

Financial Mechanism for Providing Housing to Persons belonging to Vulnerable Group

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Abstract— Housing is one of the basic needs of the human being. Providing housing to vulnerable groups, such as, Economically Weaker Section (EWS), Low Income Group (LIG) or Slum Dwellers is a major challenge in Indian context. This challenge becomes more difficult in urban areas where housing need is much more than housing supply. As land is scarce and most valuable commodity in urban areas, rarely land is made available for housing for persons belonging to vulnerable group. This had forced government to develop a comprehensive, nationally applicable policies that prioritizes specific goals for the housing sector due to increasing gap between housing need and supply. Most of the housing schemes are sector specific, location specific, segment specific and that to with limited supply. If someone is successful in obtaining a house through one of the schemes, they are unable to receive the necessary financial assistance or housing loan due to a lack of documentation.

The real challenge is not just meeting the shortage but to ensure that houses are constructed for those who need them and the repayment schedule matches their paying capacity. There is need to develop inclusive Financial Mechanism that is local, participative, and led by the beneficiary. In this research paper, an attempt is made to develop Financial Mechanism for providing housing to persons belonging to vulnerable group.

Index Terms— Financial Mechanism, Housing, Vulnerable Group, Housing Schemes Financial Mechanism for Providing Housing to Persons belonging to Vulnerable Group

I. INTRODUCTION

Housing is one of the basic needs of the human being. Providing housing to vulnerable groups, such as, Economically Weaker Section (EWS), Low Income Group (LIG) or Slum Dwellers is a major challenge in

Indian context. This challenge becomes more difficult in urban areas where housing need is much more than housing supply. When it comes to the Indian housing market, neither what is produced nor what is wanted is met. Several gaps exist because of urban migration patterns and growing population strain on land availability. Urbanisation in India is mainly a product of demographic explosion and poverty induced distress migration and occurs without industrialization and strong economic base as required. Inferior quality of rural-urban migration leads to poor quality of urbanization and leads to massive growth of slum or informal housing followed by misery, poverty, unemployment, exploitation, inequalities, degradation in the quality of urban life. Urban areas are expanding on account of rapid lopsided urbanization inducing further growth in Indian cities. Requirement of land in Indian cities is increasing in-proportion to pace of urbanisation they are facing. Land in urban areas is already fixed in its supply and having further issues of divisibility and immobility. Value of land is increasing in proportion to pace of urbanisation and subsequently demand for land in urban areas (Sonar and Patil, 2023). This is resulting into scarcity of land for housing in urban areas and particularly beyond economic reach of persons belonging to vulnerable groups. As land is scarce and most valuable commodity in urban areas, rarely land is made available for housing for persons belonging to vulnerable group. Persons from such vulnerable group mainly engaged in informal sector and do not have any formal documents pertaining to ownership of property or source of income earning (Tiwari & Rao, 2011). Whereas housing is a high capital-intensive commodity, and it requires financial assistance in the form of housing loans to generate demand in the

housing market. In India, a significant percentage of the population falls into the informal sector which is frequently disregarded by the nation's fundamental banking system, and do not have any official proof of income are considered financially excluded (Piyush et al., 2016). Due to this, they cannot buy or construct housing on their own or avail housing loans to buy housing either through public sector or private sector supply. First poverty followed by working in informal sector makes it difficult for them to avail themselves of housing loans (Gandhi & et. al., 2022). In the absence of land availability particularly in urban areas and income capacity, these persons are compelled to form slum or informal housing on undesired locations. In these circumstances government has come forward and launched many initiatives to provide housing to persons belonging to vulnerable groups.

II. GOVERNMENT INITIATIVES FOR PROVIDING HOUSING TO VULNERABLE GROUPS

The country's growing population, fast urbanization, and eventual migration from rural to urban areas caused severe housing issues in Indian context. This had forced government to develop a comprehensive, nationally applicable policies that prioritizes specific goals for the housing sector due to increasing gap between housing need and supply. The real challenge is not just meeting the shortage but to ensure that houses are constructed for those who need them and the repayment schedule matches their paying capacity. General subsidization of the housing sector to encourage construction of vacant and upper-middle-class houses, as happening in the past two decades, must be discontinued (Kundu, 2016). Government had implemented many schemes since independence for providing housing to persons belonging to vulnerable groups. Housing schemes have constantly evolved since independence, shifting from welfare-centric policies to economic interests (Tiwari & Rao, 2011). Housing policies have gradually evolved from supply-side (state intervention) to demand-side (depending on the market) and shifted the government's role from housing provider to facilitator. The review of these changes can be divided into four phases: the First Phase, which lasted almost two decades, focused on all sections of society, the Second Phase (1970-1980), which focused on Economically Weaker Sections, the

Third Phase (neoliberal policies), which shifted the focus from physical house provision to financing, and the last phase, which saw the government as a facilitator, promoting Private Sector Involvement for all sections of society (Dattatraya et al., 2022). Schemes and policies implemented by government till date can be classified or clubbed into following five major categories governed by their provisions to beneficiaries:

2.1. Financial Assistance for Construction of Housing Under this scheme, financial assistance is provided by either Central Government or State Government for construction of housing on owned land to all eligible applicants. Sometimes, land is also allotted by the government to the persons belonging to vulnerable groups. Under this scheme, limited amount is allotted for construction with provision of subsidy and subsidized interest rates. This kind of scheme is mainly feasible in rural areas where land is owned by applicant or is available for allotment. Further, meager amount is allocated under this scheme for construction of housing irrespective of land / plot size.

2.2. Subsidized Housing by Public Sector Under this scheme, housing stock is generated by various government agencies or authorities with the financial assistance from either Central or State Government. Land owned by government or privately owned acquired land is used for generating housing stock. Allotment of housing is done to persons belonging to vulnerable groups on subsidized pricing through pre-defined allotment mechanism. Under this scheme, housing supply is limited with comparison to housing need or demand in the housing market. Non-eligibility of persons belonging to vulnerable groups for availing housing loans is a major issue in this scheme.

2.3. Financial Assistance for Private Sector Housing Under this scheme, housing stock is generated through private sector by making provisions in Development Control and Promotion Regulations in the projects undertaken by them. Allotment of housing is done to persons belonging to vulnerable groups on subsidized pricing through pre-defined allotment mechanism. Further, financial assistance is also given to housing buyer in terms of subsidy up to certain extent in principal amount and or interest amount by the government. Under this scheme, housing supply is

limited with comparison to housing need or demand in the housing market. Non-eligibility of persons belonging to vulnerable groups for availing housing loans is a major issue in this scheme.

2.4. Slum Rehabilitation Scheme

Under this Scheme, existing slums are rehabilitated by giving intensive Floor Space Index (FSI) or financial assistance from either Central Government or State Government. This scheme is applicable to existing slums which are notified after satisfying certain eligibility criteria. Further, land economics plays major role in its financial viability. Under this scheme, there is no financial liability on existing slum dwellers, and they are given permanent housing without any financial contribution. This scheme indirectly encourages slum formation and depends on land economics or on government funding for its financial viability.

2.5. Rental Housing Scheme through Public Sector

Recently in National and Maharashtra State Housing Policy, provision is made for providing housing on rental basis mainly for first-time migrant to urban areas. Under this scheme, housing stock is generated through government funding or land economics particularly in urban areas. Housing unit of limited size or carpet area to discourage long term occupation on minimal rent amount is made available under this scheme. Eviction of existing tenant after due interval and maintenance of housing stock using minimal rent amount are major issues in implementation of Rental Housing Scheme.

A review of housing policies implemented since independence reveals significant shifts in the government's perspective from the direct provision of housing through social welfare methods to the facilitation of housing by land and financial means. These mechanisms assisted middle-class and upper-class individuals in consolidating their assets, but they could not assist persons belonging to vulnerable groups because they needed access to financial assistance. If someone is successful in obtaining a house through one of the schemes, they are unable to receive the necessary financial assistance or housing loan due to a lack of documentation. Further, most of the housing schemes are sector specific, location specific, segment specific and that too with limited supply. It is necessary to create a new mechanism that

is local, participative, and led by the beneficiary. There is need to develop inclusive Financial Mechanism where everyone can access a house with owned financial contribution with minimal government intervention (Dhote & Sonar, 2024).

III. DEVELOPING FINANCIAL MECHANISM FOR HOUSING FOR VULNERABLE GROUP

Review of housing policies implemented so far identified certain limitations and drawbacks in providing housing to all persons belonging to vulnerable groups. These limitations and drawbacks have been taken into consideration while devising Financial Mechanism for providing housing to persons belonging to vulnerable group. Identified limitations and drawbacks mainly include - limited supply of housing stock through Public Sector, delays in implementation of Slum Rehabilitation Schemes, financial exclusion of slum dwellers in rehabilitation scheme, non-eligibility of persons belonging to vulnerable groups for availing housing loans, reluctance of Private Sector in generating housing Stock for vulnerable group, meager financial assistance for construction of housing on owned land, limited amount of subsidy on principal amount and interest amount, eviction of existing tenant after due interval, segment specific policy formulation, time mismatch in generation of housing demand and supply, etc. Considering these limitation and drawbacks, primary survey has been carried out across three cities, i.e., Nashik, Pune and Mumbai in the state of Maharashtra. Stratified Random Sampling method has been employed to conduct survey for respondents belonging to vulnerable groups, i.e. slum dwellers, prospective housing buyers from Economically Weaker Section (EWS) and Low-Income Groups (LIG). Around fifty respondents have been surveyed from each category of vulnerable group for all three cities adding to 450 respondents in total. Further, review of existing / prevailing housing loan disbursement policies adopted by Financial Institutions and Nationalized Banks has been carried out pertaining to eligibility criteria, extent of loan amount, applicability of interest rate, loan repayment period, type of housing property, loan recovery modality, own contributions, etc. Interest rate applicable to Public Provident Fund (PPF) account is also taken into consideration while devising Financial

Mechanism for providing housing to persons belonging to vulnerable group. Public Provident Fund (PPF) is a voluntary savings-tax-reduction social security instrument to mobilize small savings for social security during uncertain times by offering an investment with reasonable returns. In addition to this, Deepak Parekh Committee report is also reviewed to understand affordability ratio for different income groups for deciding housing price ranges (Parekh & et. al., 2008), Pradhan Mantri Jan-Dhan Yojana (PMJDY) has been also reviewed for financial inclusion of persons belonging to vulnerable group to ensure access to financial services, namely, a basic savings and deposit accounts, remittance, credit, insurance, pension in an affordable manner.

IV. FINANCIAL MECHANISM FOR HOUSING – JAN AWAS YOJANA

Outcome of Primary Survey conducted across three cities, review of loan disbursement policies adopted by Financial Institutions and Nationalized Banks, recommendation of Deepak Parekh Committee report on affordability ratio, interest rate applicability to Public Provident Fund (PPF) Account and provisions governing Pradhan Mantri Jan-Dhan Yojana (PMJDY) have been considered for devising Financial Mechanism for providing housing to persons belonging to vulnerable groups in the state of Maharashtra. This Financial Mechanism has been devised with the involvement all stakeholders, such as Central and State Government, persons belonging to vulnerable groups, Financial Institutions, Maharashtra Housing and Area Development Authority (MHADA), Public Sector and Private Sector working in Housing Sector, etc. with their active involvement. Provisions proposed in Financial Mechanism are as follows:

- a) Anybody who is domicile of Maharashtra State and completed 18 years of age, can open an account, may be called as “Jan Awas Yojana Account” in any Nationalized Bank. Provisions governing Pradhan Mantri Jan-Dhan Yojana (PMJDY) shall be applicable to such account as and where necessary.
- b) Jan Awas Yojana Account can be opened and operated by single applicant or jointly with other family member/s. Applicant can open only one such account either singly or jointly in any

Nationalized Bank anywhere in the Maharashtra State.

- c) Saving Interest Rate as applicable to Public Provident Fund (PPF) Account is applicable to Jan Awas Yojana Account and it will be treated as a Saving Account up to availing housing loan against such account.
- d) Money can be deposited by the account holder/s in Jan Awas Yojana Account as and when possible. The deposit can be made in a lump sum or in installments.
- e) There is no restriction on the number of installments per financial year, and such deposits are exempt from Income Tax under Section 80C of the Indian Income Tax Act, 1961.
- f) One time loan shall be available per Jan Awas Yojana Account. Once loan is availed against such account, it will be converted to Housing Loan Account.
- g) At any point of time, account holder/s can approach the bank availing loan against his Jan Awas Yojana Account to purchase housing stock through Public Sector or Private Sector, residential land through Public Sector or Private Sector or for construction of housing on his owned land.
- h) In such a case, the bank shall not ask for any document from the applicant to assess his financial capacity and to decide the extent of the loan amount.
- i) Maximum loan amount eligible under this mechanism is five times the amount deposited / accumulated by the account holder/s in his/their Jan Awas Yojana Account at time of availing loan.
- j) Applicant can buy housing costing up to six times the amount deposited / accumulated by the account holder/s in his / their Jan Awas Yojana Account in which 1/6th (16.67%) is own contribution and 5/6th (83.33%) is loan contribution which is less than 85 %.
- k) Most of the Nationalized Banks offer maximum housing loan amount up to 85 % of market value of the property under consideration.
- l) Maximum duration for repayment of loan amount under this scheme shall be up to 30 years from the date of disbursement of first loan installment.
- m) Housing stock or residential land purchased using this loan amount or housing constructed on owned

land using this loan account will be mortgaged with the said Nationalized Bank up to repayment of said loan amount.

- n) The Central and State Government shall offer financial subsidy and / or subsidized interest rate on loan amount availed under this policy to encourage more participation of persons belonging to vulnerable group.
- o) More subsidies and lesser loan interest rate shall be proposed by the Central and State Governments on smaller loan amount and may change pro rata with the increase in loan amount.
- p) Maharashtra Housing and Area Development Authority (MHADA), a pioneer organization providing affordable housing in the Maharashtra State, can be appointed as Nodal Agency for effective implementation of Jan Awas Yojana.

V. CONCLUSION

Financial Mechanism proposed above in the form of Jan Awas Yojana Account is applicable to all persons belonging to vulnerable group and it is not segment specific. Further, loan amount available through such account is inclusive and can be used for buying residential land available through Public Sector or Private Sector, construction of housing on owned land as well as buying housing through Public Sector or Private Sector and it is not sector specific. Under this Financial Mechanism, bank shall not ask for any document from the applicant to assess his financial capacity and to decide the extent of the loan amount. Maximum loan amount permissible under this Financial Mechanism is up to 5/6th (83.33 %) of market value of the property under consideration and financial contribution of the applicant is up to 1/6th (16.67%) since beginning. Financial recovery of loan amount is insured under this Financial Mechanism by mortgaging residential land or housing purchased using this loan amount or housing constructed on owned land using this loan amount, up to repayment of said loan amount. Account opened under this Financial Mechanism act as a saving account with better saving interest rate before availing loan and after availing loan, said account act as a loan account with lesser interest rate. This Financial Mechanism discourages formation of slums and informal housing as prospective applicants from vulnerable groups have legitimate option in their hand since beginning.

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