfall

in revenue collection by the Federal Board of Revenue (FBR) which is the highest federal agency responsible for auditing, enforcing and collecting revenue for the government leads to major adjustments in the provincial expenditures.

This fiscal pool collected from taxes has no flexibility as enjoyed in Japan's system, which is managed by the Special Account of Local Allocation Tax (LAT). This Special Account can implement borrowing in case of shortfall of revenue from the 'five national taxes' in order to meet the fiscal demands (calculated through a complex rule) of the local governments; thus it can be seen as a flexible system. It should be noted that this flexibility is not necessarily a good element in terms of governance and transparency of the Special Account of LAT.

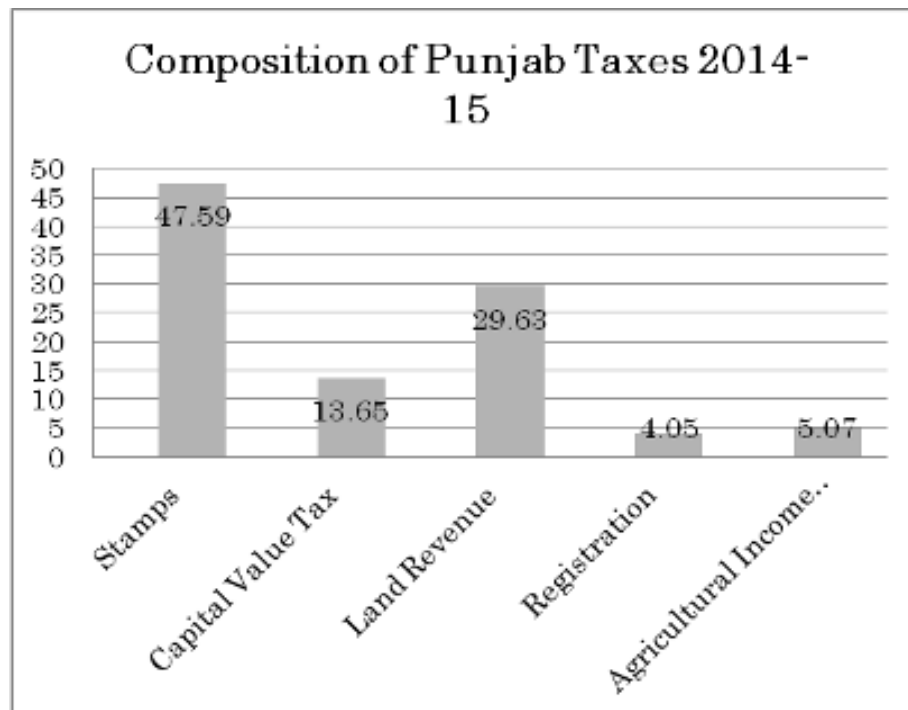
2-3 Provincial Revenue Receipts

The provincial revenue receipts in Pakistan, including the provincial own tax receipts are generated from agricultural income tax, property tax, land revenue, professional tax and capital value tax. The receipts from Indirect taxes include sales tax on services, provincial excise, stamp duties, motor vehicle taxes and electricity duty. The non-tax receipts are collected from development surcharges, royalties, federal grants and miscellaneous receipts.

The provincial tax receipts are collected by 5 departments which are Board of Revenue, Excise & Taxation, Finance Department/Punjab Revenue Authority, Energy and Transport department.

The provincial tax receipts composition collected by the Board of Revenue for the year 2014-2015 shows that 47 % of the revenue comes from stamps, 29 % from land revenue and 13.65 % from capital value tax. Only a small portion of 5 % comes from the agriculture income tax which was promulgated in 1997 and amendments were introduced in 2001. The agriculture income tax is a land tax rather than an agricultural income tax. Land owners holding over 25 acres of irrigated and 50 acres of un-irrigated land are to submit agriculture income tax returns. Subdivision of inherited land overtime and exclusion of smaller land holders from the tax are reasons for the less agricultural tax collection although the agriculture sector contributes a quarter of the GDP. Another reason of negligible agricultural tax collection is the inefficiency of the provincial tax collecting administrations. Agricultural tax collection can be significantly increased by the computerization of land record system and by e-stamping.

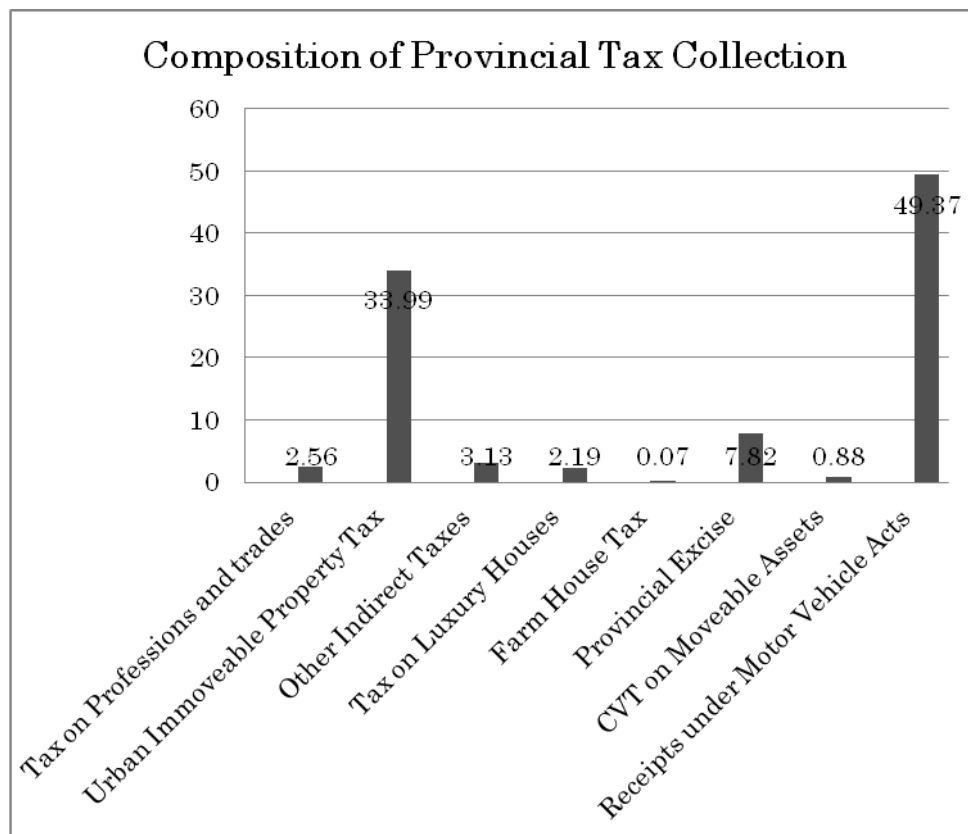
Graph 4-2 Board of Revenue Taxes BE 2014-15



Source: Author's compilations, data from Finance Department, Government of Punjab, Pakistan

The following Graph shows the Taxes collected by the Excise and Taxation department of Punjab government.

Graph 4-3 Taxes collected by the Excise and Taxation department Government of Punjab.

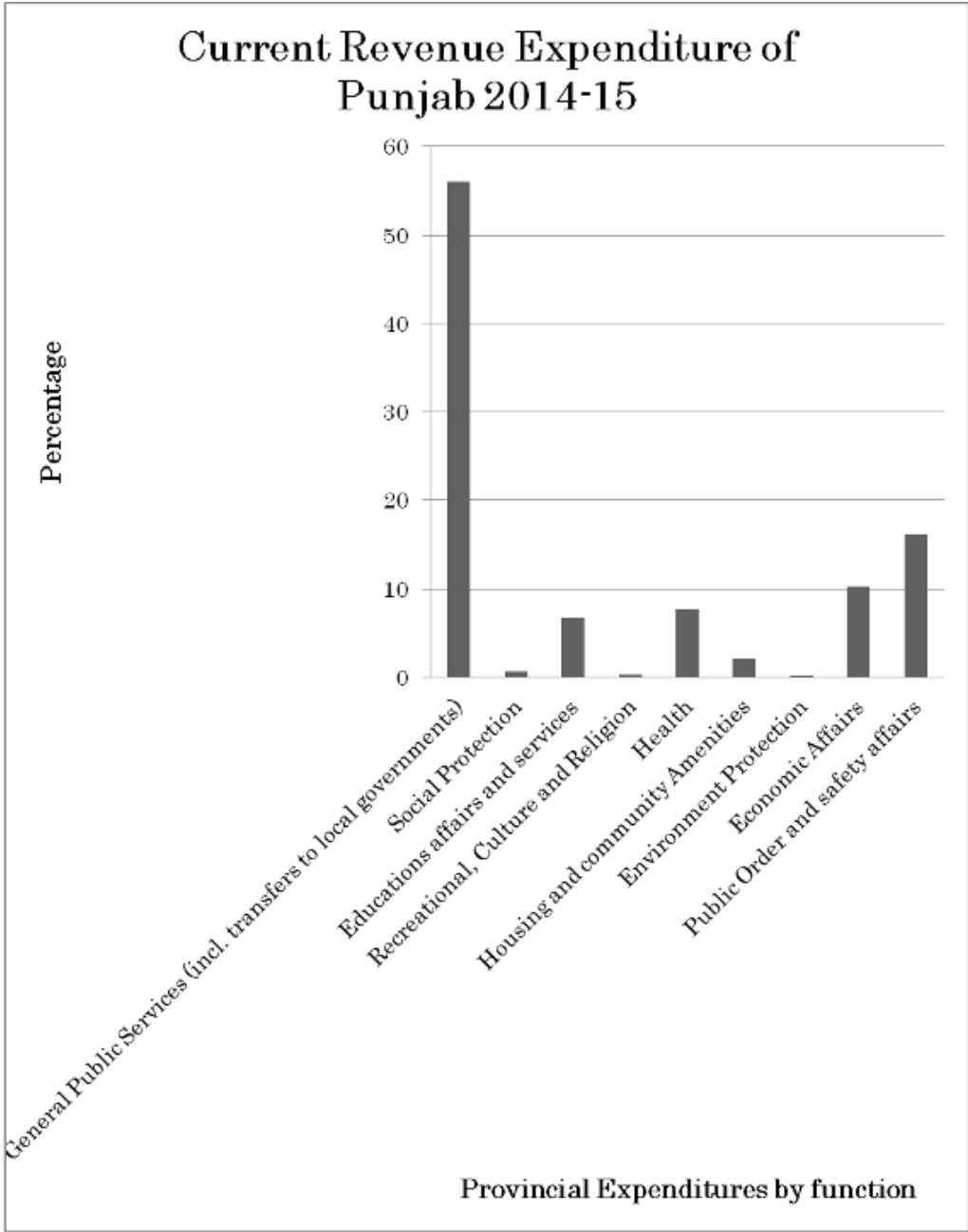


Source: Finance Department Government of Punjab, Pakistan

The Urban Immoveable Property Tax (UIPT) is levied under the Property Tax Act 1958 but following the Local Government Act 2001, it became a local government tax with the City District Governments and Tehsil Municipal Authorities (TMA) being able to set the

rates. UIPT is collected by the provincial governments and passed on to the respective local governments as a local tax by retaining a small percentage as collection fees.

Graph 4-4 Current Expenditures of Punjab 2014-15



Source: Finance Department Government of Punjab, Pakistan (2014-15)

The NFC is a well constituted federal-provincial decision making body on the basis of incorporating participation of all the provinces as the federal finance minister, and the provincial finance ministers of all the provinces develop a consensus for sharing the divisible pool.

The NFC system is a transparent way of distributing the funds from the fiscal pool. This system provides unconditional and lump sum grants in a predictable way and gives complete control of spending these funds to the provinces.

This system strengthens a centralized system of tax collection enabling the federal government to collect taxes by incurring less administrative costs and greater efficiency.

The royalties on oil and minerals collected by the federal government are returned back to the respective provinces as provincial own source revenues.

Since the NFC award is transferred to the provinces without conditions and without the provinces having going through the pain of collecting it, the provinces do not have to justify imposition of additional taxes in their constituencies and can enjoy spending on their projects without being accountable to the tax payers. Since these federal to provincial transfers are unconditional, the provinces are also not accountable to the federal government.

While the provinces have discretion of the use of the revenue, the revenue sharing leaves less responsibility on the provinces for revenue generation. A better way to cope this can be a larger tax base sharing between the provincial and federal governments.

The largest tax collected by the provincial government is the vehicle tax after which is Urban Immoveable property tax accounting to 33.99 % of the total tax. The collection of UIPT is weak and the provincial governments are not interested to renew the tax rate as the tax rate based on square footage was last amended during the 1950's. Another lowly collected tax than its real potential is agricultural tax. Agricultural Tax accounts to only 5 % of the taxes and yet contributes to almost 25 % in the provincial GDP.

The revenue sharing system does not encourage fiscal equalization mechanism thus the poorer regions do not find opportunity to rise to the national level. Japan uses fiscal equalization mechanism and a minimum level of service even in the remote areas is at par with the urban areas.

The table below shows a composition of Punjab's expenditure. The pro-poor development spending comprises of education, health, housing, roads and infrastructure, water supply, sewerage and sanitation.

Table 4-6 General Abstract of Revenues and Expenditures of Punjab 2015-16

| RECEIPT | | EXPENDITURE (Rs. In million) | |
|--|---------------|------------------------------------|-------------|
| Description | BE 2015-16 | Description | BE 2015-16 |
| A- Revenue Receipts | | A- Expenditure | |
| General Revenue Receipts | 1,144,588.319 | Revenue Expenditure | 753,010.825 |
| Federal Transfers (Including Excise Duty on N/G) | 888,488.471 | General Public Services | 405,260.487 |
| Provincial Tax Revenue | 160,591.110 | Public Order & Safety Affairs | 123,437.912 |
| Provincial Non Tax Revenue | 95,478.738 | Economic Affairs | 77,600.342 |
| Provincial Own Receipts | 23,846.106 | Environment Protection | 178.232 |
| Straight Transfers (Incl: Net Hyderabad Profit and excluding excise duty on N/G) | 31,045.529 | Housing and Community Amenities | 17,336.967 |
| Federal Grants | 40,587.103 | Health | 61,761.119 |
| | | Recreational, Culture and Religion | 2,781.741 |
| | | Education Affairs & Services | 59,433.725 |
| | | Social Protection | 5,220.300 |
| B - Capital Receipts | | B -Current Capital Expenditure | |
| Capital Receipts | 268,265.828 | Capital Expenditure | 294,230.989 |
| | | Public Debt | 0.434 |
| | | Repayment of Principal | 23,986.337 |
| | | Investments | 6,000.000 |

| | | | |
|---|----------------------|---|----------------------|
| Recoveries of Loans and Advances (A/C-I) | 949.977 | Loans and Advances (Principal) | 11,350.591 |
| Debt (A/C-I) | 14,458.934 | State Trading in Medical Stores | 36.710 |
| Recoveries of Investment-State Trading Schemes (A/C-II) | 138,774.500 | State Trading (Wheat) (A/C -II) | 146,999.847 |
| Cash Credit Accommodation (A/C-II) | 114,082.417 | Repayment of Commercial Bank Loans (A/C-II) | 105,857.070 |
| C - Development Receipts | | C - Development Expenditure | |
| Foreign Project Assistance | 34,417.667 | Annual Development Program | 400,000.000 |
| | | Core ADP | 333,000.000 |
| | | Other Development Initiatives | 67,000.000 |
| Total Receipts A/C-I | 1,194,384.897 | Total Expenditure A/C-I | 1,194,384.897 |
| Total Receipts A/C-II | 252,856.917 | Total Expenditure A/C-II | 252,856.917 |
| Total Provincial Consolidated Fund | 1,447,241.814 | Total Provincial Consolidated Fund | 1,447,241.814 |

Source: Finance Department, Government of Pakistan

It can be inferred from the above table 4-6 that in 2015-16, 1.19 % of the total expenditures was dedicated for housing and amenities. The housing expenditures here include spending on low and middle income housing. The proportion of health is 4.26%, education is 4.10 % and social safety and protection is 0.36 % of the total expenditures. The law and order has a fairly large share of 8.53 % and General Public Services accounts to 28 % of the total

expenditures. The General Public Services include expenditures on general administration charges, pensions and transfers to local governments.

The Punjab's debt to the total Gross Regional Product is 3 %, out of which 4.8 % is domestic debt while 95.2 % is foreign debt. The own-source revenues of the province have shown considerable improvement in the provincial tax collection which has seen a rise from 0.4 % in 2011 to 0.7% in 2015.

Table 4-7 Composition of Expenditures of Punjab from 2005 to 2015

| | % Share in the total Expenditures | | |
|-----------------------------------|-----------------------------------|---------|---------|
| | 2005-06 | 2009-10 | 2015-16 |
| General Public Services | 11.7 | 8.2 | 9.3 |
| Transfer to Local Governments | 30.9 | 24.4 | 18.67 |
| Public Order and safety | 9.9 | 11.1 | 8.53 |
| Economic Affairs | 6 | 10.6 | 5.36 |
| Health | 2.5 | 4.4 | 4.26 |
| Education Affairs | 2.1 | 4.6 | 4.1 |
| Others | 1.3 | 0.9 | 2.32 |
| Total Current Revenue Expenditure | 64. | 64.3 | 72.36 |
| Development Expenditures | 35.8 | 35.7 | 27.63 |
| Total Expenditures | 100 | 100 | 100 |

Source: Authors compilations calculated from the Budgets of Punjab from 2005-06, 2009-10 and 2015-16

The composition of the expenditure in the above table is categorized as Public services, Local Government Transfers, Public Order and Safety, Economic affairs, Health, Education Affairs and Others.

As described in table 4-7, the largest spending share is of the transfers to local governments which in 2015-16 accounted for 18.67 %. The other considerably larger major expenditure heads include General Public Services and Public Safety and Law and Order. The General public services are majorly a provincial administration head and currently is 9.3 % of the total expenditures in 2015-16. Public Safety and Law and Order comprises of 8.53 % of the total expenditures. The Education and Health expenditure heads have increased by twice in 2015-16 from that in 2005-06. These two heads indicate a slightly significant move of the state towards pro-poor development. Expenditures on Economic affairs has seen a decline from 2009-10 to 2015-16 and the share of current expenditures has seen an increase of 8 % in a span of a decade while the share of development budget has decreased to 8 percent during the same time.

The decline in the development budget is likely to remain the same in the future as it will likely be offset by large foreign private investments along the newly envisioned corridor project by the name of “China- Pakistan Economic Corridor (CPEC)”.

Now let us look at the breakup of the Annual Development Program in the table below.

Table 4-8 Annual Development Program 2015-16

| (Million Rs.) | | | | |
|----------------|---|-----------------------------|---------------------------|---------------------------|
| Sr. No. | Sector | Allocation 2015-2016 | Allocation 2016-17 | Allocation 2017-18 |
| A | Social Sector includes Education, Health & Family Planning, Water supply, Sanitation, Social Welfare, Safety Nets, etc. | 119,179 | 158,508 | 215,571 |
| B | Infrastructure Development includes Roads, Bridges, Irrigation, Energy , Public buildings and Urban Development | 161,476 | 214,763 | 292,078 |
| C | Production Sectors include Agriculture, Cooperatives, Forestry, fisheries, food, Live Stock and Minerals and Tourism | 28,525 | 37,939 | 51,597 |
| D | Services include Transport, Labor and HR, Governance and Information Tech. | 39,080 | 51,976 | 70,688 |
| E | Environment, Information Culture, Archaeology, Minorities etc. | 7,690 | 10,228 | 13,910 |
| F | Special Initiatives/ Programs | 44,050 | 58,587 | 79,757 |
| | Grand Total: | 400,000 | 532,000 | 723,600 |

Source: Finance Department, Government of Punjab
Source: Annual Development Report 2015-16, Finance Department Government of Punjab.

The 'F row' in the table above referring to Special Initiatives/programs includes the low income housing and Ashiana housing scheme introduced by the provincial government.

Detail of these projects is provided in the table below.

Table 4-9 'Special Initiatives/ program' break down in the Development program 2015-16

| (Million Rs.) | | | | |
|---------------|-------------------|--|--------------------|-----------|
| Sr.# | Sector | Punjab's Initiatives | Allocation 2015-16 | Total ODP |
| 1 | Education | Punjab Education Foundation (PEF) | 10,500 | 16,500 |
| 2 | | Daanish School | 3,000 | |
| 3 | | Punjab Education Endowment Fund (PEEF) | 2,000 | |
| 4 | | Lahore Knowledge Park | 1,000 | |
| 5 | Health | Health Insurance Card etc. | 2,500 | 7,950 |
| 6 | | Population Welfare Programme | 150 | |
| 7 | | PMDGP/PHSRP WB, DFID Sponsored/ Vertical Program | 1,000 | |
| 8 | | Pakistan Kidney Liver Institute (PKLI), Lahore | 3,000 | |
| 9 | | Expansion of RecpTayyip Erdogan Hospital, Muzaffargarh | 1,000 | |
| 10 | | Extended Health Coverage for Minorities | 300 | |
| 11 | Water Supply | Saaf Pani Programme | 11,000 | 11,000 |
| 12 | Sports & Youth | Sports | 500 | 2,500 |
| 13 | Affairs | Yoth Internship Programme | 2,000 | |
| 14 | Urban Development | Green Development Fund (PHA) | 700 | 1,900 |
| 15 | | PLDC (Aashiana Housing Scheme) | 700 | |
| 16 | | Low Income Housing (LIH) | 500 | |

| | | | | |
|-----------------------------|---------------------|--|--------------|--------------|
| 17 | TEVTA/ | TEVTA | 2,000 | 3,000 |
| 18 | PVTC | PVTC | 1,000 | |
| 19 | Agriculture | Punjab Bio Gas Energy Company | 100 | 100 |
| 20 | Livestock | PLDDB & PAMCO | 1,000 | 1,000 |
| 21 | Industries, | PSIC (Self Employment Scheme) | 2,000 | 4,000 |
| 22 | Commerce & | PIEDMIC/ FIEDMIC | 1,000 | |
| 23 | Investment | Skills Development Fund | 1,000 | |
| 24 | Mines & Minerals | Punjab Mineral Corporation | 1,000 | 1,000 |
| 25 | Social Welfare | Social Protection Authority (SPA) | 1,000 | 1,000 |
| 26 | Energy | RLNG Based Power Project | 15,000 | 15,000 |
| 27 | Special Package | Special Development Package for Baluchistan | 2,050 | 2,050 |
| Total Below The Line | | | 67000 | 67000 |

Source: Finance Department, Government of Punjab
Source: Annual Development Report 2015-16, Finance Department Government of Punjab.

The above table of Annual Development Program 2015-16 gives a break down of the Annual Development Program expenditures. The budget for the low-cost housing comprises of the projects of Ashiana Housing Scheme, a low-middle income housing scheme and Low Income Housing project. The expenditures incurred on the low income housing schemes is 0.3 % of the total development expenditures including 0.12 % on the low middle income housing scheme.

The provincial governments devote a larger proportion of their expenditure budget than the federal government which in 2015 allocated 0.04% (mentioned in table 3-4) of the

expenditures for housing. Recently, the three provinces of Pakistan announced low income housing schemes in Punjab, Sindh and Pakhtunkha.

Table 4-10 TREND IN PRSP EXPENDITURES, PUNJAB

Source: Dr. Aisha Ghaus-Pasha, Process Oriented Poverty Focused Gender Based Analysis of Punjab Budget 2009-10 & Poverty Reduction Strategy Paper-II, UNDP and government of Pakistan. (Page 38)

There was a slight growth of 0.19 percent in the housing expenditures from 2008-09 to 2015-16, as the share of total low cost housing in the Punjab's provincial expenditure in 2008-09 was 0.1% that increased to 0.5% in 2015-16 in a span of 7 years.

The general decrease in low income housing can be further elaborated by looking at the table, "The Annual Compound growth rate for low income housing reduced in the expenditures of Punjab by -6.4 % from 2004-05 2008-09. However, this decrease is not as significant as the decrease in the Federal government expenditures which reduced from 10 % during the 1950's to 0.046% in 2015 of the total expenditures.

Moreover, the other pro-poor expenditures such as Education, Health, Water supply & Sanitation, Population planning and Roads and highways witnessed a considerable growth in their annual compound growth rate expenditures. The largest growth was in the sector

Table 4-10 Trend In PRSP Expenditures, Punjab

| | (Rs. Millions) ACGR | | | | | (%) |
|--------------------------------------|---------------------|---------|---------|---------|--------------------|--------------------------|
| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2004-05 to 2008-09 |
| I. Pro-poor Expenditures | 67,780 | 80,977 | 104,502 | 115,322 | 141,349 | 20.2 |
| Education | 50,581 | 55,903 | 71,353 | 73,431 | 76,257 | 10.8 |
| Health | 12,587 | 14,419 | 22,116 | 24,784 | 42,243 | 35.3 |
| Population Planning | 799 | 1,072 | 1,429 | 4,676 | 1,269 | 12.3 |
| Social Welfare | 636 | 906 | 1,013 | 2,573 | 739 | 3.8 |
| Water Supply & Sanitation | 1,826 | 6,987 | 6,798 | 7,597 | 9,841 | 52.4 |
| Food Support Program | 1351 | 1,690 | 1,793 | 2,261 | 11000 ^b | 68.9 |
| II. Un-allocable | 52,599 | 73,235 | 81,154 | 113,464 | 134077 | 26.4 |
| Roads highways, & Bridges | 17,283 | 27,809 | 28,197 | 49,659 | 50,205 | 30.6 |
| Natural Calamities & Other Disasters | 32 | 2,731 | 1,055 | 3,118 | 2,924 | 209.2 |
| Agriculture/ Irrigation | 7,285 | 8,673 | 11,706 | 16,758 | 26, 120 | 37.6 |
| Land Reclamation | 81 | 91 | 101 | 108 | 123 | 11.0 |
| Rural Development | 10,316 | 9,267 | 9,495 | 9,933 | 8,069 | -6.0 |
| Rural Electrification | - | - | - | - | - | - |
| Food Subsidies | 1,500 | 750 | 982 | 253 | 2,412 | 12.6 |
| Low Cost Housing | 318 | 299 | 165 | 597 | 244 | -6.4 |
| Law and Order | 14,567 | 20,683 | 27,775 | 30,764 | 39,612 | 28.4 |
| Administration of Justice | 1,217 | 2,932 | 1,678 | 2,274 | 4,366 | 37.6 |
| Khushal Pakistan Fund | - | - | - | - | - | - |

| | | | | | | |
|---|---------|---------|---------|---------|---------|------|
| Total Pro-poor Expenditure | 120,379 | 154,212 | 185,656 | 228,786 | 275,426 | 23.0 |
| Total Provincial Expenditures a | 199,226 | 250,211 | 301,081 | 353,899 | 455,536 | 23.0 |
| Pro-poor Expenditure as Percentage of Total Provincial Expenditures | 60.4 | 61.6 | 61.7 | 64.6 | 60.5 | |
| Pro Women Expenditures as Percentage of Total Provincial Expenditures | 34.0 | 32.4 | 34.7 | 32.6 | 31.0 | |
| a. Current revenue and development expenditures as per revised estimates given in the provincial budget document. b. Shown under the industries head in the Annual Budget Statement of 2009-10 | | | | | | |
| Note: *ACGR = Annual Compound Growth Rate | | | | | | |

of Natural Calamities and disasters because the country had been hit by floods that created massive destruction. Water supply and sanitation expenditures grew 52 %, Health by 35%, Food Support Program by 68.9 % and education expense by 10.8 %.

The expenditures related to poverty Reduction Strategy Paper of the Government show that only 0.1% of the total expenditures in 2008-09 were dedicated for low income housing.

The largest share of the poverty reduction development expenditures in 2008-09 focused on education, roads, highways, health and law and order.

The table below shows the sector wise gaps in the total allocations and the revised budget expenditures in 5 years between 2004-05 to 2008-09. The expenditures are marked for the pro-poor development and reflect the government's intentions towards general welfare. It

can be inferred that the provincial governments exceeded the allocated amounts dedicated for the sector wise expenditures and alternatively financed it through lending or through better financial resources.

Table 4-11 Sector wise gap in allocation and expenditures in PRSP

| SECTOR-WISE GAP IN ALLOCATION AND EXPENDITURES IN PRSP SECTORS | | | | | |
|--|--------------|--------------|--------------|-------------|-------------|
| REVISED AS PERCENTAGE OF BUDGETED EXPENDITURES (%) | | | | | |
| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| I. Total Pro-Poor Sectors Expenditures | 104.0 | 121.0 | 106.9 | 77.3 | 97.0 |
| Education | 59.0 | 55.3 | 85.8 | 55.9 | 84.7 |
| Health | 71.7 | 103.3 | 114.5 | 109.1 | 120.4 |
| Population Planning | 145.3 | 130.2 | 99.7 | 75.3 | 74.2 |
| Social Welfare | 55.7 | 44.3 | 64.3 | 190.5 | 117.1 |
| Water Supply & Sanitation | 110.0 | 106.3 | 52.9 | 79.2 | 103.1 |
| B. Un-allocable | 140.6 | 146.8 | 119.8 | 80.9 | 97.6 |
| Roads highways, & Bridges | 171.8 | 188.5 | 94.0 | 61.9 | 104.6 |
| Natural Calamities & Other Disasters | 75.6 | 143.6 | 117.4 | 132.8 | 148.1 |
| Irrigation | 113.0 | 102.0 | 102.8 | 90.9 | 94.2 |

| | | | | | |
|--|-------|-------|-------|-------|-------|
| Land Reclamation | 94.6 | 93.4 | 103.6 | 16.2 | 108.4 |
| Rural Development | 168.8 | 476.0 | 601.1 | 151.2 | 95.3 |
| Rural Electrification | - | - | - | - | - |
| Food Subsidies | 125.0 | 112.9 | 95.7 | 4.2 | 14.1 |
| Low Cost Housing | 76.4 | 725.0 | 166.6 | 86.7 | 12.9 |
| Law and Order | 98.3 | 115.4 | 135.0 | 104.6 | 128.6 |
| Administration of Justice | 90.5 | 139.9 | 99.4 | 100.0 | 151.2 |
| Khushal Pakistan Fund | - | - | - | - | - |
| II. Total Other Provincial Expenditures | 108.9 | 109.0 | 123.0 | 108.6 | 120.1 |
| III. Total Provincial Expenditures | 107.5 | 113.5 | 116.1 | 94.1 | 109.3 |

Source: Dr. Aisha Ghaus-Pasha, Process Oriented Poverty Focused Gender Based Analysis of Punjab Budget 2009-10. UNDP and government of Pakistan, (Page 33)

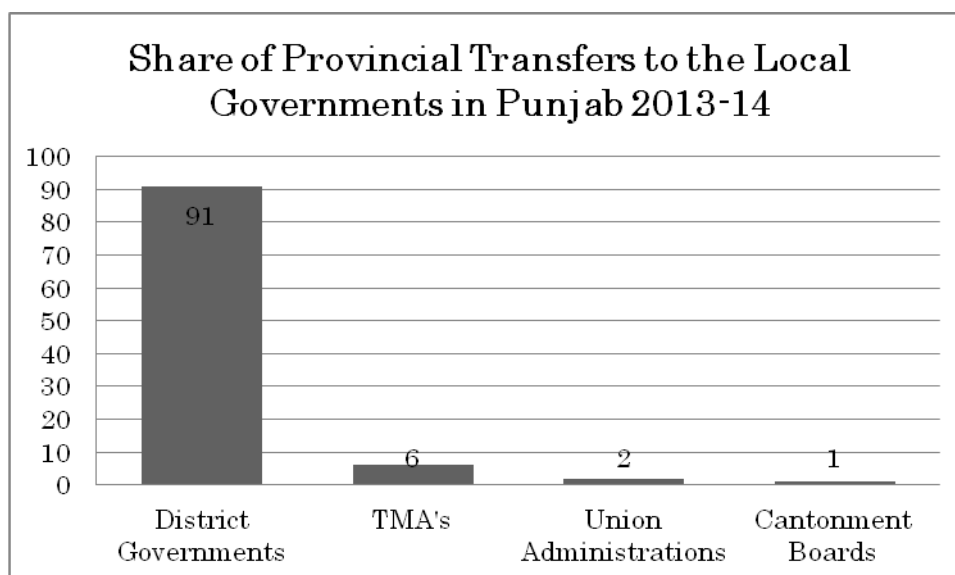
A look at the sectors benefiting from the revised expenditure reallocations between 2004-05 to 2008-09 indicates that ‘Law and Order’ has been the top priority and has witnessed a significant increase in its expenditures. Other sectors that have benefitted from the revised budget spending are roads, bridges, highways and natural disasters. On the contrary pro-poor or welfare based program such as education, population planning and water and sanitation experienced cutbacks. Other nonsystematic cutbacks are obvious in low income housing and irrigation. It can be further inferred that most of the increase in the revised budget allocations was in non-poor programs that do not directly affect the poor.

3 Punjab Local Governments Roles, Revenues and Expenditures

Article 140 (A) of the constitution stipulates, “Each Province shall, by law, establish a local government system and devolve political, administrative, and financial responsibility and authority to the elected representatives of the local governments.” This section focuses on the roles and powers of the local governments. The purpose is to find the cause of increasing low income housing backlog within the local government’s domain. The analysis focuses on how the local government ordinances changed over time and its effects on the local government’s expenditures.

Let us start by looking at the composition share of the local governments.

Graph 4-5 Share of Provincial Transfers of Punjab 2013-14



Source: Author, Data collected from Finance Department, Government of Punjab, Pakistan

3-1 Local Government Ordinance 2001

The Local Government Act of 2001 eliminated the subdivision of the rural and urban areas and created three tiers of local governments, District Councils, Tehsil Councils, and the Union Councils. The Tehsil and District councils were headed by directly chosen Nazims (mayors) and Naib Nazims (deputy mayors). In the LGO of 2001, there was no hierarchical distinction between the local and provincial governments.

This act devolved the administrative, financial and development responsibilities to the District councils and the deputy commissioners were reinstated as District Coordination Officers and had to report to the district's Nazim (Mayor). Moreover, the role of the police previously under the deputy commissioner was also brought under the control of the District Nazims. The Local Government Ordinance also made it mandatory of women participation (33%), minorities and peasants to be part of the councils.

The Union Council is the lowest level of governments and are also referred to as Village Councils in the rural areas. The Union Councils are administrative units headed by Nazims and Union Councilors in both urban and rural areas. In the rural areas the Union (Village) Council comprises of a large village or a combination of smaller villages.

In the Provincial Local Government Act of 2001, schooling, basic health care, sanitation, drinking water and municipal functions were devolved to the local governments which were composed of district governments, tehsil municipalities and union councils. The 2001 Act devolved many responsibilities to the local governments; however, it did not give them increase in the tax base instead provided more revenue source in the form of intergovernmental fiscal transfer.

Table 4-12 Functions of the local government as described in the Local Government Act of 2001

| Functions | Districts | Tehsils and TMA | Union councils |
|-----------------------|---|-------------------------------------|-----------------------------------|
| Education | Primary and secondary Education | No responsibility | No responsibility |
| Health | Local hospitals and dispensaries | No responsibility | No responsibility |
| Roads | District Roads, not the provincial or National highways | Road and streets within the tehsil | Streets of the Union councils |
| Water and sanitation | Water & sanitation only for city districts | Sewerage and sanitation of tehsil | No responsibility |
| Parks and playgrounds | No responsibility | Parks of TMAs and Tehsils | Parks of Union councils |
| Street lighting | | Street lighting of TMAs and Tehsils | Street lighting in union councils |

| | | | |
|--------|--|---|---|
| Others | | Cultural events and fairs, cattle shows and slaughter houses and fire services. | Birth, marriage and death certificates, libraries |
|--------|--|---|---|

Source: Authors Compilations

The three tiers of local governments (District Governments, Tehsils and Town Councils and Union councils) under the Local Government Act 2001 could levy taxes and generate revenues in the following order’-

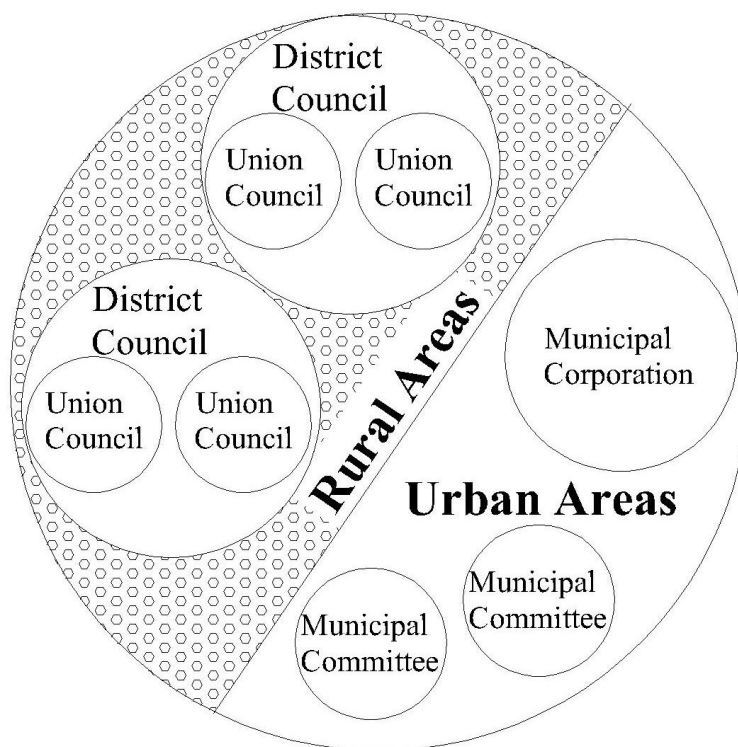
District Governments- Taxes on education and health, fees from schools and colleges, health units maintained and established by district governments, license fees, land revenue, service fees, toll fees from roads and bridges under district government authority other than the national and provincial highways.

Tehsils and Town councils: - Taxes on services, transfers of immoveable property and fees for building construction approvals, fairs, exhibitions, cattle show, cinemas, theater shows, collection charges of tax recovery on behalf of provincial governments, and licenses and fines on violations and maintenance of public utility services including lighting drainage and water supply within the jurisdiction of the Tehsil and Towns Councils.

Union Councils: - Fees for birth certificates, marriages, death certificates, market fees, sale of animals in the market, fees for professional licensing and charges for execution and

maintenance of public utility services including lighting drainage and water supply within the jurisdiction of the union councils.

Figure 4-3 Local Government structure



Source: Author

3-2 Local Government Act 2013

The Local Government Act of Punjab 2013 has divided the district areas once again into urban and rural areas. The Punjab local government has one Metropolitan Corporation for the entire Lahore district. The rural areas of the district fall under District Councils and the

urban areas of the district are divided into Municipal Corporations and Municipal Committees. The urban areas having a population between 30,000 to 500,000 people will form municipal committees and urban areas exceeding 500,000 populations will be municipal corporations. Moreover, the local governments of Punjab will have District Education and District Health Authorities for the districts which will include members from the local governments and technocrats assigned by the provincial governments.

According to the Punjab Government Local Act of 2013, a “local government” means a Union Council, a Municipal Committee, a Municipal Corporation, the Metropolitan Corporation, a District Council or an Authority;

The Metropolitan corporations and the municipal corporations are headed by Mayors and deputy mayors which are elected amongst the members of the Municipal and metropolitan corporations. The Municipal committees are composed of directly elected chairmen and the rural areas have chairmen in the district and union councils.

The Punjab Local Government Act of 2013 mentions that the local governments can generate own income through toll fees, rents from immovable properties, income from fairs and markets managed & regulated by the local governments. The mayor or chairman of the local council government can demand a grant from the provincial governments.

However, all funds to the local governments are to be maintained by the local fund auditor of the provincial government except for the union councils. The new Act 2013 for local governments has a minister of local governments including 3 members of the provincial assembly and a mix of public service officials.

The Provincial Finance Commission Awards were created to transfer finances to the local governments based on a rule. These awards are composed of Federal and Provincial taxes and the distribution of these finances to the local governments is based on a formula which accounts to the population ratio and backwardness (deprivation) index. Most of these resources are spent on wages.

Table 4-13 Functions of the local government in the LGO 2013

| Functions | Metropolitan and Municipal Corporations (exceeding 500 thousand) | Municipal Committees (Urban Areas) (exceeding 30 thousand) | District Councils (Rural) | Union councils (Urban and rural) | District Education and Health Authorities |
|---------------------|--|---|---------------------------|----------------------------------|--|
| Education | No responsibility | No responsibility | No responsibility | No responsibility | establish, manage primary and secondary schools, |
| Health | | No responsibility | No responsibility | No responsibility | establish, manage basic health care facilities |
| Approving authority | approve spatial, zoning, land use plans, implement rules for public transport, | enforce all municipal laws, rules and bye-laws regulating its functioning | No responsibility | No responsibility | approve budget allocate funds |

| | | | | | |
|-----------------------------------|--|---|--|--|-------------------|
| Tax Collection | collect taxes, fees, rents, tolls, and fines | | | No responsibility | No responsibility |
| Land Development | construction of express ways,; | Prepare, spatial plans for land use and zoning; approve and execute | Construct culverts, bridges and public buildings, control land use and zoning | No responsibility | No responsibility |
| Roads | roads and streets; traffic planning, engineering and management | Plan and manage Roads and streets in the committees | District Roads, not the provincial or National highways | Public Streets of the Union councils | No responsibility |
| Water and sanitation | Water supply, sewage, storm water drainage and solid waste collection | Water supply, sewage, storm water drainage and solid waste collection | Water & sanitation of the districts | Public wells, water pumps, drains and sanitation and solid waste collection | No responsibility |
| Parks, playgrounds and graveyards | Provide & maintain parks and playgrounds | Maintain parks and playgrounds | No responsibility | Parks and open spaces | No responsibility |
| Street lighting | Street lighting | Street lighting | No responsibility | lighting of public ways and parks | No responsibility |
| Others | promote technological parks, cottage, small and medium size enterprises; maintain municipal records, assist in provision of relief in the event of any fire, | Enforce municipal laws, regulate sign boards and advertisement, firefighting and traffic management | Celebrate cultural events and fairs, cattle shows, provide relief in case of disaster, | Birth, marriage and death certificates, libraries, parking spaces, transport stations, fire fighting | No responsibility |
| Animals | | organize cattle fairs and cattle markets and regulate sale of animals | Organize cattle fairs and cattle markets | Manage slaughter houses, cattle ponds and grazing areas | No responsibility |

Source: - Author's compilations from the Local Governments ordinance

In addition to this the lowest tier of the local governments are the Panchayats for rural government and Musalihat Anjuman for urban areas composed of a panel of 9 members.

The function of these two is to settle disputes and amicable settlements of the residents of the union councils.

Table 4-14 Heads of Local government bodies according to LG Act 2013.

| | Metropolitan and Municipal Corporations (Urban Areas in a district) | Municipal Committees (Urban Areas in a district) | District Councils (Rural Areas) | Union councils (Urban and rural) | District Education and Health Authorities |
|-------------|---|---|--|--|---|
| Head | Mayor | Chairmen of all Union Councils in the area of Municipal Corporation | Chairmen of all Union Councils in the rural area of the District Council | directly elected Chairman and Vice Chairman, | A Government official posted by the provincial government |

Source: - Author

3-3 Analysis of the two Local Government Acts 2001 and 2013.

In 2000 the federal government initiated an ambitious program to restructure the local government's fiscal, administrative and functional roles and responsibilities. Imperatives for the devolution bore from the urge to enhance efficiency, government accountability, grass root democracy and local resident's participation. Even these reforms to devolve

functions and powers to the local governments were materialized in 2001, the local governments of today derive their functional and fiscal capacities from the provincial legislation. The current constitution does not recognize local governments as separate entities of government with their own functional, fiscal and legislative powers. An amendment in the Local Government Act in 2002 however made it mandatory for the provincial governments to legislate for local governments and devolve authorities, functions and finances to the local governments. The local governments are not protected in the constitution of Pakistan. In the LGO of 2001, the local governments cannot face abolishment without the President's sanction. However, in the LGO of 2013, the provincial governments have been again empowered to repeal the local governments.

Provinces still continue to be responsible for wide ranging services and also managers of the funds and fiscal transfers to local governments. The provinces are incharge of irrigation networks, roads, education and health, monitoring, evaluation and regulatory powers to administer private sector. Management of education and health was devolved to the local governments in 2001 and has been reversed back to the provinces in the Local Government Acts of 2013. The education and health sector now comes under the Education and Health authorities constituted by the four provincial governments. However, in Khyber Pakhtoonkha province the Union Councilors and the District Nazims are to monitor and

supervise the government functionaries. The LGOs have changed the tax beneficiaries over time. The two Acts state that the immovable property tax, property transfer fees, cattle fees and the taxes on trades and professions be granted to the local governments.

Taxes on health and education were given to the local district governments in LGO 2001, however, have been reinstated back to Punjab in the Punjab Local Government Act of 2013 by giving management charge of basic education and health to the provincial Education and Health Authorities. The efficiency of these authorities is yet to be monitored. Moreover, the local participation for the education and health will be missing as the bureaucracy will be in charge. The positive effect can be achieved provided the government is serious about implementing a country wide free and mandatory education, the authorities will have to work with the local governments to enforce it.

According to the Punjab Local Government Act of 2013, the local governments can levy any kind of tax at any tax rates upon approval from the provincial government. This gives the local governments less autonomy to levy their own taxes as it is based on approvals from the provincial governments.

The local governments were annulled by the democratic return in the country in 2008. Unfortunately, the democratically elected political parties hesitate to share power with the

elected entities of local governments. The political parties in Pakistan have historically been known to work with two tiers of the government, the federal and the provincial governments. Their preference for the third tier has been the government bureaucracy. The centralization of power has been a contested issue in the political scenario of Pakistan. The democratic ruling parties have historically acknowledged control of managing the local government districts through a commissioner.

In the past the military dictators ruling the country have been the strength of local governments (third tier) and reciprocally the local governments have been strength of the military dictators in Pakistan. The dictators have been ruling the country with the help of locally elected representatives not associated with political parties. These local governments worked in coherence with the military regimes and once the democratically elected governments were back, the local governments were abolished because they were seen as strands of the military governments. This contest for power between the military and the democratically elected governments has not allowed the local governments to establish and strengthen all through Pakistan's history. This is the first time in the history of Pakistan that democratically elected provincial governments were forced by the higher judiciary to legislate to establish basic-level local governments. The past tradition of the

military dictators to hold nonparty based elections for the local governments has been changed to political party based elections in the LG Acts of 2013.

An important feature in the most recent LG Acts passed by the four provinces as compared to the Local Government Ordinance of 2001 is that none of the provincial governments devolve sufficient functions and powers to the local governments while retaining the right to remove the elected heads of the local governments. Furthermore, the Finance Minister and the Provincial Finance Department manages the Local Government Funds.

Historically the local government expenditures were a minimum of 5 % of the total expenditures. The major events that changed this system and brought the local governments receiving larger fiscal transfers from the federal government were the abolition of Octroi¹ tax in 1998 and secondly the local devolution act of 2001, that brought changes of expenditure responsibilities to local governments.

The transfer of provincial fiscal transfers to the local governments is managed by the Provincial Finance Commissions (PFC) and the PFC boards constitute of provincial finance ministers, planning and development finance secretary, additional chief secretary and two citizens. The size of the divisible pool is determined by the provincial government and the commission decides the distribution criteria.

The PFC transfers are based on population as the most important factor in the distribution criteria of the provincial awards to the local districts, similar to NFC. Backwardness (underdevelopment) of a district and tax effort provision are also incorporated in the distribution criteria in Punjab and Sindh. Pakhtunkhwa province gives importance to infrastructure deficiency while Baluchistan gives 50 % weightage to district's area size.

The Provincial to local revenue sharing criteria system is transparent and due to the abolition of the octroi, the size of the divisible pool has become bigger. In this system the Local governments enjoy complete control over the use of fiscal transfers.

The treatment of all the local districts for fiscal treatment is alike therefore creating district inequality. Urban districts with larger local services and rural districts are put up together. This is one of the reason for urban housing shortage as the city districts do not get enough fiscal capacities to develop housing projects.

Simply by distributing the divisible pool among the districts, the PFC's have been unable to create a responsible and effective role of the fiscal transfers based on accountable and efficient governance. The local governments are given the share not on result based criteria neither any consideration is given for creating a better delivery of services.

Public housing of any kind remains outside the local government's domain and so the smaller towns and cities are without any public housing projects, moreover, the public housing in small local governments is often ignored by the provincial governments.

And all the low income housing projects end up in the metropolitan cities that also happen to be the provincial capitals.

While the local governments have discretion over the use of revenue, the revenue sharing leaves less responsibility on the provinces for revenue generation. A better way to cope with this can be a larger tax base sharing between the federal, provincial and local governments.

According to the Punjab Local Government Act of 2013, the local governments can levy any kind of tax at any tax rates upon approval from the provincial government. This gives the local governments less autonomy to levy their own taxes as it is based on approvals from the provincial governments. A way to discourage speculation can be the local government's initiative to impose anti-speculative laws so that land which is an important resource for housing can be brought into the market.

4 Lahore City's Revenues and Expenditures

This section analyses the fiscal structure of Lahore after the devolution of two Local Government Acts of 2001 and 2013.

Institutional arrangements for the area called Lahore are complex: a mixture of different organizations at the federal, provincial and local levels are at work with administrative territories, jurisdictions and administrative frameworks. Lack of coordination among these agencies (ex: lack of collaborative planning in the authority) and different administrative frameworks have created confusion for the provision of municipal services. This has adversely affected urban development management resulting in haphazard infrastructure development and uneven quality of public space (parks, libraries, streets, etc.). The Punjab Local Government Act 2013 devolution reform has designated Lahore as a metropolitan corporation, headed by a Mayor.

The largest component of Lahore's City District Government revenues after the 2001 Devolution Act was the fiscal transfers from the Punjab provincial government and contributed to 63% of the total revenues and increased to 66% of the total revenues in 2002/2003. Lahore City's own sources of income included octroi tax, income from property (transfer fees and property tax), profits from investments, approval of building plans, user charges and social service fees. The major contributor to the own sources of

Lahore's revenue in 2001 was the fiscal transfers in lieu of octroi tax received as a provincial grant and contributed to 65 % percent of own source revenues and 20 % of the total revenues. Before the abolishment of octroi in 1998/99, the Municipal Corporation Lahore (MCL) collected octroi on its own that contributed to 60 % of Lahore's own source revenues. Next to octroi, the second largest contributor to the own source revenue was property transfer fees which amounted to 25% of non-octroi own source of revenue in 2001. The rental income to the city district government was the third major contributor amounting to 22% followed by the property tax which amounted to 17% of non octroi own source revenues.

Before the devolution Act of 2001, octroi and property transfer fees contributed as the largest share of the own source finances of Municipal Corporation Lahore (MCL) in 1998/99. The provincial government after deducting 15 % as collection charges and 75% of the property tax was allocated to Lahore Development Authority LDA, the share the property tax that was received by the MCL was only 19% of the entire revenues in 1998/1999.

The urban property tax has a great potential to grow over time. Recently Lahore city has been able to computerize the properties in Lahore which will result in better collection of the property tax.

Octroi has been a significant tax imposed on the import of goods into the municipal limits for local use, consumption and sale. The octroi tax was the largest contributor to the total local tax revenues amounting to 86% of all the municipal governments in Pakistan and it contributed to 59 % to all the local governments total revenue receipts including the transfers from the provincial fiscal receipts. The octroi was abolished in 2001 and thereafter, the local governments have been compensated by the central governments.

The recurrent expenditures of Lahore City District were 75 % of the total expenditures in 2001 and almost 80% in 2002/03. The development expenditures accounted to only 19% in 2001 and were declined to 13 % in 2002/03. The expenditures on education and health exceed 60 percent of the recurrent expenditures. Before the devolution of 2001, the health and education expenditures were handled by the provincial governments. Recently, after the devolution Act of 2013, the responsibility of health and education has been again taken back from the local governments and put into the provincial government's sphere of

spending. Approximately, 95 % of the recurrent education expenditures and 60 percent of the recurrent expenditures on health comprised of salaries and pensions.

The city government of Lahore was carrying a deficit of 4 % of the total revenues after the devolution in 2001, which was 8% of the total revenues in 2002/03.

Table 4-15 Lahore City Revenue and Expenditure 2002/03

| | 2001/02 | 2002/03 |
|--|----------|----------|
| Revenues | | |
| Fiscal Transfers from Provincial Government | 2,619.28 | 3,003.03 |
| Grant in Lieu of <i>Octroi</i> | 844.62 | 1,013.63 |
| Approval of Building Plans and Commission Fees | 23.32 | 50.00 |
| Profit on Investment | 25.99 | 3.00 |
| User Charges for Social Services | 15.34 | 16.64 |
| Rental Income | 101.13 | 120.24 |
| Property Tax | 78.63 | 90.00 |
| Property Transfer Fee | 111.08 | 3 |
| Tax on Animals | 69.62 | |
| Sanitation Fees | 6 | 15 |
| Miscellaneous | 20.51 | 15.80 |
| Subtotal (own revenues) | 1,296.29 | 1,327.31 |
| Own Revenues | | |
| Grant in Aid | | |

| | | |
|---|----------|----------|
| Total Revenues | 4,165.14 | 4,547.68 |
| Recurrent Expenditures | | |
| Education | 1,897.50 | 2,176.42 |
| Salary Expenditure | 1,796.78 | 2,069.03 |
| No salary Expenditure | 100.72 | 107.39 |
| Health | 250.84 | 276.93 |
| Salary Expenditure | 164.06 | 184.02 |
| No salary Expenditure | 86.78 9 | 2.91 |
| Expenditure in Other Departments | 1,093.11 | 1,493.68 |
| Salary expenditure | | 879.87 |
| Non-salary expenditure | | 613.81 |
| Miscellaneous (repairs) | 35.49 | |
| Total Recurrent Expenditures | 3,276.94 | 3,947.02 |
| | | |
| Transfer to Union Councils in Lieu of <i>Zila</i> Tax | 231.8 | 340.73 |
| Subtotal | 3,508.74 | 4,287.75 |
| Development Expenditures | 836.979 | 622.36 |
| Total Expenditures | 4,345.72 | 4,910.11 |
| Surplus/(Deficit) | (180.58) | (362.43) |

Source: Kardar, S. 2003, *Local Government Finance and Bond Markets*, Page 365

A further comparison of Lahore's revenues from the table 4-15 indicate that the ratio of provincial receipts to the total receipts grew from 62.89 % in 2003 to 69.84 % in 2015. Lahore's local governments own receipts reduced considerably from 10.84% in 2001-02 to 4.26 % in 2015-16. The ratio of the Provincial transfer in lieu of Octroi to that of total receipts also reduced from 20.28 % in 2001 to 5.5 % of all.

The expenditure side can be interpreted as that even though the total expenditure including the establishment expenditures (majorly salaries of employees) and the development expenditures grew by 5.5 times in 12 years from 2001-02 to 2015-16, the ratio of the establishment expenditures grew from 80.74 % in 2001-02 to 83% in 2015-16. The share of the development expenditures on the other hand has reduced by 2.61 % in 12 years between 2001-02 to 2015-16.

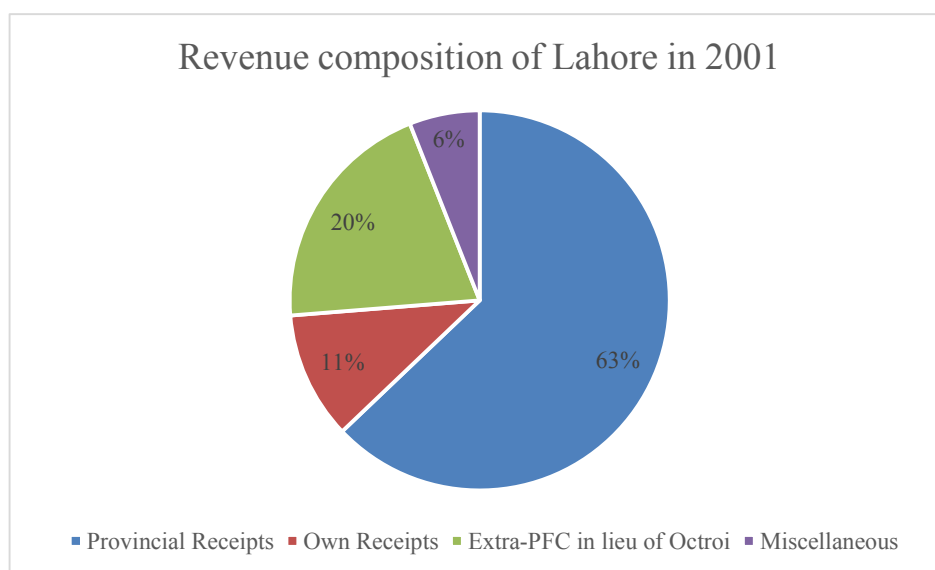
Table 4-16 Lahore City Revenue and Expenditure 2001-02, 2002-03 and 2015-16

| DESCRIPTION | BUDGET 2001/02 | BUDGET 2002/03 | BUDGET PROPOSED 2015-2016 |
|---------------------|---------------------------|---------------------------|--|
| Revenues | | | |
| Provincial Receipts | 2,619.28 | 3,003.03 | 18,455.673 |
| Own Receipts | 451.67 | 313.68 | 1,124.650 |

| | | | |
|------------------------------------|-----------------|-----------------|-------------------|
| Extra-PFC in lieu of Octroi | 844.62 | 1,013.63 | 1,452.168 |
| Miscellaneous | 249.57 | 217.34 | 5392.462 |
| Total Revenues | 4,165.14 | 4,547.68 | 26,424.953 |
| EXPENDITURE | | | |
| Establishment Expenditure | | | |
| Total Recurrent Expenditure | 3,508.74 | 4,287.75 | 21,824.476 |
| Development Expenditure | 836.979 | 622.36 | 4,358.244 |
| Total Expenditure | 4,345.72 | 4,910.11 | 26,182.720 |

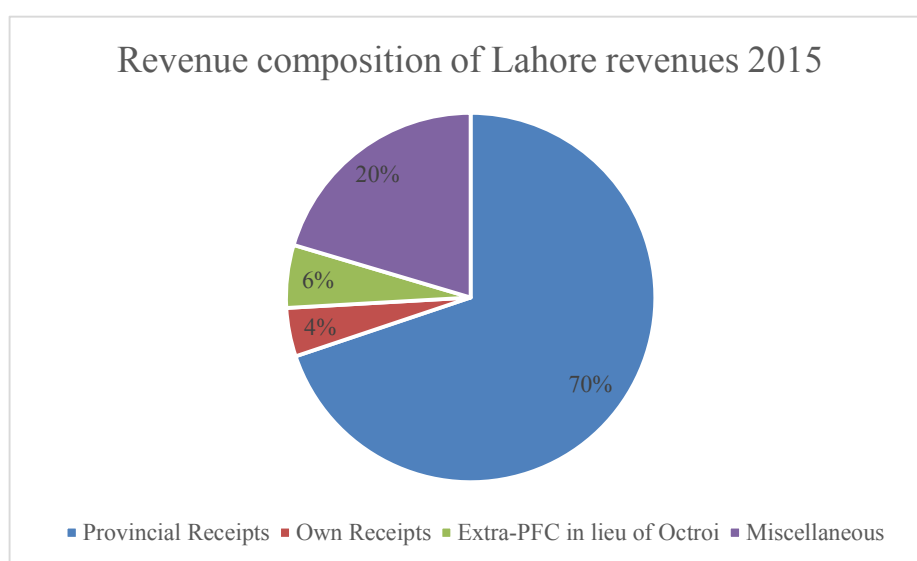
Source: Authors compilations with data from Urban Unit (2016) and Kardar (2003)

Graph 4-6 Revenue composition of Lahore in 2001



Source: Authors compilations with data from Urban Unit (2016) and Kardar (2003)

Graph 4-7 Revenue composition of Lahore revenues 2015



Source: Authors compilations with data from Urban Unit (2016) and Kardar (2003)

Lahore's compositional share of its revenues shows that between 2001 to 2015, the provincial transfers increased from 63 % to 70 %, the Own receipts including the sanitation fees, fees from the bus stands and parking fees reduced from 11 % to 4 %. The share of the

provincial transfers in lieu of Octroi have also decreased from 20 % of the total share to 6%. The miscellaneous section refers to city earnings from the sale of property and deposit works. The miscellaneous section grew considerably from 2001 to 2015.

The major sources of own revenues of the city of Lahore are shown in the table below.

Table 4-17 Lahore City Districts Own Revenues 2015-16

| | |
|--------------------------|--------------------|
| General Bus Stand | Rs. 730.00 million |
| Sanitation Fee (WASA) | Rs. 151.00 million |
| Parking Stands Fee | Rs. 65.00 million |
| Municipal Property Rents | Rs. 50.00 million |

Source: Urban Unit

Table 4-18 Recurrent Expenditures 2015-16

| OFFICES | SALARY | NON-SALARY | TOTAL |
|---------|--------|------------|-------|
|---------|--------|------------|-------|

| | | | |
|---|------------|-----------|------------|
| Administrator | 23.600 | 13.006 | 36.606 |
| Council Secretariat | 10.357 | 2.330 | 12.687 |
| District Coordination Officer | 101.577 | 112.753 | 214.330 |
| Finance & Planning (Includes Pension Contribution of Part-B Employees) | 441.359 | 2,730.595 | 3,171.954 |
| Education | 9,929.202 | 499.754 | 10,428.956 |
| Health | 1532.196 | 362.830 | 1,894.876 |
| Works & Services | 393.562 | 879.368 | 1,272.930 |
| Municipal Services | 2,601.273 | 1,072.258 | 3,673.531 |
| Agriculture | 250.471 | 64.193 | 314.664 |
| Community Development | 633.645 | 170.144 | 803.790 |
| GRAND TOTAL | 15,917.243 | 5,907.233 | 21,824.476 |

Source: Urban Unit

4-1 Restriction on City Government of Lahore

The Provincial governments have historically kept a tight control over local governments and their spending. The local governments derive their legislative and fiscal powers by the blessings of the provincial governments. To maximize Lahore's potential higher decentralization from the provincial control should be implemented. Even till today important regional functions such as irrigation, agriculture, human development (education & health), clean drinking water, roads and physical infrastructure that should be under the

local governments control are under the provincial control. More autonomy is needed for the local governments to provide quality services to its inhabitants.

Moreover, restrictions on Lahore and local governments on lending is a barrier and cities in Pakistan have to drop or postpone its essential infrastructure and development projects and are left to rely on provincial transfers to cater to it.

Local governments of Japan and US issue domestic and state bonds to allow local governments to carry out infrastructure projects. In Japan it is called basic-level government (municipal) bonds and prefectural government bonds and are used to partly meet the expenses. Kardar (2003) believes that Pakistani cities can tap the benefits from local bonds. In his view the large debts accumulated by the provincial governments are serviced at 18-20% of the recurrent expenditures. He considers the key to improving the financial health of the local governments is of prime importance as it has gradually deteriorated leading to unplanned cuts in the expenditures necessary for maintaining physical infrastructure. The private sector too is kept far from the local governments as only the provincial governments have the authority to sign contracts with private firms for businesses.

Finally, Lahore and other local governments should be empowered to legislate, levy taxes and impose fees according to their needs. A higher level of autonomy is required for city council and city legislation. The education and health sector needs to be devolved to the local governments' especially primary schools and higher schools. A division of responsibilities related to education and health be devised in a way that the local governments should be held responsible for elementary education and basic health and provincial governments should be responsible for secondary education and health. This will create competition and good service delivery since local governments know better their constituencies and can far better function for imparting free mandatory education as is the goal of Punjab.

5 Local Government Roles, Revenues and Expenditures: Comparison of Pakistan and Japan.

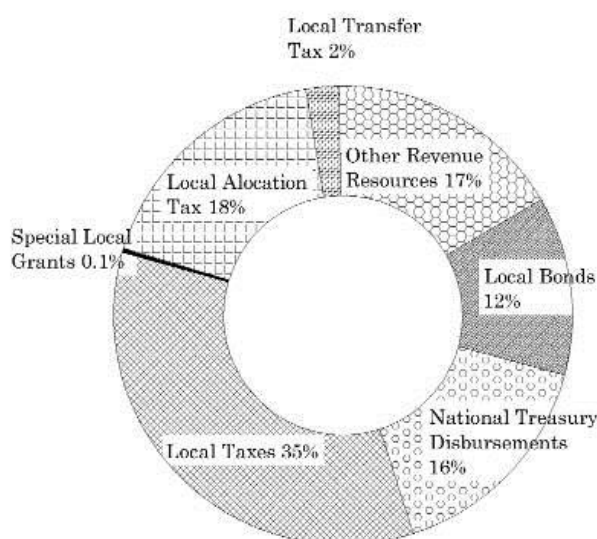
This section compares Pakistan's Intergovernmental fiscal transfer system with the public finance with that of Japan. There are two purposes for this comparison, one is to find a clearer features of the Pakistan's local finance system and another to compare the governance structure and the spending on housing and other welfare services

5-1 Composition of Japanese Revenues for 2012

The Japanese revenue sources for local governments reveal an elaborate mixture of general revenue sources including local taxes, local transfer taxes, special grants and Local

Allocation Tax (grant from central government) accounting for 55.2 percent of the total local governments (Prefectural and Municipality) revenue, out of which the Local taxes account for 34.5 % of the general revenue. The Local Allocation Tax which is transferred from central government accounts to 18.3 % of the general revenue resource.

Graph 4-8 Composition of Japanese Revenues



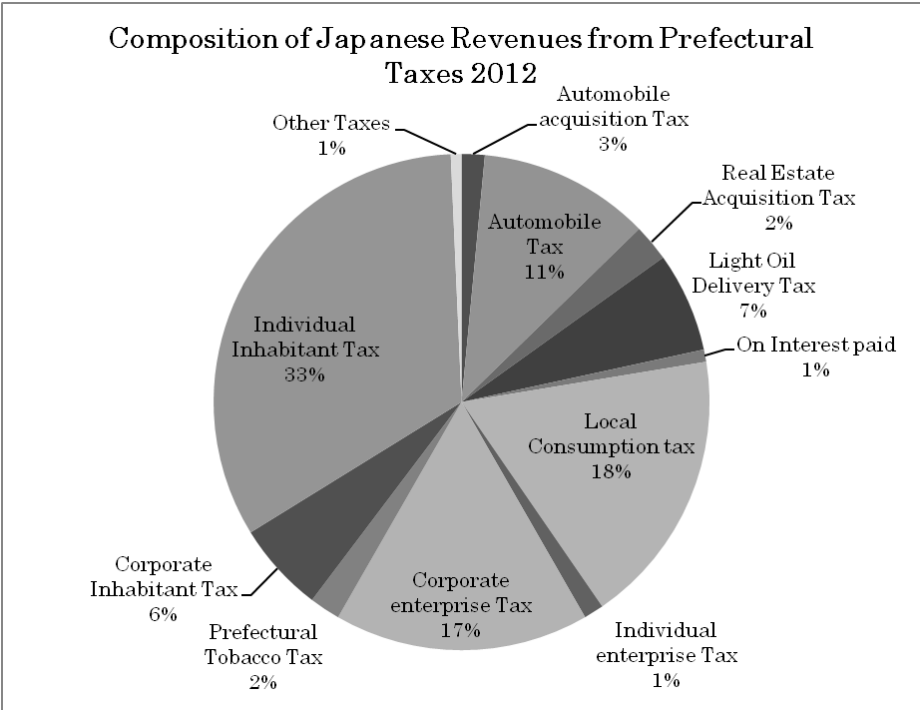
Composition of Japanese Revenues 2012

Source: Data from White Paper on Local Public Finance, Ministry of Internal affairs and Communications, Government of Japan

The local taxes include inhabitant tax, corporate tax, Municipal and Prefectural Tobacco tax, consumption tax and vehicle tax for the prefectural governments and city planning tax and fixed asset tax for municipal governments.

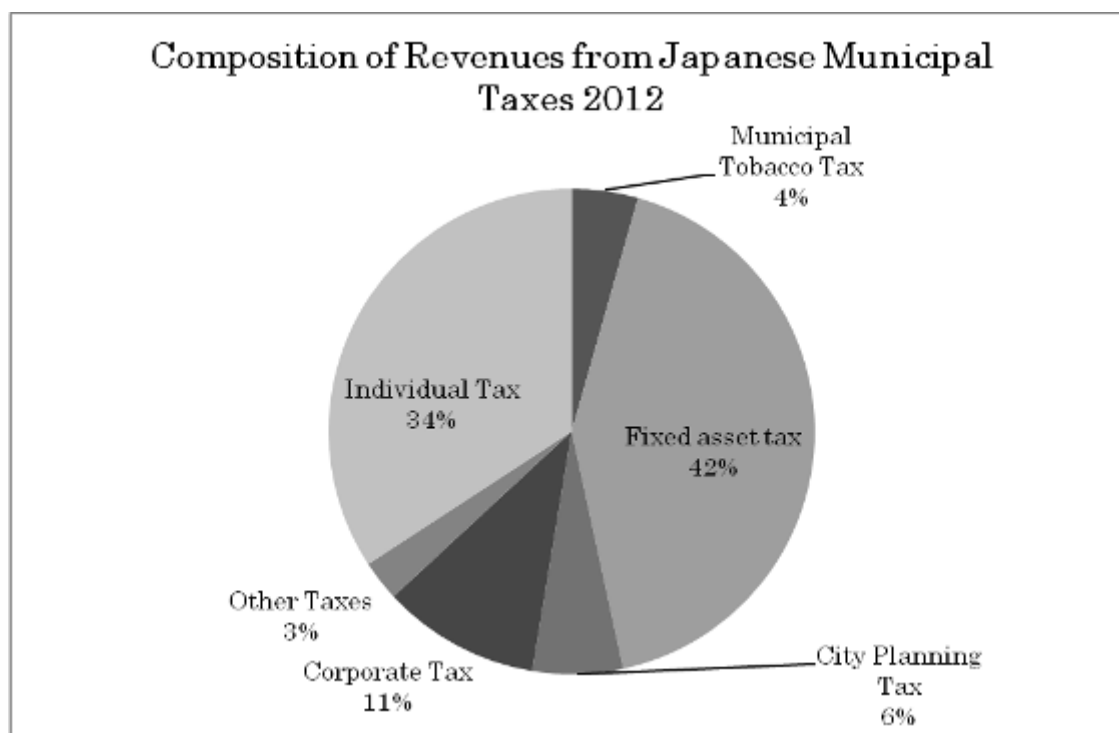
The local governments in Pakistan are not allowed to borrow money domestically and therefore cannot issue domestic bonds. In case in the future the Pakistani local governments are allowed to issue local government bonds, then the larger cities such as Lahore, Karachi and Rawalpindi can have prospective bond markets by having competitive interest rates with the bonds issued by the federal government of Pakistan. Local bonds account for more than 12 % of the Japans local governments revenues. On the contrary, in Pakistan, the provincial governments rely more on borrowing from international organizations such as the World Bank, ADB and IMF instead of issuing local bonds.

Graph 4-9 Composition of Japanese Revenues from Prefectural Taxes 2012



Source: Data from White Paper on Local Public Finance, Ministry of Internal affairs and Communications, Government of Japan

Graph 4-10 Composition of Revenues from Japanese Municipal Taxes 2012



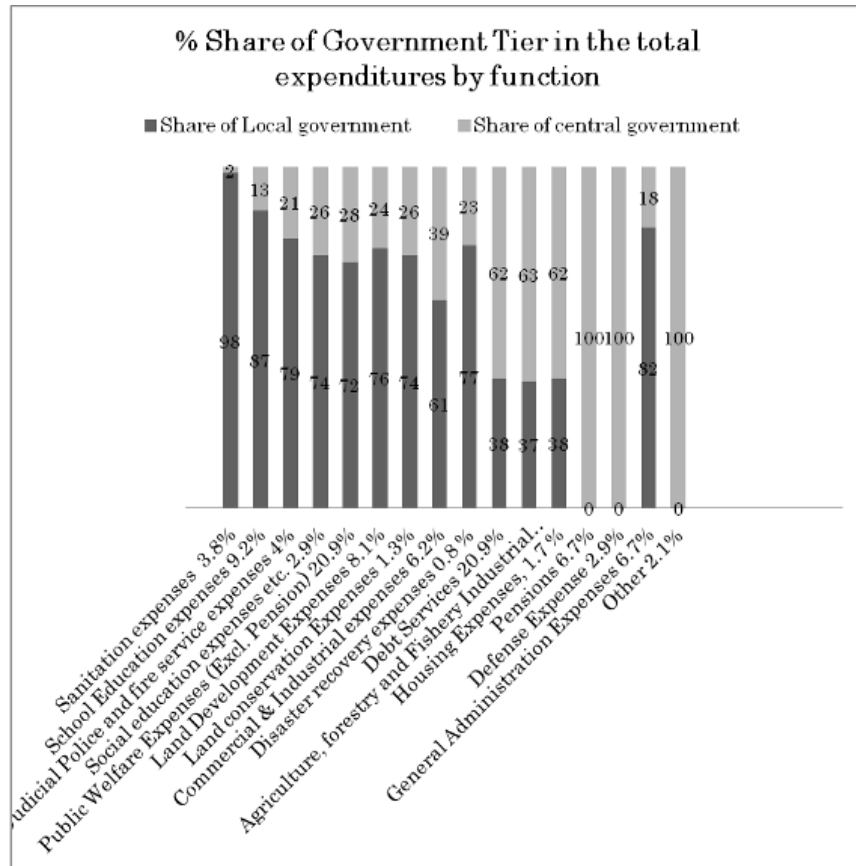
Source: Data from White Paper on Local Public Finance, Ministry of Internal affairs and Communications, Government of Japan

The two tables above show the proportional division of the same tax into two tiers of the municipal and prefectural governments. For example, the Tobacco tax, corporate tax and inhabitant tax are divided among the prefectural and municipal governments. However, the automobile tax is a prefectural tax and the city planning tax is a municipal tax. The division of taxes represents a clear distinction between the prefectural and the municipality governments in terms of the roles and the services they provide.

The vehicle tax in both provincial (Pakistan) and prefectural (Japan) cases shows a convergence of taxes as both governments levying this tax are mid-level governments in their countries. A light vehicle tax on motorbikes and other light motorized vehicles is paid to the municipal governments in Japan. The property tax (UIPT) of Pakistan and the fixed asset tax of Japan are similar taxes and have a proportionately larger input in the local governments revenues. The corporate tax in Pakistan is levied by the federal government, in contrast, the corporate tax in Japan is levied at three levels by the central, prefectural and municipal governments. In Pakistan the provincial governments do not levy inhabitant taxes, unlike in Japan. The tobacco tax in Pakistan is a sales and excise tax and is levied by the federal government, however, in Japan the Tobacco tax is also shared between the municipal and the prefectural governments.

5-2 Composition of Japanese expenditures for 2012

Graph 4-11 Share of Government Tier in the total expenditures by function



Source: White Paper on Local Public Finance, Ministry of Internal affairs and Communications, Government of Japan

The divergence between Pakistan and Japan is in the expenditures for housing the analysis for which is the main purpose of this study. From the graph 4-11 it is evident that Japan spends 1.7 % of its total domestic expenditures on housing, out of which 38 % is spent by the local governments and 68 % by the central government. It is important to note that the central government plays a significant role in the provision of housing. In contrast in Pakistan the spending proportion of the total domestic expenditures on housing is much

smaller, .046 % of the total expenditures by the federal government and approximately 5% of the provincial budgets. In Japan the primary education is a municipal affair and secondary education is the responsibility of the prefectural governments. In Pakistan both primary and secondary education is under the provincial control. The universities and colleges lie under the control of central governments in case of Japan, however the provincial governments take care of the universities in Pakistan. There seems to be a difference in the levels of educational standards in different provinces of Pakistan.

Moreover, the sanitation, city development, communication and works (C&W) which is responsible for roads and bridges falls under the provincial and local governments in Pakistan which shows convergence with the Japanese case.

Almost all of the Punjab provincial debt is a foreign debt unlike the Japanese local government's debt which is almost all a domestic debt. The social security of the elderly is at a nascent stage in Pakistan and so public welfare expenses which are 20 % in Japan seem to be lost in the Punjab expenditures.

Pakistan even though is a federal state system seems to operate in a unitary state fashion. The provincial governments in Pakistan are more powerful as the local governments are

not fully autonomous and till now the provincial governments of Pakistan have discretionary powers of how to use the tax allocations.

Unlike Pakistan, Japan's local governments rely majorly on local taxes (55% of the total revenues). Apart from central transfers to local governments in Japan, the local governments have their own percentage share in many levied taxes such as inhabitant tax and corporate tax is a shared tax between the prefectural and municipal government and sales tax on goods is divided among the central, prefectural and municipal governments.

Pakistan intergovernmental fiscal system shows the provincial governments accounting for 35 percent of the total governments expenditures but only 7 percent of all taxes. There is big question mark that hangs on the local residents in the level of taxes they pay to the provinces and the services they receive in return. The most important advantages of fiscal decentralization are the tax payers holding their elected provincial officials accountable for the service quality they receive. In the current Pakistani system, the elected candidates cannot be held accountable.

Moreover, the provincial governments in Pakistan have been assigned hard to collect taxes including taxes on agriculture, professions, property and consumption of services which the provincial governments don't have the administrative capacity and skill to perform the

job. This mismatch in skill and tax structure leaves the provincial governments being able to collect only 0.2 percent of the regional GDP in comparison to the 10 percent of the national GDP at the federal level.

The tax structure needs to be re-structured and provincial and local governments need to be empowered.

Provincial governments of Pakistan biggest commitment seem to be the Public Order and safety affairs, even though a developing country like Pakistan needs to be spending more on social development, education, health and housing for a large proportion of the poor people. This increase in the public order and security is in response to the ever increasing militancy in the aftermath of the cold war, 9-11 and American invasion in Afghanistan. Even though Punjab province is not on the forefront of the war against militants even then a huge proportion is needed to maintain the existing status quo.

In Pakistan the federal government accumulates 90 percent of the revenues but disperses only 67 percent to the sub national governments. Whereas the local governments revenues mount to 10 percent of its revenues yet is accountable to 33 percent of expenditures.

Endnotes:

PFC in lieu of Octroi ¹ Octroi tax was levied on the transfer of goods from one district to another. The Provincial governments transfer money to the districts for abolishing the Octroi tax.

Conclusions

1 Chapter-by-chapter summarization

Chapter I discusses the formation of cities and the structure of society that was formed during the different reigns of history such as the

The city formations were based on cultural, economic and social norms of that era.

The most primitive towns in Pakistan are the early agricultural towns which used to serve as the collection and distribution centers of the harvest. Other economic activities and trade of commodities such as utensils, cloth, skins and artefacts and metallurgy also flourished due to the agricultural towns of Moenjo Daro and Harappa.

The second phase of cities is the Greco Indo cities which centered along the trade routes from the central Asia into the subcontinent. Here, the economic geographical location serves an important function for the development of the city. The city centers at that time were markets and religious centers surrounded by houses. The Third phase of city development is by the introduction of Muslim conquerors. Many new towns arose during this era as the Sultans and the Mughal emperors were used to the urban life style and encouraged towns with markets housing craftsmen and artisans. Geographical locations for creating fortresses for defense purposes also fortified the existing cities.

Chapter II focuses on the city growth and the rise of the squatter settlements in all the major cities of Pakistan by delving in to the actual living conditions of the low income segment of the Pakistani society. The field survey and interviews conducted reveal that an average of 1/5th of the low income households goes into the housing rents leaving the rest for food, educating the children and medicines. The squatter settlements have provided cheap accommodations on the other hand the residents live in unhygienic conditions and hazardous zones.

The site visits and the interviews found that a thriving squatter market exists and large sums of finances are required to own a squatter. The lack of government subsidized housing stock and lack of formal financing and high interest rates are impediments for the low income households to finance home ownership especially when they are associated with the informal sector.

Chapter III examines the governments housing policies and the role of the financial institutions for providing mortgages for low income households. It is worth noting that during the 1960s many governments were authoritarian so they had very little concern for human rights. The idea of market approach coupled with the authoritarian system led to the forceful eviction of squatter settlements without providing alternate housing. In

Pakistan during the 1960's the military government in the city of Karachi started evicting the squatter settlements and new low cost housing units were provided on easy instalments. The governments of the 1960's were bent on supplying readymade housing units and flats/apartments in the major cities of Pakistan. This can be viewed in the perspective of classical economics approach which supports the production and supply of housing units as the primary factor for economic growth.

During the 1970s and 1980s there was a change in the Pakistani rulers' approach that involved public policy having more respect for human rights of squatter settlers? The Zulfikar Ali Bhutto led government in the early 70's campaigned for the regularization of the squatter settlements and giving land entitlements as a substitute for providing housing units to meeting the huge demands of housing supply. This regularizing can be seen as a Keynesian approach as it encourages economic activity by encouraging demand of housing instead of advocating a supply of low income housing. All the Katchi Abadis that came into existence before 1985 were regularized.

The demand side programs such as a project of regularizing the Katchi Abadis have been used in many developing countries to increase access for housing services to the poor. This arises from the perspective of social safety nets that governments are responsible for

providing their housing assistance and basic shelter. The transition countries take up housing related relief expenditures to mitigate the planned living costs increase. Housing policies such as regularizing the Katchi Abadis and other relief packages promote home ownership and support economic development by creating market based housing and infrastructure development to support economic development by encouraging home businesses and neighborhood developments projects.

During the 1990's the federal government policies shifted towards encouraging neoliberal policies, by diverting funds for providing low income housing units at market prices and encouraging the private sector. As opposed to the publicly owned housing developments, the Pakistani government, during this era constructed many apartments in major cities for ownership basis payed through installments at a market price. The private sector since the start of 2000 A.D. has witnessed considerable growth in the development of housing commodities catering to the upper and upper middle classes.

The two commonly used subsidies are capital grants and allowances. In the case of Pakistan, the housing grants are in the form of loans borrowed from the financial markets or the government employees borrowing from their employer departments. The housing allowances allocated for the government employees have played a major role in

substituting the housing problems. Almost all the government departments provide all their employees with governmental constructed housing supply or housing allowances in the form of housing rents to rent a house in the private market.

The segment most affected by the Neo-liberal policies of the government is the low income segment belonging to the informal sector. In view of a lack of social housing laws encouraging the private developers to provide low cost housing for the low income segment of the society; the developers have only catered to high middle income groups.

Just like many developed and developing income countries the financial institutions in Pakistan cater to the middle and the upper income groups. The lending institutions and mortgage institutions in Pakistan have strict criteria for approving loans, thus excluding a major portion of the low income population ineligible for borrowing. The partly government owned HBFC had high default rates. A new comer in the housing financial sector are the Islamic Banks. The Islamic Banks provide financing based on partnership. The conditions for investing in a house are based on the individual's earnings and belonging to a formal sector. Another new comer is the microfinance sector. However high interest rates of the micro finance and a small loan cap makes it inappropriate for buying

a plot/land or for constructing a house. More time and studies are needed to comment on the outcomes of microfinance on low income housing in Pakistan.

Chapter IV discusses the role of the public finance system in the sphere of public housing.

It can be noted that the reducing proportion of the federal expenditures for housing with the passage of time indicates a policy shift from the policy of supplying houses in which the federal governments subsidize housing projects towards creating a demand for housing.

The only housing subsidies in Pakistan are provided to employees of the Government or the corporate sector in the forms of rental subsidies. The low income groups belonging to the informal sector are absolutely excluded from any housing subsidy programs and therefore end up living in the squatter settlements.

An evaluation of the public finance system of Pakistan shows that the Federal government expenditures on housing reduced from 10% of the total expenditures during the 1950's to 0.046% of the total expenditures in 2015.

However, the provincial pursuit in reducing expenditures on housing has been not as drastic as of the Federal Government. For example, the province of Punjab's total expenditures on housing and amenities for the year 2015-16 is 1.19 % of the total expenditures; housing expenditures here implies all types of housing and not just the low income housing. This

also includes transfers to the development authorities for creating upper income housing schemes and selling at market price.

The development expenditures of Punjab's budget devoted for the low-cost housing comprises of the middle income housing projects such as Ashiana Housing Scheme and Low Income Housing project. Punjab province has allocated 0.3 % of the total development expenditures for the year 2015-16 to these two housing projects. Out of which 0.18 % are for the middle income housing development and 0.12 % are for the low income housing.

Punjab province has consistently maintained the proportion of housing expenditures from 2000 onwards. A slight proportional increase of 0.09 % in the housing expenditures from 2008-09 to 2015-16. The province housing budget was 0.1% in 2008 that increased to 0.19% in 2015-16, in a span of 7 years.

The reducing role of the governments expenditure for housing is not applicable to other welfare expenditures; an average of 62 % of the Punjab's provincial expenditures since 2000 onwards are dedicated to the welfare expenditures, such as education, health, social security, water and sanitation and roads etc. The health's budget for 2015-16 is 4.26%, education is 4.10 % and social safety and protection is 0.36 % of the total expenditures.

The expenditure on health and education has grown twice in proportion since 2005.

The other welfare and pro-poor spending can be seen in water supply and sanitation and Food Support Program. The annual compound growth rate in both of these sectors was close to 60 % between 2004 to 2008 (Source: Dr. Aisha Ghaus-Pasha, Process Oriented Poverty Focused Gender Based Analysis of Punjab Budget 2009-10)

The largest provincial spending share is of the transfers to local governments which in 2015-16 accounted for 18.67 %. The other considerably larger major expenditure heads include General Public Services and Public Safety and Law and Order. The General Public Services is majorly a provincial administration head and currently is 9.3 % of the total expenditures in 2015-16. Public Safety and Law and Order comprises a large proportion of 8.53 % of the total expenditures.

Government's districts do not have the fiscal capacity neither the autonomy to initiate low income housing in Pakistan. Low income housing does not lie in the domain of local governments. For this purpose, certain Development Authorities in the bigger cities of Pakistan develop housing schemes to sell serviced plots/land on market prices.

The local governments are responsible for maintaining and construction of highways, roads and bridges that come with in the local districts. In the Local Government Act of 2013, the

education and health has also been taken from the local governments and put under the provincial government control.

Almost 70% of the local government's revenues come from the Provincial governments.

The Local governments in Pakistan generate their incomes through toll fees, property taxes, income from fairs and fines. The property tax and property transfer fee were devolved to the local government's jurisdiction in 2001. Even now the property tax is collected by the provincial governments and is passed on to the local governments after keeping a certain fee. Taxes on health and education were given to the district governments in LGO 2001, however, have been reinstated back to Punjab province in the Punjab Local Government Act of 2013 by giving charge of basic education and health to the provincial authorities. Unlike in many countries the Local governments in Pakistan do not levy an inhabitant tax. The sales tax, income and corporate taxes comprising the biggest accounts are federal government taxes. The other important taxes such as the vehicle tax and the tax on services is a provincial tax without any share of the local governments.

Lahore's compositional share of its revenues shows that between 2001 to 2015, the provincial transfers increased from 63 % to 70 %, the Own receipts including the sanitation fees, fees from the bus stands and parking fees reduced from 11 % to 4 %. The share of the

provincial transfers in lieu of Octroi have also decreased from 20 % of the total share to 6%. The miscellaneous section referring to city earnings from the sale of property and deposit works grew considerably from 2001 to 2015.

The limited finance of the local governments makes it impossible for the local governments to finance any housing projects. Moreover, housing is not a local government's domain. The fiscal weakness as well as the jurisdictional weakness does not allow the local governments to carry out expensive Public housing developments.

2 Final conclusions

It can be concluded that the increasing housing back log in Pakistan partly exists due to the inability of the local governments responsible for the public housing.

A conventional view is that a large volume of the poor houses is a consequence of the rural-poor migrating to the urban areas thereby bringing the poverty to the urban areas. Another general view regarding the formation of the squatter housing often refers to low income of the residents. It is commonly believed that poor residents are living in poor houses because their income is not high enough to buy or rent affordable houses. What we can conclude from this thesis is that it is only partially true. The phenomena of poor houses or squatters is caused by the weak capacity of local and central governments to provide for public houses or accessible housing loans. We need to look into this capacity and must know

how weak the governments (central and local) have been in one area of housing policy and how strong they have been in another area of housing policy in specific terms.

Weaknesses on the institutional level are also responsible for the continued problem of precarious houses. The thesis identified them as the grey land and housing markets.

These findings lead us to an idea that economic growth or growth of per capita income will not necessary contribute to the solution of this problem. We need to be aware that a specific weakness on the institutional level (such as property tax) should be targeted in our efforts to solve the housing shortage.

The role of the urban development authorities of Pakistan as excluding the low income segment from their development schemes because of high prices has been touched upon both by Tasneem Siddiqui and Arif Hasan. However, their research in this regard does not discuss in detail that the urban development agencies are making 5 to 8 times the profits by acquiring the agricultural lands for development purposes thus increasing the land price hike. In the authors view their increased profits are pushing the serviced plots/ land prices higher, followed by other private land developers. The development competition created through this process not only makes the housing unaffordable but also leaves many land owning villagers of those agricultural lands without a proper house.

Another contribution of this thesis is a critique on the forms of urban land squatting in Pakistani cities. The squatting as identified by Van der Linden, Meijer, Nientied and Arif Hasan are either the illegal occupations of unorganized or organized invasions of public land or the Informal subdivision of Agricultural Lands (ISAL). But these researchers do not identify the squatting on private lands on which the state has ceased land transactions through a state order. This research identifies squatter formation on such lands and the economics of such grey land markets, that are neither the squatter settlements occupied on public lands nor the informal subdivisions of agricultural land, but are land transactions which have occurred because the state land development agencies have priced the private lands on less than the actual market price or the state agency's did not pay the private land owners the price in due time. This delay on the agency's part resulted in land price hikes and the owners even though were restricted by law to sell their lands opted for alternate methods of selling and developing their lands. This phenomenon gave rise to the squatter formations on grey lands.

Another, aspect identified in this research for the weak fiscal situation of the local governments is a meager property tax collected by the provincial governments and passed on to the local governments.

3 Policy implications and research challenges to be overcome in the future

For a future course the local governments need to be empowered autonomously and fiscally leading to a low income housing decentralization. However, the housing decentralization to the local governments is a challenge and needs to be researched thoroughly before appropriate mechanisms can be put in place, which this thesis has not catered to. Modern mechanism such as a renewed valuation of the property tax, the agriculture tax and land reforms need to be studied in much detail and its effects on the low income housing need to be quantified.

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