

## **EXAMINING AFFORDABLE HOUSING POLICY IN INDIA: A SPECIAL EMPHASIS ON RAJIV RINN YOJANA**

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### **Abstract**

Today one of the major issue faced by the developing countries around the world is massive housing shortage which eventually leads to the growth of squatter settlements and slums. Nonetheless Urbanization has acted as a boon for India but it somehow is leading to the concentration of migrants from the nearby towns and villages. Due to which the growth centers are facing shortage in terms of land and housing, increased traffic congestion on roads and above all huge stress on resources like water and power and low per capita open spaces for city dwellers. The major issue which leads to this scenario is the constraint in supply side of these facilities by the government, disinterested private players and shoot up in the prices of real estate and land prices. In India, it is estimated that there is shortage of around 18 million houses, with 99% of this in the economically weaker sections of society. Therefore, the government of India had started various affordable housing schemes to benefit various strata of society. This paper aims to study and analyze the Government of India's programme for Affordable housing, namely Rajiv Rinn Yojana. A very detail analysis of the policy is done to understand the key features of the policy, the merits and demerits of the policy and finally some measures will be suggested that if incorporated in the new policies that targets affordable housing may benefit the target area also helps in nation building.

### **Keywords:**

Affordable housing;  
Rajiv Rinn Yojana;  
Dwelling unit;  
Interest;  
EWS,  
LIG.

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## 1. Introduction

Housing has been a major priority for the humans since ages and it is argued that it is one of the three basic needs of humans i.e. food, cloth and home. Since post-independence Government of India has given a low priority to the housing shortage of the country. The focus of development has been towards the maximum production of capital goods and infrastructure sectors. Housing provides security, safety and comfort to the dwellers which ultimately plays a key role in economic, social and civic development. But unfortunately the government has failed to understand this concept. Housing is considered to be one of the major needs during the event of natural and man-made disasters. [3]

HDFC's, LIC's and HUDCO's were the only player in the market which used to lend credit to the public for construction of houses. But, soon after liberalization in 1991-93 the banks and other financial institutions were freed to grant loans for the construction and purchase of houses. Later it was seen that only HIG and MIG strata of society were benefitted, but for EWS and LIG owning a house was still a dream. Then Government of India prioritized Affordable housing schemes for the lower strata of the society. Soon government started to demarcate areas in the master plan for the construction of LIG and EWS housing in large and medium sized cities. A recent study showed that, In India, it is estimated that there is shortage of around 18 million houses, with 99% of this in the economically weaker sections of society. [4]

The importance of affordable housing is neatly captured in the following statement by Rakesh Mohan, Deputy Governor of the RBI in 2007 “future national competitiveness and economic success will depend on the comparative efficiency of cities. Because housing is where jobs go to sleep at night, the quantity, quality, availability and affordability of housing becomes a key component in national economic competitiveness”. Access to affordable housing schemes has been a major road block for the citizens of India in improving the living conditions on a large scale.[5]

One of the most political agenda of the Government of India has been “Affordable Housing for All”. Although there is no proper definition for the term affordable, since it is a relative concept and can have several meanings. But to propose policies, provide interest subsidies it is necessary

to define the term Affordability mainly Housing Affordability. Internationally, housing affordability is taken as a measure of expenditure on housing to income of an individual. Nationwide, Government of India accepted definition is “Affordable housing refers to any housing that meets some form of affordability criterion, which could be income level of the family, size of the dwelling unit or affordability in terms of EMI size or ratio of house price to annual income” (High Level Task Force on Affordable Housing for All, December 2008, p. 7). Several other government ministries like Ministry of Housing and Urban Poverty Alleviation (MoHUPA) in its 2008 report (Table 1) considers Size of the dwelling unit, cost of construction and EMI or Rent to define the concept, but in its 2011 report (Table 2) only Size of dwelling unit and EMI or Rent is considered. Also private agencies like KPMG (Table 3) considers Size of dwelling unit, Income level and EMI or rent to define the housing affordability concept.[2]

	<b>Size</b>	<b>Cost</b>	<b>EMI or Rent</b>
<b>EWS</b>	300-600 sq.ft carpet area	Not exceeding four times the household gross annual income	Not exceeding 30% of gross monthly income of buyer
<b>MIG</b>	Not exceeding 1,200 sq.ft carpet area	Not exceeding five times the household gross annual income	Not exceeding 40% of gross monthly income of buyer

Table 1. Task Force on Affordable Housing, MHUPA 2008

Table 2. Guidelines for Affordable Housing in Partnership(Amended), MHUPA, 2011

	<b>Size of Dwelling unit</b>	<b>EMI or Rent</b>
<b>EWS</b>	Min. 300 sq.ft super built-up area	Not exceeding 30-40% of gross monthly income of buyer
	Min. 269 sq.ft carpet area	
<b>LIG</b>	Min. 500 sq.ft super built-up area	
	Min. 517 sq.ft carpet area	
<b>MIG</b>	600-1,200 sq.ft super built-up area	
	Max. 861 sq.ft carpet area	

Table 3. KPMG definition for Affordability

Bank Name	Initial Interest Rate	Effective Interest Rate	Comments
Bank of Rajasthan	7.5	8.53	7.5% fixed for the 1 <sup>st</sup> yr, 8.5% fixed for 2-3 yrs, 4 <sup>th</sup> yr onwards applicable floating interest rate
HDFC	8.25	8.63	8.25% fixed till 31 <sup>st</sup> March 2012, thereafter prevailing floating rate
Axis Bank	8	8.65	8% fixed for 1 <sup>st</sup> yr, after 1 year market rate minus 3.5%= 8.75%
SBI	8	8.76	8% fixed for the 1 <sup>st</sup> yr, 8.5% fixed for 2-3 yrs, 4 <sup>th</sup> yr onwards it is State Bank Advanced Rate
ICICI	8.25	9.00	8.25% fixed for 2 yrs, 3rd yr onwards it will be Fixed rate(12.75% - 3.50% =9.25%)
Canara Bank	8	9.33	8% fixed for the 1 <sup>st</sup> yr, 9% fixed for 2-5 yrs, above 5 <sup>th</sup> yr Bank Prime Lending Rate(12.50%-2.5%=10%)

The policies in the Housing sector are generic and applicable to both rural and urban areas preferably for the Economically Weaker Sections (EWS) and Low Income Groups (LIG) under various Schemes like Rajiv Awas Yojana (RAY), Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) and Jawaharlal Nehru National Urban Renewal Mission (JNNURM) etc.

On October 1, 2013 Rajiv Rinn Yojana (renamed for the Revised Interest Subsidy Scheme) came into existence as a Flagship Programme by U.P.A Government for addressing the housing needs of the EWS/LIG segments in urban areas.

## 2. Merits of the Policy

The interest subsidy provided under the scheme was very low as compared to the Housing loan provided by other financial institutions. Housing loan granted by other financial institutions were between 7.5%-9%, which fluctuates around the loan period. The interest provided under the Rajiv Rinn Yojana was at 5% and it was fixed interest subsidy scheme during the loan tenure.

Table 4. Analysis of some of the teaser rates home loans available in the market for a 20-year home loan of INR 30 lakhs

	<b>Income level</b>	<b>Size of Dwelling unit</b>	<b>Affordability</b>
<b>EWS</b>	<INR 1.5 Lakhs per annum	Upto 300 sq.ft	EMI to monthly Income ratio: 30% to 40%, House price to annual Income ratio: Less than 5:1
<b>LIG</b>	INR 1.5-3 Lakhs per annum	300-600 sq.ft	
<b>MIG</b>	INR 3-10 Lakhs per annum	600-1,200 sq.ft	

It is understood that one of the prime mission of this scheme is to make India slum-free since it covers plots or existing houses with less than 40 Sq.m. Hence any people living in the slum with patta can also avail this facility. This helped in increasing the coverage of the scheme and availing the facility by large number of people in addition to the Rajiv Awas Yojana. Census 2011 had estimated that 65 million people of 4041 statutory towns reside in the slums. Moreover, the policy gave emphasis to the unprivileged strata of the society i.e. E.W.S and L.I.G. It tried to upgrade the housing needs of these people thereby up lifting the living conditions. It planned to shorten the housing requirements of the people. The technical committee constituted by this Ministry had estimated housing shortage at 18.78 million during the 12th Five Year Plan period of which over 95% of this housing shortage was estimated in the Economically Weaker Sections (EWS) and Low Income Group (LIG) categories. It also extends its policy to the beneficiaries who wills to make an extension to the existing buildings. Unlike in other policies money is given to the construction of new houses only. It also provides money to buy a new house. [1]

The financial assistantship provided is more than any other scheme. It is around Rs.5,00,000 for an EWS individual and a maximum loan amount of Rs.8,00,000 for a LIG individual but loan amount above Rs.5,00,000 will have no subsidized interest. Unlike in other government schemes like ISHUP (Interest Subsidy for Housing the Urban Poor) provides maximum amount of Rs.1,00,000 for an EWS individual and maximum loan amount of Rs.1,60,000 for a LIG individual

The Scheme directs compulsory provision for toilet wherever new construction of house is contemplated which is a very good step towards OD (Open Defecation) free India. It helps in maintaining health and well-being of an Individual and the whole community. Moreover, such encouraging steps shall be included in various other schemes to achieve Swachh Bharat Mission. The 2011 Census of India provides some startling results. Nearly 12% of urban households resort to OD and another 8% use public or shared toilet facilities. The situation is far worse in smaller cities (population below 100,000), with OD rates around 22%.

Freedom for the design and size of the construction is present in this scheme which provides flexibility to the owners. No such fixed pre-design sizes/modules (RAY) are mentioned which discards the flexibility and wish/ requirement of the beneficiaries but for EWS individual minimum 25 sq.mt and for LIG individual at least of 40 sq.mt shall be constructed. In some cases, it may so happen that the design of the house is fixed but the plot of the beneficiary is irregular in shape which may cause a hindrance to avail a particular scheme. Also it may happen that beneficiary wishes to make an extension to his existing house which may not be possible if he opts for other schemes like Rajeev Awas Yojana (RAY). Hence freedom in the style of construction is guaranteed. [1]

Mortgage of the dwelling unit is accepted as a primary security. There is no requirement of collateral security/ third party guarantee for loans under RRY up to INR 5 lakhs. Such steps encourage more number of people to avail and adopt the scheme. Many people who wish to avail such facilities lacks in providing the mortgage since they are not financially sound, hence they don't come forward to use these scheme.

Incentives to the designated staff of ULBs or NGOs a sum of Rs.100 per sanctioned application would be paid out of RRY funds for helping the beneficiaries. This encourages the participation of ULBs or NGOs in a much larger scale and helps beneficiaries in availing the scheme and receiving the loan amount. ULBs or NGOs will be more interested to help and speak to the people regarding how this scheme will be helping them in availing shelter. They would help in filling up the form and other key aspects of the scheme which is difficult to understand by the common people (Beneficiary borrowers may choose fixed or floating rates).

The Preference under the Scheme is as follows: Women; Scheduled Caste; Scheduled Tribe; Minorities and Persons with disabilities

In this scheme, it is clear that the preference is given to women so as to strengthen and empower women. It eases the process of registering the house in the name of women. In case of any disputes between husband and wife of a family, the money or house remains with the wife as it is registered with her name. This increased the social security of women as in most of the cases, soon after the disputes women are thrown out of the house. The preference to the women beneficiary was missing in ISHUP (Interest Subsidy for Housing the Urban Poor). Subsequently S.C and S.T are given preference since most of them are deprived of bare minimum necessities like food, cloth and shelter. Persons with disabilities are also given preference because they are the strata of society which is being looked down upon and if through this scheme they at least own a place to live, then this will benefit them in their later life. Preference to the cooperative group housing societies or organizations like Employees Welfare Housing, Labour Housing, etc. are also given and wherever possible construction of houses by such cooperatives upto 1+3 storied buildings is being promoted so that cost of land is shared among beneficiaries.[1]

The linkage of beneficiary identification in RRY is through Aadhar (Unique Identification Number) enrolment. It was a pre-condition wherever Aadhar cards have been issued. This helped in correct identification of the beneficiaries. This helped in keeping track of the beneficiary who had availed this scheme. Also it helped in eliminating duplicity of application and passing of forged documents.

### 3. Demerits of the Policy

The scheme fails to handle any sustainability issues as there was no emphasis by the government to make the new construction sustainable. Moreover, no importance was laid on the use of materials to be adopted for the new construction that would harm less to the environment. There was no concern about the green building norms, if not all at least some aspects should have been covered under the scheme that would have made the housing sustainable. This made the new construction harmful to the environment.

The loan amount provided to the beneficiary in case of EWS individual was INR 5,00,000 and for LIG was INR 8,00,000, for a house of at least 21 sq.m However subsidy was given for loan amount up to Rs.5 lakhs only. Such meagre amount in the urban area leads to poor construction. The economic parameter adopted for EWS was households having an average annual income up to INR 1,00,000/- and the economic parameter for LIG was defined as households having an average annual income between INR 1,00,001/- up to INR 2,00,000/- which needs a revision as it is hardly relevant in the bigger cities.

There was lack of clauses regarding the provision of monitoring agency that would have verified the house plan and checked the construction method adopted so that no faulty construction happens. Also this would have checked the use of money for unfortified reasons. The state governments failed to notify designated officials who could certify income certificate to the poor, a mandatory requisite under the scheme. Such issues are the bottlenecks for the success of any schemes or programs which are aimed to such targeted population. Due to this the beneficiary was made to go through several departments in order to get an income certificate so that he/she may be able to avail this scheme. Those people who are not having any regular source of income would have faced difficulty in making such income certificates which is an obligatory condition to be fulfilled. Hence they remain helpless and finally they fail to avail the scheme. There was no use of B.P.L cards as this would have shorten the process for availing income certificates. Since most part of the country is covered under this system. It would have helped the concerned agency in easy identification of beneficiary and would have been aided.



Few banks due to lack of clear information insisted to beneficiaries that they should mortgage properties if they wish to avail loan. Such lack of co-ordination among the agencies leads to the failure of the scheme.

Though special preference was given to women beneficiary but the loan amount permissible was same for all. There was no hike in the loan amount that were granted to widows, women, physically challenged person of EWS and LIG category. The rate of interest on the Loan amount was also kept same. Moreover, special provision for the areas which were affected by War, Insurgency or Extremism, Epidemic or any Disaster are absent. Because in these areas houses are completely destroyed and people face a lot of problem in regaining the momentum of life.

There was no provision for checking the design or plan of the house before providing loan amount to the beneficiary. This would have avoided the faulty design to some extent and promoting a healthy living condition. There was no aforementioned minimum room dimension for the construction of house, only the total minimum construction area was mentioned i.e. for an EWS individual at least 21 sq.m and for LIG individual at least 28 Sq. m. This provision if present would have created better environment and livable condition for the beneficiary.

The procedures for granting Loan amount were tedious. People who avail such scheme are generally from lower strata of society and most of them are either Illiterate or with low education background. Hence they avoid to avail such schemes instead they borrow money from the money-lenders and construct their house and later they repay them with hefty interest say @ 7-9%. In some cases, the borrower if unable to repay the money, then the money-lender would seize the house as well as land. There were no proper offices/authority being set up to look after the scheme. It was being directly handed over to PLI (Primary Lending Institutions), who sometimes are very difficult to contact in case of need for clarification. Also, most of these institutions are burdened with their regular duty and short with man-power and on top of that imposing other allied works would really lead to poor performance. There was no provision of any training/workshop to be conducted for personnel who would be helping beneficiaries avail the scheme and make them understand the details of the scheme. If any difficulty arises people

may contact to the concerned personnel and may get solution to their problem. Such measures are being given by other financial institutions like ICICI and Axis banks etc.

Linkage to Aadhar cards (Unique Identification Number) is bit difficult since not all parts of country is covered under this facility. Moreover, in places where Aadhar cards are being issued some people may not be having or some are yet to apply or are yet to receive the card from the concerned authority. This creates a hurdle since people who wish to avail the scheme would be sidelined. The incentives/ commission provided by the Government is too less i.e. Rs.100 per sanctioned application would be paid out of RRY funds which doesn't satisfy the concerned personnel.

#### **4. Suggestive Measures**

This particular policy is an effective housing policy and had incorporated some of the challenging and innovative methods to improve the quality of the life of beneficiaries. For example, preference was given to Women, SC, ST, physically challenged and Minorities of LIG and EWS sections of the society which are deprived of development and the benefits from the government. But there is always chance of improvement in every policy, scheme and program to make it more acceptable by the society and may attract more number of beneficiaries which will ultimately lead to its success.

The benefits outweigh the drawbacks but not fully. Some of the suggestive measures which might have helped the particular policy and other similar policies in achieving the success are mentioned here.

Firstly, the admissible Loan amount under the scheme provides an interest subsidy for a maximum amount of INR 5, 00,000 for an EWS individual and INR 8, 00,000 for a LIG individual. This loan amount should not be granted wholly, it shall be granted partly in different stages of the construction i.e. say Rs.1,50,000 at the construction up to plinth level, further Rs.1,00,000 after completion of walls and so on. Once the loan is granted to beneficiary then only the construction process or redevelopment process should be initiated. This will help in regulation and better monitoring of the loan amount and helps in determining whether the loan

amount is being used appropriately or not. Because many a time beneficiary after availing the loan amount disappears which creates a burden to the financing institutions. Also it may happen that beneficiary has demolished a part of the house for new construction and the loan amount is yet to be granted which may deteriorate the living condition of the beneficiary.

The mandatory provision like toilet wherever new construction of house is contemplated is a very appreciable idea. Similarly, some norms like the family member shall be literate or have passed certain level of examination or family shall have 2 or 1 children should be introduced by the government. These norms when enforced shall encourage Family Planning and improve Literacy rate among the general public. It would act as an incentive for keeping the population in control. Moreover, preference to a single girl child family shall be granted to improve sex ratio of the society and avoid the disparity shown towards the girl child.

The sustainability aspects need to be considered in these scheme with some norms specific to the use of building materials which are less harmful to the environment. Such norms when included leads to the success in all aspects. The minimum standard dimensions for the construction of new houses shall be provided in order to guide the beneficiary avail healthy living conditions.

Like mentioned above certain number of trained personnel shall be provided by the government to ease the whole procedure and help the common people to better understand the scheme and its key aspects. Those personnel shall help in filling up the form and be able to answer all the queries raised by the beneficiaries. The guidelines regarding the paperwork of the income certificate shall be relaxed by providing option of BPL cards. This shall be done in cases where a person is unable to bring the income certificate. Otherwise the use of BPL cards is limited in the society. Moreover, self-attestations of the certificate shall be introduced so that a lot of time is saved in such procedures.

Strict punishments should be levied on financial institutions which asks for mortgage amount despite the aforementioned guidelines by RRY (i.e. Mortgage of the dwelling unit may be accepted as primary security. However, there would be no collateral security/ third party guarantee for loans under RRY up to Rs.5 lakhs. No levy of prepayment charges would be permitted) shall ease the problem.

The preference shall be extended to the widows, and war, disaster and epidemic affected areas and personnel. Moreover, in some cases the rate of interest for the loan amount shall be further lowered to 2-3% depending upon the beneficiary's status. Special provision for the BPL people shall be included. Introducing Toll free number or Helpline numbers may solve the queries as it is difficult to be understood by the common people because it includes some concepts regarding the calculation of EMI and fixed or floating rates of Interest. The incentives provided for the sanctioned loan to the volunteer are not satisfactory. It shall be increased to Rs.200-250 which will surely attract more number of volunteers ultimately leading to the success of the scheme.

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