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INDIA : HOUSING FINANCE SYSTEM EXPANSION PROJECT

FINAL EVALUATION

I INTRODUCTION AND OVERVIEW

Introduction

This final evaluation of the India Housing Finance System Expansion Program (HFSEP, funded in late 1991 under A I D Housing Guaranty loan 386-HG-003A) was commissioned by the A I D Regional Urban Development Office (RUDO) in New Delhi in December 1997 The evaluation was conducted by an international team of professionals organized by AG International Consulting Corporation of Bethesda, Maryland (AG International) and its subcontractors Technical Support Services, Inc of Washington, D C (TSS), Nathan Associates, Inc of Arlington, Virginia, and the Environmental Planning Collaborative (EPC), the Centre for Environment Planning and Technology (CEPT), and the VIKAS Centre for Development (VIKAS), all of Ahmedabad, India Field work was conducted in December 1997 and January 1998, and involved extensive travel within India, including to the cities of Ahmedabad, Bangalore, Baroda, Calcutta, Chennai, Hyderabad, Mumbai, and New Delhi

The team attempted to be as comprehensive as possible in its data and information gathering, and conducted a very large number of interviews (see Appendix 5) with a wide range of informants involved in different segments of the Indian housing finance system, including representatives of USAID/RUDO, the Reserve Bank of India (RBI), the National Housing Bank (NHB), former technical assistance staff who worked with NHB under the HFSEP, the Housing and Urban Development Corporation (HUDCO), the Life Insurance Corporation of India (LIC), the Central Provident Fund, scheduled commercial banks, housing finance companies (HFCs), developers, merchant banks, mutual funds, private investors, rating agencies, cooperative credit societies, cooperative banks, micro finance companies, non-governmental organizations (NGOs), and community-based organizations (CBOs) providing informal financial services to their members in urban slum areas

The evaluation Scope-of-Work (SOW) provided to the team by RUDO/New Delhi is attached as Appendix 1 In broad summary, the SOW called on the team to

- describe the "housing context" in India today
- evaluate USAID's Housing Finance System Expansion Program, and
- derive options and recommendations for consideration by USAID in its current and potential near-term programming

Among the tasks listed above, emphasis was placed by RUDO/New Delhi on the third, options and recommendations for current and future USAID programming In this context, the team was instructed to focus particularly on

- government policies that affect the efficiency and adaptability of the shelter finance system, and steps to improve the efficacy of government policies, if any
- other important constraints to the improvement and expansion of shelter-related finance in India, particularly to serve the needs of lower-income families, and practical steps to be taken in the short-, medium- and long-terms to reduce them, and

- the present role, present and future implications, and future potential of formal and informal community-based organizations in mobilizing and delivering shelter finance to lower-income families in Indian cities

Overview

Size and Characteristics of the Indian Housing Market

India's total population has grown to a current estimate of about 960 million, almost as large as that of North and South America and Western Europe combined Only about 30 percent of India's people live in cities, yet at approximately 290 million this number is about equal to the total population of the United States At an average of 5 3 people per household and 5 5 people per dwelling in urban areas, it can be estimated that about 55 million households occupying about 53 million dwellings currently reside in the urban areas of India This can be compared to a recent estimate of about 98 million households and about 103 million occupied and 13 million vacant dwelling units in all of the United States, reflecting both the dramatically smaller average household size and greater wealth of the latter country

In the United States, every year about 5 percent of total households purchase an existing or new home, generating a demand for US$ 700-800 billion annually in new home mortgage loans In India, recent official estimates published by the NHB[1] indicate an average flow of housing finance of about 3,365 crore[2] Rupees during the period between 1992 and 1995, equivalent to about US$ 1 1 billion annually

It is of course true that the major part of the difference in the volume of annual housing finance in the two countries is explained by the much higher average cost of housing in the U S , along with the higher mobility and larger number of American households, which both contribute to higher annual production and turnover of the housing stock However, it is also true that the difference in annual lending volumes also reflect the dramatically lower efficiency and coverage of the formal sector Indian housing finance system, in comparison with that of the U S , and especially to the fact that — even in urban areas — at most fifty percent of Indian families have any kind of access to shelter finance from either government programs or formal sector financial institutions

Official estimates themselves recognize the immense size of the shortfall in coverage As indicated in the above-cited NHB report, estimates prepared for the Eighth Five Year Plan (1992-97) indicated an investment requirement for housing of Rs 97,530 crores during the period, but projected that only Rs 25,000 crores of financing would be made available by formal sector institutions It is well to note that the requirement estimate itself is only for *investment* needs, i e for the construction of

1 National Housing Bank, "Report on Trends and Progress of Housing in India", June 1995

2 1 crore equals 10 million At an average exchange rate of about 32 rupees per US dollar, 1992-97, Rs 97,530 crores were equal to about US$ 30 billion The current end-1997/early-1998 exchange rate is about Rs 40 per US dollar, making it possible to divide figures expressed in crores of current Rupees by 4, to obtain millions of US dollars

new housing, and does not include any provision for financing the sale of existing dwellings As of the 1995 publication date of the NHB report, it was estimated that only about Rs 19,400 crore of formal sector housing finance would in fact be provided during the 8th Plan period, for a shortfall of about Rs 5,600 crore

Another perspective on the potential demand for housing finance in India can be gained through the following set of hypothetical calculations If, as in the U S , one in twenty urban households purchased a home in any given year, if the average price of a home were only US$ 10,000 and if only 70 percent of the value of homes purchased was financed by home mortgage loans, a demand for home mortgage loans equal to US$ 19 25 billion or Rs 77,000 crores would be generated *annually*, only in urban areas and not counting the additional finance needed for housing construction or home improvements, as is included in the 8th Plan estimates cited above

The reader is free to adjust these hypothetical parameters as he/she wishes — halving estimated annual turnover and/or halving the average sale value of a home in India — and our conclusion remains unchanged Despite the notable growth and geographical expansion of the formal Indian housing finance system in recent years, with annual disbursements on the order of US$ 1 billion per year it remains far from being able to satisfy either potential housing investment or potential home purchase financing demands

Constraints for Housing Investment and Housing Finance

As will be discussed in more detail in the main body of this evaluation report, many factors constrain the growth and functioning of the various systems needed to deliver adequate shelter and related infrastructure services to Indian families, and only some of these are directly related to the characteristics of the formal housing finance system itself

Extreme poverty and its effects on housing affordability undoubtedly remains one of the major constraints to alleviating the housing conditions of the 40-50 percent of all urban families in India who currently reside in slums and who suffer from the overcrowding, lack of hygiene and insecurity that characterize these areas The average monthly income of these poor families is estimated to be only about 2,000 rupees, or about 50 US dollars, and the sources of their income — primarily casual labor or self-employment in construction, services and trade — are erratic and unstable Even if such families were able to save ten percent of their income, 200 rupees or US$ 5 a month, or to apply this amount to servicing debt, their borrowing capacity under anything like market conditions would amount to at most US$ 200 -250, far below the cost of even the most modest one-room dwelling[3] One inevitable conclusion is that the purchase of finished units is simply beyond the means of these very poor families and will remain so as long as it may take for their incomes to increase substantially Credit programs designed to finance complete dwellings are clearly inappropriate for

[3] An indicative estimate of construction materials costs in the slum areas of Ahmedabad is currently about US$ 100 per square meter, or US$ 10 per square foot Thus, a 10' x 10' single-room dwelling is estimated to cost US$ 1,000, without including the costs of either land or labor Many such dwellings are therefore actually built of foraged materials, such as sheets of plastic, cardboard or tin

such families, who instead require continuous and flexible access to a succession of small, short-term loans, structured along the lines of a rotating line-of-credit, that will gradually allow them to improve the quality of their dwellings, water supply and other amenities over a period of many years

A second major constraint affecting the ability of low-income families to obtain financing to improve their shelter conditions is the insecurity of their tenure status A large proportion of the families living in India's urban slum areas occupy dwellings without clear title to the land on which they are built In some cities like Ahmedabad and Mumbai, much of this illegally-occupied land belongs to private owners whose long-standing legal claims, together with the lack of adequately-structured and funded compensation mechanisms, stand in the way of the slum-dwellers' hopes of obtaining clear title Even in slums built-up on public lands where government authorities have recognized the *de facto* tenure rights of current residents — even where such local government authorities are channeling loans to these current residents to finance water connections, for example — the same local Indian authorities have not yet been willing to grant legal title to slum-dwellers, presumably out of fear of encouraging future waves of illegal squatter-settlement developments At most, current occupants participating in community-infrastructure upgrading programs have in some cases been granted 10-year immunity from legal action or forcible relocation to encourage their investment, but the lack of clear legal title makes their *de facto* ownership of their homes useless for purposes of borrowing from formal sector lenders requiring security in the form of a mortgage The uncertainty surrounding their property rights undoubtedly depresses the overall level of investment undertaken by the lower 40-percent of families residing in India's urban slums, just as, in addition, it also severely restricts their access to formal sector sources of finance

Urban land is inordinately expensive in many Indian cities[4], partly as the reflection of failed urban infrastructure development systems, and partly as the direct result of government regulations that restrict or retard the market's ability to bring forth additional supply of land suitable for residential development

Neither the national, nor the State or local municipal governments in India have been able yet to establish the conditions necessary to mobilize the financing required to develop urban transportation, water and sanitary infrastructure at a rate anywhere near that of the growth in demand for infrastructure services in urban areas As in many other developing countries facing similar problems, key issues for urban infrastructure development include the inability of local governments to set and enforce tariffs or other revenue mechanisms high enough to cover both the operating and capital costs of infrastructure development, poor operational and financial management characterized by high product losses (e g potable water, electricity), heavy overstaffing and a poor track record of managing budgetary expenditures, all leading to a lack of creditworthiness, and, overly detailed and rigid planning and permitting processes, that make it difficult for development to respond quickly to unfolding needs Good transportation networks enabling people to access markets and

[4] Land located in the slums of relatively-smaller cities such as Ahmedabad is said to cost Rs 5,000 per square meter, 25-percent more than the cost of a square meter of construction, while centrally-located land in cities like Mumbai will cost several times this amount Land costs can thus easily contribute 50-60 percent of the final selling price of a centrally-located dwelling unit

employment are indispensable for relieving pressures on the limited land available in urban central districts, while some form of water supply and waste removal systems are also basic necessities Investment in the construction of such networks and systems has been falling ever further behind requirements in many Indian cities, aggravating an already vicious spiral of overcrowding, price inflation and increasing unaffordability in their established central districts

Many regulations currently in force also work at cross-purposes to the objective of improving the shelter conditions of India's urban poor These are discussed at greater length in the body of this report but include the Urban Land Ceiling Act and Stamp Duties, for example, which both make it more difficult for developers to put large tracts of land together for subsequent development[5] Zoning regulations restrict the ability of developers to build at higher densities in response to increasing land prices, and also render many slum redevelopment projects unsuitable for the needs of poor families, for example by restricting the use of the new flats for productive or other business purposes thus making it impossible for their occupants to continue to make their livelihoods Unnecessarily rigid financial sector regulations also interfere with the ability of developers to obtain credit for land purchase and construction, for example, and this also reduces the supply and raises the cost of urban housing Rent controls in certain cities, and the difficulty of recovering property through foreclosure are further examples of regulatory deficiencies inhibiting the development of more responsive and efficient land and housing markets

Future Directions

Despite the difficulties alluded to above, it must also be recognized that much progress has been made in developing a functioning formal housing finance system in India during the last twenty years Beginning, with early support from USAID, with the creation of the Housing Development Finance Corporation (HDFC) in 1977, a system of specialized Housing Finance Companies (HFCs) now numbering several hundred has been brought into being These include 25 relatively large and stable organizations which have been approved as eligible for refinancing from the National Housing Bank (NHB), which is another important housing finance system institution brought into being in 1989 Indian commercial banks (mostly still government-owned) have begun to take a serious interest in housing finance in recent years, with many of them having established specialized HFC subsidiaries, and others beginning to offer housing loans directly Early preparatory steps have been taken that will foreseeably lead to the linkage of the housing finance system, including commercial banks, to permanent long-term institutional sources of funding through the nation's growing domestic securities markets

5 The Urban Land Ceiling Act, which is currently being re-evaluated, restricts the amount of land that any single individual or company can own, while Stamp Duties, which in many States can be as high as 10 to 15 percent, are a cascading *ad valorem* tax which is in principle due every time property is bought or sold, by the developer in the process of putting a development tract together, again when lots or homes are sold, and each time the property is resold thereafter Stamp Duties are presumably also due each time a financial instrument, such as a mortgage loan, is transferred, and this has been an important impediment to the development of mortgage securitization in India

Partly because there hasn't been much competition until relatively recently, and also in part as a natural response to regulatory deficiencies such as those that still make it almost impossible for a lender to recover a property through foreclosure, housing lenders operate very conservatively in India Extremely stringent employment-stability and character criteria are applied in selecting clients, cosigners are usually required, and average loan-to-value (LTV) ratios in the system are on the order of 50 percent This extraordinary conservatism in underwriting criteria partly explains the relatively low market penetration of the formal Indian housing finance system, even with reference to the middle- and upper-income segments of the market

Other specific characteristics of the current system — such as the continued predominance of fixed-rate savings and lending instruments, restricted asset powers and unequal access to funding sources — pose some risks for the future of the Indian housing finance system, particularly as regards the stability of the HFCs These issues, which like others already mentioned are primarily regulatory in nature, are nevertheless relatively easily identified and resolved, and, as will be discussed later, there is every reason to anticipate that they gradually will be

Also, despite the severity of underwriting criteria applied, with an average housing loan size of about Rs 200,000 (US$ 5,000-6,000) the system is already providing service well down into the middle-income segment of the market Our overall impression, therefore, is that — especially with the increasingly large-scale participation of the commercial banks and the advent of market-based institutional funding through securitization — most of the elements needed to efficiently serve the housing finance needs of lower-middle, middle- and upper-income families with stable employment in India are already largely in place Some additional fine-tuning is needed, as is the consolidation and expansion of the new directions that are already being taken This is an important achievement that should not be taken lightly, and one to which USAID has contributed substantially over the years, including through the Housing Finance System Expansion Program

As began to become evident during the last two years of HFSEP, however, the virtually-unresolved problem that remains is how to provide responsive and affordable shelter finance services to poor families, especially the large majority of these that do not have stable employment but depend for their livelihood on casual or domestic labor, employment as domestic servants , a wide variety of forms of self-employment as tradespeople and vendors, or on employment by other small-scale and relatively unstable informal sector businesses As has been described above, these families

- are very poor, and could mostly not afford to purchase a completed dwelling even if financing were available
- can not offer a lender a clear title enabling the property they occupy to be mortgaged, and have no other effective forms of collateral
- do not have a regular job at a stable company, but must live from shifting and often erratic sources of income

Initial attempts to have formal sector housing finance institutions move "down-market" and provide services to this segment of the urban population have understandably been a failure It is very difficult for a regulated formal sector financial institution of any kind to operate successfully in a market that can only absorb small, unsecured and thus necessarily character-based loans with necessarily flexible repayment terms To start with, established underwriting criteria utilized in serving other segments of their markets would have to be radically diluted from the outset, with possibly negative repercussions throughout their operations Secondly, the high costs of qualifying borrowers on the basis of character and of servicing their numerous but tiny loans in the watchful but flexible manner that is required to operate at this level would render such operations unprofitable as well as risky for the majority of formal sector lenders Faced with ample opportunities for continued growth in the more stable middle- and upper-income segments of the market, and lacking the regulatory protections normally provided for such institutions in terms of collateral and foreclosure, it is understandable that few Indian HFCs have ventured into the low-income segments of the market, and that the one or two who have so ventures have only done so in a very small and tentative way

Low-income families require and demand shelter finance, however They need small home- and infrastructure-upgrading loans for two important reasons for many, the home is also the principal place of work, and it is important to be able to keep tools and raw materials secure and protected from the elements, secondly, the family's own physical and financial security, including the protection of their accumulated wealth and the protection of their health and associated income-earning capacity, are also a function of the quality of building materials, water supply and other amenities serving their homes Poor people in Indian slum communities do in fact invest substantial amounts in the maintenance and improvement of their homes, and it has now been well-documented that they regularly save and borrow money in order to be able to do so Not only do they borrow, but most also repay their loans in full, along with the high rates of interest charged by the informal sector lenders that have been providing financial services in slum communities in one form or another for many, many years

Traditional community-based savings and loan schemes, including so-called "savings clubs" or *"bachat mandals"*, "chit" funds, and *"Vishis"* have traditionally competed with moneylenders in Indian communities since time immemorial These mechanisms are described in some detail in the main body of the text More recently, a variety of NGOs working on community development and other social issues have begun to specialize on organizing locally-based savings and credit schemes, either to provide for family emergencies or special occasions like weddings, or explicitly to fund the working capital and investment needs of member-microentrepreneurs Again, some of these schemes and their experience will be described in the text that follows What is important to note here is that in fact a substantial portion of what has until recently been classified as "microenterprise credit" — as much as 30-40 percent of the total lending of some NGOs working in this field — is actually devoted by the borrowers to shelter-related improvements, undertaken for the reasons cited above It has been further documented that

- some of these community-based informal and/or NGO-sponsored small-scale credit schemes have in fact developed low-cost means of qualifying and serving unsecured borrowers effectively, as evidenced by very high loan recovery rates
- borrowers will save regularly in order to gain access to credit, and they are willing to pay high rates of interest for access to small, relatively short-term emergency or business development loans that accommodate their needs for rapid disbursement, minimal security and documentation, and flexible repayment terms

In these senses, some informal community-based organizations (CBOs) and NGOs have succeeded in serving these markets where the formal sector housing finance system has failed What has so far been found to be lacking to support the further development of these informal financial organizations — what has so far also impeded them from developing large-scale, replicable "solutions" to the credit needs of low-income families living in urban slum communities — is principally the following

- some reliable system for screening the responsible community-organizer from the hucksters and con-men who undermine confidence in informal lending schemes generally
- strengthened financial management systems that can also contribute to increasing the stability and credibility of such informal schemes, and
- access to capital beyond the very limited savings of the low-income community itself

Both formal sector financial institutions and informal CBOs and NGOs have a role to play in developing a more functional credit system to serve low-income families in the future Rather than attempting to turn the banker into an informal community-credit organizer, or *Sanchalak*, and rather than trying to have the *Sanchalak* develop into a formal sector banker, we believe that the evidence and experience gathered to date in India points strongly towards the development of a system in which both the formal and informal credit system components continue to play their respective roles, but in a complementary rather than either a disjointed or a competitive fashion Rather than trying to have formal sector lenders move "down-market" and rather than trying to formalize the informal sector, the creation of a system providing for linkages between existing formal and informal sector financial institutions appears to offer real potential

In the report that follows, we will describe a system whereby "demand organizers" developed from existing NGOs working at the local level in specific Indian cities move in to occupy an intermediary position between primary community-based organizers (hereafter, *Sanchalaks*) and one or more "funds" that it is proposed be established as a vehicle to channel funds from formal sector financial institutions to low-income borrowers throughout the nation The roles of the proposed "demand organizers" would be

- to pre-screen qualified and reputable *Sanchalaks* for purposes of onlending "fund" resources to qualified low-income saver-borrowers
- to provide technical assistance and support to qualified *Sanchalaks*
- to diversify the risks borne by "fund" investors by distributing its resources among a large number of qualified *Sanchalaks*, each demand organizer may be expected to work with 50-100 *Sanchalaks* working in different communities in any given city
- to manage the placement and recovery of "fund" resources
- to monitor and document the operations of the system for purposes of establishing the credibility of the system among formal sector institutional and individual investors

Primary short-term revolving loans extended to low-income families would be made at "high" rates of interest comparable to the current practices of CBOs and NGOs working in low-income communities, perhaps on the order of 3 percent per month to begin with Such rates are still far below those charged by moneylenders and are, of course, infinitely lower than the effectively infinite rate "quoted" to prospective borrowers who, like most poor families today, are denied any access to credit whatsoever With realistic interest rates being charged at the primary loan level, the proposed system can pay participants an attractive rate of interest on their savings, cover what are expected to be low loan losses, cover the operating costs and profit margins of the *Sanchalak* and the "demand organizer", and still return a competitive yield to the "fund" investors As broadly envisioned currently, the principal role of the "fund" is to provide a vehicle whereby formal sector investors including financial institutions can participate in diversified pools of relatively high-yielding loans "Fund" management is to be competitively awarded to one or more investment managers, whose role would be to distribute the resources of the "fund" or "funds" among their selection of "demand organizer" intermediaries operating in different parts of the country, on the basis of the "demand organizers' " financial strength and their past performance in intermediating funds to the group of *Sanchalaks* with which they are associated Except for initial capitalization of a group of pilot "demand organizers" to begin operations in different regions of the country, and the provision of technical assistance to this group at the outset, the system is designed to work with and through existing formal and informal sector channels on strictly market-based commercial terms As such, it is anticipated that it can be self-sustaining and, once proven, will be able to attract the private sector resources needed to support its future growth and development

The remainder of this evaluation report is organized as follows

- Chapter II describes the Indian housing context and provides a more detailed summary of the Indian housing finance system
- Chapter III describes recent USAID experience in the Indian housing finance system through HG-003A and the Housing Finance System Expansion Program
- Chapter IV presents an analysis of the requirements of community-based and informal lenders to strengthen and expand their shelter lending activities, including through the creation of linkages to capital sources in the formal financial system, and outlines a proposal for USAID support for a pilot Community Infrastructure & Shelter Investment fund and nationwide credit distribution network to provide these linkages, and
- Chapter V concludes with a summary of short-, medium- and long-term recommendations for overcoming present financial and non-financial constraints in three priority areas

    - Urban Infrastructure and Urban Land Supply
    - Low-Income Shelter and Community Infrastructure Finance, and
    - Formal Housing Finance System Development

II Housing Context and Summary of the Housing Finance System

Introduction

In the almost 20 years since USAID began its involvement with the Housing Development Finance Corporation (HDFC) in India, a significant number of specialized housing finance companies (HFCs) with nationwide operations have come into being Since July 1988, this growing system of specialized HFCs and a selection of approved banks have gained access to long-term refinancing through the National Housing Bank (NHB) NHB has also provided long-term refinancing of housing loans extended by cooperative banks, cooperative housing finance societies and agricultural and rural development banks, but NHB refinancing still plays a relatively minor (approximately 8 percent of net annual disbursements) role in the housing finance system Direct transfers by government to state and local agencies, at approximately 17 percent of net disbursements of the housing finance system in recent years, and the loans and investments of the government-owned Housing and Urban Development Corporation (HUDCO), Life Insurance Corporation of India (LIC), Provident Fund, General Insurance Corporation (GIC), and the Unit Trust of India (UTI), together about 70 percent of net disbursements, continue to dominate funding sources for housing in India today (refer to Table 10 Flow-of-Funds for Housing for greater details) Appendix 6 presents an overview of selected housing-related statistics for India

Despite the fact that the formal housing finance system remains highly dependent on public sector transfers and resources generated through regulatory mandates imposed on commercial banks and insurance companies, the system has shown itself capable of mobilizing a growing volume of deposits from the public. In addition, new funding mechanisms (such as the securitization of pools of home mortgage loans) under development promise to gradually increase the system's reliance on market-based financing sources

Commercial banks are becoming increasingly involved in lending for home purchase or improvement Their increased participation may require that some attention be paid to ensuring that regulations governing HFC funding do not put them at an excessive disadvantage in relation to banks, but is undoubtedly a positive development from the perspective of improved and expanded credit services for middle- and upper-income borrowers

Moreover, the prevailing centralized and formal process for screening housing loan applications coupled with the required qualifications for loan approvals, ensure that large numbers of the urban poor who do not have regular formal sector employment will continue not to have access to formal housing finance from the existing institutions Even with the increased direct participation in the sector by commercial banks and expected continued growth of specialized HFCs, it is unlikely that more than about one-quarter of all Indian families, and about one-half of urban Indian families, will have access to housing finance from these formal sector institutions for many years to come The remainder will continue to be dependent on self-finance or unregulated, informal sources of finance for the foreseeable future

Key non-financial issues affecting the housing sector include (1) freeing up access to urban land for housing development, such as by repeal of the Urban Land Ceilings Act, (2) improving the urban land use planning process, (3) clarifying tenure in slum areas, (4) eliminating rent controls where they continue to exist (e g , Mumbai), (5) streamlining the foreclosure process, and (6) facilitating title registration and transfer Attitudinal issues pertaining to the role of slums and slum dwellers in the urban socio-economic system must also be addressed

Key finance issues affecting the formal housing finance sector include (1) a reexamination of government policies favoring distortionary interest rate subsidies for low-income borrowers, (2) relaxation of mandated and directed credit lines for housing, (3) removal of impediments to securitization such the high rate of Stamp Duties imposed by several states on the transfer of financial assets, (4) allowing the provident funds to participate in the housing finance system, and (5) leveling of competitive conditions between commercial banks and specialized HFCs (such as by providing deposit insurance for HFCs, introducing adjustable rate savings and lending instruments, and allowing them to offer checking and savings accounts) Another important institutional issue that may need to be examined in the next few years is related to the potentially conflicting roles assigned to the NHB, which is presently mandated to simultaneously serve as regulator, supervisor, promoter and lender to the formal housing finance system

Formal Housing Finance System

Government of India's Role in Housing Finance

Under the federal Indian Constitution, housing and urban development are the responsibility of the state governments However, the Central Ministries and the Planning Commission exercise a significant influence on urban and housing policies by way of budgetary provisions through central schemes, finance provided by national financial institutions, and the routing of external assistance Nevertheless, it has been found that the indirect effect of the past centralized economic and industrial location decisions of the Central Government have exercised a far more dominant influence on the pattern of urbanization and real estate investments made by the private sector than any of the substantial direct efforts of government in the housing sector[6]

The Government of India formulated its National Housing Policy (NHP) in May 1992 wherein it recognized that, in spite of substantial public investments through several national, state as well as local programs and projects, the *housing problem* has remained unresolved The NHP also admits that resource requirements for meeting the goal of 'Shelter for All' by the year 2000 is beyond the means of the public sector While rejecting the previous role of the government as a provider and builder, the NHP advocates a supportive and facilitative role of government in housing

While the Government of India continues to provide direct budgetary support to specific housing and urban programs through its Five Year Plan allocations, it also continues to support institutions such as the Housing and Urban Development Corporation (HUDCO), the National Housing Bank (NHB) and others The National Housing Bank (NHB) was established by the Government of India in 1988 as a wholly owned subsidiary of the Reserve Bank of India, eleven years after the Housing

6 Sundaram P S A Evolution of Urban Development and Housing Policies in **Urban India in Crisis** New Age Int Publishers New Delhi 1996

Development Finance Corporation (HDFC) became operational The extremely successful performance of HDFC proved that a market-driven corporate entity could respond more efficiently and profitably to the needs of urban households than the direct interventions of either the GOI or the state governments Realizing that direct involvement by public agencies would not be effective, the GOI therefore decided to broaden the market-based housing finance system through the NHB and the growing network of HFCs

Furthermore, the Reserve Bank of India (RBI) requires banks (which are mostly publicly-owned) to achieve an overall minimum target of placing 1 5 per cent of their previous year incremental deposits in loans and investments in the housing sector This allocation for 1996-97 worked out to be Rs 1,071 4 crores (US$ 274 7 million) To fulfill these requirements, banks have continued to lend to selected established housing finance companies Moreover, many banks have also initiated their own housing finance activities by either establishing their own housing finance companies or through specialized housing loan branches

National Housing Bank

The National Housing Bank (NHB) a wholly-owned subsidiary of the Reserve Bank of India was created in July 1988 as a Development Finance Institution The aim was to foster development of a high volume Housing Finance System that would serve households across the income distribution spectrum The NHB's mission is

- promotion and expansion of a market-oriented housing finance system,
- mobilization of additional funds for lending for housing and associated land and infrastructure projects,
- supervision and regulation of housing finance institutions so as to insure the financial health and stability of the housing finance system

In pursuit of its mandate, the NHB utilizes the expanding branch network of Housing Finance Companies (HFCs), the existing network of commercial banks, co-operative sector institutions and the agriculture and rural development banks Refinancing is used as a mechanism to augment the flows of credit Distributional objectives for the allocation of credit to various sections of the population are attempted to be achieved through differential rates of interest charged by the NHB according to loan size

To further its developmental role, the NHB has started 'Direct Lending' (project financing) to agencies and local bodies, which are formed by central/state governments and authorized by the states to undertake slum improvement projects These agencies include HUDCO, various state housing boards, slum improvement boards, city development authorities and municipal bodies

Initially through collaborative arrangement with USAID and subsequently on its own, NHB has also provided training on specialized topics to the staff of institutions involved in housing finance From its establishment until June 30, 1997, NHB conducted 22 training programs benefitting more than 380 officials in the sector NHB has also extended financial and faculty support to other agencies for organizing training programs Additionally, with USAID's assistance, the NHB has also undertaken focused studies on various issues related to housing finance Mortgage securitization, redrafting of foreclosure laws, and identification and removal of other policy, administrative and statutory impediments are also on the agenda of the NHB

In view of the changes taking place in the Indian financial sector, prudential norms were introduced in 1995 These were aimed at safeguarding the business interests of the HFCs while at the same time promoting credibility, including the introduction of capital adequacy norms, norms for income recognition, asset classification, credit concentration to single and group borrowers and credit rating of housing finance companies

At present, there are 379 housing finance companies under the NHB's regulatory responsibility However, it receives and monitors statutory returns on the financial position of only 139 of these as the remainder are very small and relatively inactive Given the increase in the number of housing finance companies in the country, the NHB has intensified its regulation and supervision activities by conducting regular inspections Based on the inspection findings and off-site surveillance, NHB issues prohibitory orders to companies which do not follow directives During 1997, prohibitory orders were issued to five housing finance companies and show cause notices were issued to seven

Housing and Urban Development Corporation (HUDCO)

The Government of India's first effort in the area of housing in recent decades was to set up the Housing and Urban Development Corporation (HUDCO) in 1970 One of the major functions of HUDCO was and remains to provide long-term, low-cost funds to state housing boards for the construction of middle and low income housing Except for a few scattered attempts, HUDCO does not finance private sector building efforts The NHB recognizes HUDCO as an HFC and therefore refinances its loans HUDCO is the main lender to government entities for housing as well as urban infrastructure, but does not provide housing loans directly to individual households

Life Insurance Corporation (LIC)

The Life Insurance Corporation (LIC) is fully government-owned Traditionally, it has been a major source of long-term funds which were mostly lent to government agencies for large-scale infrastructure projects such as water supply and sewerage schemes The LIC has also been a major source of long-term loans to state governments for construction of housing through their state housing boards LIC is statutorily required to invest 25 per cent of its net accretions to its control funds in subscribing to the bonds and debentures floated by State Housing Boards and HUDCO, as well as in other "socially oriented schemes", including housing The contributions by LIC for housing comprises direct lending, bulk loans and assistance to State Government Apex Bodies and loans to its own housing finance subsidiary

LIC provides housing loans as a regular service to its policy holders The share of loans for housing has always been very small compared to loans for other purposes Moreover, when compared to the total population, a very small percentage of people actually have life insurance coverage The people who do have such coverage are generally urban-based middle and high-income persons with formal-sector jobs, or professionals It is only recently that a separate subsidiary, LIC Housing Finance

Limited, was set up to concentrate on the growing demands in this sector However it has rapidly grown to occupy second place among HFCs today, after HDFC

Housing Finance Companies (HFCs)

Growth of Companies and Branch Network Finance sector reforms, policy initiatives and the perceived potential of the real estate market have all contributed towards the rapid expansion of HFCs in India The total number of HFCs has grown from 30 in 1988 to 367 in 1997, 117 new HFCs have been established in the past three years Along with this increase in number of companies, the branch network of existing companies has also grown significantly However, only 26 of the 367 have so far been approved for refinancing by NHB, as the remainder have yet to fulfill the NHB's capitalization and credit rating thresholds

The growth of new companies was essentially a response of small entrepreneurs to the liberalization of the finance system, which promised to enable such companies to accept deposits from the public While statutory requirements make it mandatory for any company involved in housing finance to file returns with the NHB, the top 26 HFCs approved by the NHB for refinancing account for 99 4 per cent of the total disbursements made by HFCs in the country

The NHB classifies HFCs in four categories The first includes only the 26 HFCs approved to receive refinance The other three groups are classified according to the size of their net owned funds (NOF) as (i) HFCs with NOF Rs 50 lakhs and above, (ii) HFCs with NOF between Rs 25 lakhs and 50 lakhs, and (iii) HFCs with NOF less than Rs 25 lakhs[7] Information is available for a total of 139 companies

Table 1 Range of Housing Finance Companies

Profile	Description of Companies	Number of Companies	Housing Loans (% to total)
A	Housing Finance Companies on the NHB Approved List	26	99 42
B	HFCs with NOF more than Rs 50 lakhs	47	0 51
C	HFCs with NOF above Rs 25 lakhs but below Rs 50 lakhs	16	0 02
D	HFCs with NOF below Rs 25 lakhs	50	0 05

Source NHB 1997

Loan Growth and Industry Concentration The housing finance system's expansion at the aggregate level as well as company-wise growth of business is indicated by the rapid growth of loan disbursal During the period 1995-96 to 1996-97, the outstanding loan amount increased from Rs 13,666 crores to Rs 15,489 0 crores (from US $ 3 5 billion to US $ 4 billion) recording an over 13 per cent annual average growth rate The following table presents an analysis of rapid growth in loan disbursals by individual companies The slow-down seen in the case of few companies after 1995-96 is mainly attributable to a cooling down in the real estate activity in that period

Industry Concentration Of the total outstanding loans by the approved HFCs, but not counting

[7] The concept of net owned funds is analogous to that of shareholder equity plus reserves One lakh is equal to 100,000, so that Rs 50 lakhs are equivalent to 5 million rupees or about 125,000 dollars

HUDCO which provides loans mostly to state housing boards, the HDFC tops the list accounting for 53 per cent, followed by LIC Housing Finance with almost 25 percent Only the top five — HDFC, LIC Housing Finance, CanFin Homes Ltd , Dewan Housing Finance Ltd , and GIC Housing Finance Ltd — which together account for almost 90 percent of total HFC housing loans, can be considered to have a big role in this market

Table 2 Loan Growth - Selected Companies

Housing Finance Co	Loan Growth (% / year)		
	1996-97	1995-96	1994-95
CanFin Homes Ltd	6 87	17 46	N A
Dewan Hsg Finance Ltd	8 79	16 49	N A
GRUH Finance Ltd	39 75	55 25	60 56
HDFC	20 43	N A	N A
LIC Housing Finance Ltd	22 08	N A	N A
Peerless Abasan Fin Ltd	23 8	-85 46	N A
SBI Home Finance Ltd	21 53	17 86	55 45
Vijaya Home Loans Ltd	29 39	20 41	-6 63
Weizmann Homes Ltd	88 74	170 41	N A

Source NHB 1997

Table 3 Contribution of NHB Approved Housing Finance Companies

Name of HFC	Outstanding loans (% of total)	% Refinance to Outstanding loans	% Regulated Deposits to Total Resources	Exempted Deposits to Total Reso %
HDFC	38 1	9 9	36 1	43 6
HUDCO	28 3	6 5	40 4	41 2
LIC Housing Fin Ltd	17 4	5 0	55 2	13 1
CanFin Homes Ltd	3 2	8 4	0 5	78 8
Dewan Hsg Fin Ltd	2 8	6 2	0 0	88 2
GIC Housing Fin Ltd	2 2	5 8	70 9	21 0
SBI Home Fin Ltd	1 9	46 3	37 5	50 8
GRUH Fin Ltd	1 4	43 3	35 9	36 6
Ind Bank Housing Ltd	1 0	41 5	52 8	34 3
AB Homes Fin Ltd	0 5	39 3	1 1	26 0
BOB Housing Fin Ltd	0 5	36 3	36 2	54 6
Vysya Bank Housing Ltd	0 5	34 6	69 6	23 9
Cent Bank Home Fin Ltd	0 5	31 1	47 0	40 1
GLFL Housing Fin Ltd	0 4	29 7	34 3	54 7
Peerless Abasan Fin Ltd	0 2	27 3	79 1	6 1
Home Trust Hsg Fin Ltd	0 2	25 4	53 9	31 7
PNB Housing Fin Ltd	0 2	19 9	0 0	83 1
Global Hsg Fin Ltd	0 2	11 9	73 3	9 3
Livewell Home Fin Ltd	0 1	11 4	30 4	40 6
Vibank Hsg Finance Ltd	0 1	0 0	0 0	82 0
Weizmann Homes Ltd	0 1	0 0	68 5	4 2
Orissa Rural Hsg Dev	0 1	0 0	1 3	0 0

Name of HFC	Outstanding loans (% of total)	% Refinance to Outstanding loans	% Regulated Deposits to Total Resources	Exempted Deposits to Total Reso %
Vijaya Home Loans Ltd	0 1	0 0	33 5	0 0
Parshwanath Hsg Fin	0 1	0 0	1 7	35 1
Mercantile Hsg Fin Ltd	0 0	0 0	16 5	68 1
Saya Housing Fin Ltd	0 0	0 0	0 0	0 0
Total	**100 0**	**11 2**	**23 9**	**58 2**

Source NHB 1997

Resource Mobilization With increasing competition, HFCs have begun to become more aggressive in mobilizing resources from the market This is demonstrated by the growth in deposit mobilization

Table 4 Growth of Deposit Mobilization by HFCs (Rs Crore)

Year	1993	1994	1995
Outstanding deposits	866 9	1627 33	2239 14
Average Growth Rate (%)		87 7	37 6

Source NHB, 1995

Since the GOI relaxed the minimum term of deposits to one year, the share of deposits in the one to two year category has gone up significantly In that period, financial market fluctuations, political events and subsequent uncertainties in the stock market led investors to invest in the relatively secure term deposits rather than stocks Approximately 70 per cent of total HFC deposits have maturity periods of between two and five years

Table 5 Outstanding Deposits of all HFCs (maturity period wise classification) (Rs Crore)

Maturity Periods	1993	%	1994	%	1995	%
Within 6 months	4 28	0 49	56 79	3 49	45 88	2 05
6 months or more but less than 12 months	7 11	0 82	28 06	1 72	17 96	0 80
12 months or more but less than 24 months	18 78	2 17	213 60	13 13	424 21	18 95
24 months or more but less than 48 months	405 65	46 79	678 60	41 70	912 95	40 77
48 months or more but less than 60 months	137 42	15 85	190 88	11 73	229 82	10 26
60 months	261 83	30 20	331 85	20 39	454 91	20 32
above 60 months but less 84 months	10 44	1 20	26 59	1 63	55 66	2 49
84 months	21 34	2 46	45 65	2 81	69 18	3 09
above 84 months*	0 05	0 01	55 31	3 40	28 57	1 28
Total	866 90	100 00	1627 33	100 00	2239 14	100 00

* Includes deposits from shareholders, deposits guaranteed by the directors, security deposits from agents, unclaimed deposits etc

Scheduled Commercial Banks

Allocations and Disbursals Driven by the failure of several private sector non-bank finance companies and the overall slow-down in the securities markets in recent years, private investors have moved their investments to deposits with the well-established banks The Reserve Bank of India requires that commercial banks allocate 1 5 per cent of their incremental deposits as housing finance either directly, indirectly through their housing finance subsidiaries, through investment in NHB bonds, or as deposits placed with NHB-recognized HFCs This policy directive has led to the growth in allocation of the commercial banks to the housing sector The sector recorded a 2 6 fold increase during the four-year period, 1991/92 to 1995/96 (from Rs 384 crores, or US$ 98 4 million in 1991/92, to Rs 1010 50 crores, or US $ 259 1 million, in 1995/96) leading towards a substantial expansion of the entire housing finance system in the country

Furthermore, the RBI requires that at least 20 per cent of the allocations be in the way of direct loans and up to another 30 per cent in the form of term loans to HFCs The 50 per cent balance has to be reserved for subscription to HUDCO and NHB bonds During the period, 1991/92 to 1994/95 the share of direct loans has risen from 13 per cent to 31 per cent This indicates that commercial banks have come to accept housing loans as one of their prime commercial activities With an increase in banking activity, higher levels of investments in the housing sector by banks are evident In terms of contribution by bank groups, Indian nationalized banks continue to predominate, accounting for 56 per cent of total disbursements To keep up with competition and market growth, we can surmise that contributions of private and foreign banks, currently at 36 per cent, can also be expected to increase However, the level and growth of investment by banks in the housing finance sector relies mostly on RBI policy directives and not on real market considerations and therefore may not be sustainable in the long run

Table 6 Allocations and Disbursements By Banks (in Rs Crores)

Year	Allocation	Disbursement	% Disbursement
1991/92	384 00	334 19	87 03
1992/93	573 00	306 02	53 41
1994/95	723 80	748 00	103 34
1995/96	1010 50	N A	N A

*1 5% of incremental deposits of previous year is kept as minimum target

Table 7 Housing Loans Disbursed by Commercial Banks (Rs Crore)

Year	1991/92	1992/93	1993/94	1994/95
Total	334 20	306 02	425 26	748 61
Growth Rates (%)		(-8 43)	(38 96)	(76 03)

*During 1995-96 period allocations increased by 39 7%

Table 8 Disbursements of Housing Loans by Banks

Category	1991/92 (%)	1994/95 (%)
Direct	13 02	30 63
Indirect	86 98	69 37

Table 9 Bank Group-wise Housing Loans Disbursed

Bank Group	1991/92 (%)	1994/95 (%)
SBI Group	17 25	7 34
Nationalized Banks	60 17	56 49
Private Banks	2 65	NA
Foreign Banks	19 93	36 17
Total	100 00	100 00
In Rs Crore	**334 20**	**748 61**

Unit Trust of India (UTI)

The UTI has a portfolio of US$17 billion under its management with an investor base of 48 million unit holding accounts With fifty percent of it's total investable funds invested in the equities market, UTI has been the largest institutional investor It accounts for over 8 percent of the market capitalization of all listed scrips on the Bombay Stock Exchange UTI also plays a very active role in the Indian Corporate credit / debt market as well as on the money market The Unit Trust of India's support to housing is indirect by way of subscription to bonds / debentures of state level / national level agencies Currently, UTI also participates in the equities of several housing finance companies However, its contribution towards housing over the past decade has declined Nevertheless, as the housing market as well as the demand for housing finance grows, market information suggests that the UTI will play a major role as an institutional investor in the housing finance sector

Employee's Provident Fund (EPF)

The Provident and Pension Fund mobilizes about 17 per cent of the gross financial savings of the household sector in India With a young and growing population of contributors and relatively few pensioners, the EPF mobilizes large annual surpluses and investments, which in recent years have been running at about Rs 9,500 crore, or about US$ 2 5 billion, per year It's annual resource mobilization ranks next to the deposits mobilized by the nationalized commercial banks Like the U S Social Security Trust Fund, however, most of the surplus it generates is required to be invested in government securities, although recently the amount of its investments that could be allocated to certificates-of-deposit or other obligations of "Public Financial Institutions" has been raised to 40 percent If and as the fiscal deficits of the national and state governments are reduced in India, and if its current investment rules are liberalized within prudent limits, the growing volume of resources mobilized by the EPF can become an important source of finance for infrastructure and housing development in the country

The EPF provides advances for housing to its subscribers, amounting to about 84 thousand loans totaling Rs 286 crore in 1996-97 However, when seen in context of the overall labor market in India where the formal sector (which may have access to such benefits) constitutes only a small fraction of the overall economy, it is obvious that the EPF currently plays only a marginal role Nevertheless, as with the Unit Trust of India, the EPF is a potential source of considerable resources if it is allowed to invest in the housing finance sector

Cooperatives

The cooperative sector financial institutions consist of various apex cooperative housing federations functioning in various states of the country and the cooperative banks The Cooperative banks finance housing schemes under guidelines issued by the RBI The apex cooperative housing federations obtain loans from various financial institutions for on-lending to their member housing cooperatives for construction of housing for their members The sources of finance of housing cooperatives are by way of shares, deposits of the members and assistance provided by the state level federations and financial institutions like LIC, HUDCO, and NHB

Since the late 1970's forming housing cooperatives has been used mainly as a vehicle by real estate developers to get around cumbersome legislation and procedures pertaining to real property Developers resorted to forming housing cooperatives with fictitious names or with names of investors to obtain land, building and other official clearances as well as otherwise not available construction finance To counter such actions, most state governments have severely restricted the activities of the cooperative housing finance federations In addition to making housing cooperatives lose their meaning, such actions have also eroded the effectiveness of a previously effective housing finance mechanism

Flow of Formal Sector Funds for Housing

The following table presents the flow of formal sector funds for housing in the country between the years 1992/93 and 1994/95

Table 10 Flow of Funds for Housing During the Years 1992/93 to 1994/95 (Rs Crore)

By Agency	Total	To State Agencies	To Institutions	To Individuals
Govt (Central & States)	2,278	2,099	179	0
HUDCO	2,984	2,984	0	0
Sub Total	**5,262**	**5,083**	**179**	**0**
Financial Institutions (FIs)				
NHB	1,127	0	1,127	0
Comm Banks	1 227	538	421	268
LIC	3,129	497	2 239	393
Provident Fund	2,450			2,450
GIC	508	223	285	0
UTI	540	110	430	0
Sub Total	**8,981**	**1,368**	**4,502**	**3,111**

Specialized Financial Institutions (SFIs)				
HFCs	3,550	550	0	3,000
Co-operatives	350	0	0	350
Others	20	0	20	0
Sub Total	**3,920**	**550**	**20**	**3,350**
Grand Total	**18,163**	**7,001**	**4,701**	**6,461**

Source Report on Trends and Progress of Housing in India, NHB, June 1995

Note that net disbursements to state agencies and individuals during this period only amounted to Rs 13,462 crore, as the total disbursements shown above double count the Rs 4,701 crore advanced by one agency for onlending by another institution This amounts to an average of Rs 4,487 crore per year, or about US$1 3 billion

Housing Finance for the Poor

During the sixties and well into the seventies, very large numbers of rural households moved to the cities in search of jobs and food Given the less than ideal urban management capabilities of the cities, this continued migration has not been managed The poor, therefore, squatted on any parcel of land which was not defended by its owners In many cases, these lands were publicly-owned but a substantially large number of private lands were also occupied Governments tried to deal with the problem by establishing what were then called "Slum Clearance Boards (SCBs)," whose mandate was to obtain land, provide services, build houses and *clear* the slums The SCBs failed to make any real contribution to alleviating these problems

In the late seventies, most states initiated moves to undertake a census of slums Settlements which met the set criteria of slums were identified, their occupants listed and provided with identity cards These, so called "recognized slums" were then provided with very basic services under a Government of India program called Environmental Improvement and Urban Basic Services in Slums This provided such settlements and their occupants with *de facto* tenure status However, with very few exceptions, no permanent tenure was granted Having accepted the existence of those settlements in the urban fabric, the state and local governments stopped short of accepting the residents as legal occupiers of the land Moreover, local governments did not amend the building control rules and standards which would accept the evolving nature of slum housing as "legal " Therefore, without legal land tenure and by living in what the cities considered as "unauthorized housing," such households cannot prove legal occupancy or offer such housing as collateral for credit This, among other problems, makes it very difficult if not impossible for the formal housing finance system to reach them In many Indian cities, such slum households comprise as much as fifty percent of the total population of the entire city

The formal housing finance system serves only about 20 per cent of total urban households in India While the housing and infrastructure finance industry is growing, large segments of the urban population, particularly low and median income group households, still have limited or no access to institutional housing finance Of the various formal institutions listed above, only HUDCO and HDFC have made attempts to address the issue, although with very limited impact to date Their approach has been to provide project assistance through intermediation by NGOs This approach recognizes the fact that HFCs do not have the sufficient institutional capacity to work with low income households and that they have been unable to develop corresponding financial instruments and products to match the specific needs of the urban poor The project approach adopted by HUDCO and HDFC also springs from their corporate attitude of fulfilling *social obligations* rather than considering low income households as viable members of the financial market

During the last decade, particularly in the past five years, several NGOs have either initiated savings and credit activities as a part of their on-going efforts or have established special organizational mechanisms to address the issue of linking the financial resources available from the formal financial institutions to low income households These NGO efforts are not limited to housing and basic infrastructure services but also encompass the larger credit needs of the urban poor However, with a few exceptions, most Indian NGOs confine their activities to one city and only a few slums Therefore, their efforts in the area of credit in general are highly localized and limited to the area of their operations Moreover, these NGOs lack the financial resources, and, in many cases, lack requisite skills to mobilize and manage even moderate levels of financial resources

The failure of the formal housing system to mobilize credit for this target group does not mean that urban low income households have no means whatsoever to obtain credit In fact, numerous traditional initiatives in this direction have been sustained by private, low-scale, mostly settlement-level activities In all Indian cities there is a fairly large and expanding informal housing industry meeting the demands of low income households Households invest large amounts of financial as well as non-financial resources in building their own houses as well as the settlements they live in Individual houses are built at a speed and at a cost which suits each household Therefore, the timing, cost and source of credit for such construction plays a crucial role

According to one study conducted in Ahmedabad, a city of about 3 4 million in population, the approximately 1 2 million residing in slum areas have invested about Rs 1,500 million in their shelter Every year about Rs 50 million is spent by this group to build new houses and about Rs 7 5 million on improvement and additions / alteration of their existing shelter[8] Low income households are forced to access the non-formal credit sources not only for housing but also for other needs including consumption, crisis management, and setting up their own micro enterprises They generally borrow small amounts of money, at a substantially high rate of interest, with very short repayment periods

A significant issue is that low-income households are continuously seeking access to credit for a variety of reasons, of which housing is but one Nevertheless, when the poor seek credit for micro-enterprises, small portions of these resources are invested in housing also Examples of this include, extending a portion of the roof to create more work space during production shifts, adding a room for storing finished products, changing the door for security, or to adding drains to create a dry work

8 VIKAS, **How People Finance Their Housing in the Slums of Ahmedabad City**, 1991

space In that context, it is difficult to separate the credit needs of the poor into neat compartments The need for establishing a financially viable finance system for the poor is becoming more pronounced in the changing economic environment in the country

Before economic liberalization, urban low-income households were (at least in theory) serviced by Government programs with substantial subsidies and grants Most state governments had instituted housing programs targeted at households officially defined as the "poor " There is a substantial literature available[9], however, which suggests that such programs very rarely ever reached the targeted population In the changed fiscal context of today, such subsidies (ineffective as they were) are shrinking and this means that the urban poor will continue to rely on informal finance markets until their ability to access credit from formal sector financial institutions is significantly enhanced

A Case Study Of the Informal Financial System Operating in Ahmedabad

In order to effectively address the credit needs of urban low income households, it is important to understand how, at present, they address their credit needs through various informal financial mechanisms The following is a case study from Ahmedabad

Ahmedabad is the seventh largest city of India with a population of 3 4 million people, of whom more than 30 per cent, are slum dwellers VIKAS, a city based NGO, conducted a study on the operation of the informal financial mechanisms operating in the slums of the city The case was documented during a Participatory Research and Training Workshop (PRTW)

Methodology The study was conducted at three levels with the assistance of volunteers residing in the slums of the city Information on 935 community based credit groups (CBCGs) was collected Simultaneously, 314 members of the CBCGs were also contacted with a view to understand operational methodologies, problems, peculiarities and nuances of the groups Information was also collected through unstructured discussions with the members well as organizers of the CBCGs A resource group of experts drawn from different fields was constituted to offer guidance during the course of the study

Major Findings In all, 935 CBCGs were contacted during the study of which 685 were Saving Groups or *Bachat Mandals* popularly known as "societies," 200 were chit funds popularly known as "lottery" and 32 were "*vishis* " 9 credit cooperative societies and 9 other types of saving groups which are more formal and registered were also contacted The following is a description of each mechanism

Bachat Mandals (Savings Groups)

Basic Information Out of the 935 CBCGs identified and studied, 685 CBCGs or 73 3 per cent are *Bachat Mandals*, with a total membership of 22,260 persons 54 per cent of the members are males and 46 per cent are females 67 7 per cent of the organizers of such groups are males while 33 3 per cent are females Average membership in these groups is

9 Srivastava, S , **How Public is Public Housing ?**, School of Planning, unpublished thesis, 1996

36 persons On an average, savings per member per month is Rs 44 while the average amount of savings per group per month is Rs 1,362 while the average life of a group is 3 7 years The total savings mobilized by the *Bachat Mandals*, at an aggregate level, amounts to Rs 765,962 per month

Membership These are groups of individuals pooling their savings, with loans being extended to each other There are a few variations in this type, due to differing purposes of initiation and their predominant style of operations Most members are employed in the informal sector and have low and unpredictable income patterns Even those who are employed in the formal sector earn very low incomes For such individuals *Bachat Mandals* offer the opportunity of saving very small amounts, availing short term loans of extremely short duration, having access to a credit supply system since other informal credit supply systems are also inaccessible to them because of their low savings capacity, and earning high returns on their small savings

Purpose of Credit Since loans from *Bachat Mandals* are very small and for short duration, they are mostly used by borrowers to meet crisis and consumption needs like the expenses of social functions or illnesses

Operations The operating period of *Bachat Mandals* is 11 or 12 months, at the end of which they are dissolved The operating year for *Bachat Mandals* generally begins and ends at Diwali (which is the Hindu New Year) After a break of one week the organizer reconstitutes the *Mandal*

The operations of most *Bachat Mandals* are limited to one locality The members save a fixed amount every month and from such accumulated savings the organizer disburses loans every month No member, in most cases, gets a loan amount larger than his/her expected total savings amount over the life of the group Loans have to be repaid within the span of the operating period of the group Though members can save on a monthly, fortnightly, weekly or daily basis, most CBCGs have all members saving on a monthly basis There is no fixed repayment schedule, the borrowers repay as and when possible for them, only that the loans have to be repaid before the dissolution of the group Generally, loans are not advanced in the last 2 or 3 months of the operating period, as the duration left would make it impossible for the borrowers to repay completely within the remaining period

Terms of Advances and Recovery Loans are advanced at rates between 3 per cent and 5 per cent per month, i e , 36 per cent and 60 per cent per annum The returns on savings for members vary between 15 per cent and 20 per cent per annum

Recovery Performance Outright default is reported in very rare cases, mostly it is delay rather than default Nevertheless, the following practices are followed to guard against probable default discontinuation of membership of defaulters after adjusting savings against their borrowing, exerting social pressure on members delaying/defaulting payments, levying a fine on delayed payments, and charging a non-interest bearing risk premium (which acts as an insurance against default) to all members at the beginning of the group

Chit Funds

Basic Information Out of the 935 CBCGs identified, 200 CBCGs, i e , 21 3 per cent are Chit Funds, with a total membership of 4,445 32 per cent of the members are males and 68 per cent are females 40 per cent of the organizers are males while 60 per cent are females Average membership in each fund is 22 persons The average amount of savings per member per month is Rs 133 and the average amount of savings per Chit Fund per month is Rs 3,032 The average life of a Chit Fund is 4 years The total savings mobilized by the Chit Funds, at an aggregate level, amount to Rs 315,350 per month

Membership Chit funds seem to have no variations in their operating style Members come from low as well as high income groups Some of the members are employed in the informal sector, while others are engaged in small businesses, a majority of the members have some type of job or the other They generally do not have any long-term unemployed members **Purpose of Credit** The amount availed by the members selected by a lottery are generally larger than loans availed by members of *Bachat Mandals* and also the operating periods are longer Amounts availed from Chit Funds are predominantly used for, treating illnesses, repaying old debts, for household expenses and for income generating activities

Operations The operations of Chit Funds are simple There is a periodic pooling of predetermined amounts by the members to a common pool This pool goes by turn to every member of the fund The sequence of rotation is decided by a lottery With each successive round of the lottery, the total number of members who can win the lottery keeps on reducing In this manner, one by one, each member gets accessibility to the total pool as and when he/she wins the lottery Even after winning a member has to continue to contribute amounts, in the successive rounds In Chit Funds, there is no explicit income to be earned by the members The income can only be implied through the opportunity cost the winning member would have had to pay, to avail the same amount on credit from elsewhere Cases of default are very rare and preventive measures taken are as described in the case of *Bachat Mandals* The operating period of Chit Funds is determined by the count of the number of members or by the savings pattern Out of the groups studied by VIKAS, 61 5 per cent of the members contribute on a monthly basis, 18 per cent on a weekly basis, 12 per cent on a daily basis and 8 5 per cent on a fortnightly basis

The Chit Funds are characterized by difference in motivation for participation Factors influencing such motivation are, arrangements to safeguard/minimize default, frequency of rounds, contribution amount, and the number of participants

Vishis

Basic Information Out of the 935 CBCGs identified, 32 CBCGs, i e , 3 4 per cent are *Vishis*, with a total membership of 457 persons 90 per cent of the members are males and 10 per cent are females 97 per cent of the organizers are males while 3 per cent are females Average membership is 19 and the average amount of savings per member per month is Rs 26 The average amount of savings per *Vishi* per month is Rs 8,778 and the average life of one *Vishi* is 3 9 years The total savings mobilized by the *Vishis*, at an aggregate level, amount to Rs 70,225 per month

Membership Membership predominantly consists of small traders and businessmen who have a steady source of income Membership is sought because *Vishis* offer accessibility to larger amounts of money than *Bachat Mandals* and Chit Funds do, and also because loans can be availed at shorter notices Successful bidders usually use the procured amount for treating illnesses, repaying old debts and for investing in income generating activities

Operations In *Vishis,* members pool contributions to a common pool, which goes in turn to every member of the CBCGs, the sequence being determined by a system of bidding in each round, with a discount being offered by the highest bidder, which is equally distributed among the remaining members The highest bidder in a round is the borrower of that round The member who successfully bids in one round, is not eligible to do so in the consequent rounds, but has to continue to make his/her monthly contributions

The interest earned by members is not explicit, rather it is implied by the sum of the discount amounts offered by the successful bidders Defaults are not widespread and preventive measures employed are as described in *Bachat Mandals* There also is a system of '*Sarkari Vishi,*' wherein in the second round the entire pool amount is retained by the organizer without making a bid for it, this is to cover probable defaulted amounts

The operating period of a *Vishi* is determined by the count of the number of its members or by their savings pattern There are a few operational deviations and these are reflected in the way the discount amount offered by the highest bidder is treated In some cases, there is a second round of bidding for this amount, while in some, this sum is lent to those members who need the amount or even to non-members at a fixed interest rate

Credit Societies

The fourth form of saving and lending mechanism which was observed was in the form of registered Credit Societies These form 1 per cent of the total mechanisms identified (i e 9 Credit Societies) A total membership of 9,578 (i e 6,561 males and 3,017 females) was reported and was saving an amount of Rs 300,780 per month, an average of Rs 31 per member These Credit Societies are registered under the cooperatives act and therefore exhibit a rigid structure of functioning On an average these have been operating for 3 5 years with an average membership of 1,064 members

The majority of these Credit Societies consist of textile mill workers as members These members have to deposit their monthly savings (a minimum of Rs 10 or in multiples of Rs 10) compulsorily between the 1st and 10th of each month, failing which the credit society takes predetermined punitive actions

Administration Yearly elections decide the organizational role and responsibilities of members A committee of prominent members is constituted at the beginning of each year which takes all important decisions regarding the administration of the Credit Society (i e sanctioning of loans, procedures, approval of memberships etc) This committee meets every month and also for a general body meeting, once every year All the savings of the members are regularly deposited in the District Co-operative Bank

A yearly dividend is paid to all the members which varies between 6 5 % and 9 % Sometimes, at certain landmarks (completion of 5 years etc), utensils, household items etc are also distributed among the members

Lending Any member desirous of procuring a loan, has to apply for the same between the 1st and the 7th of each month On the 12th of every month, on the monthly meeting of committee members, decisions regarding sanctioning of loans are taken The loan amount is decided based on the accumulated savings of the applicant Savings have to be at least 20 per cent to an amount It is also necessary to have two guarantors from within the Credit Society A rate of interest of 12 % per annum is applied on the loans A rebate of 1 % is offered to every regular repayer of loans whereas a monthly fine of Rs 1 is levied on irregular repayments The repayment of the loan is to be done through equated monthly instalments Most of the members use the credit either for marriages, buying household items or for paying off old debts Some also use it for investing in housing, mostly for repairs or extensions Default is reported to occur in extremely rare cases

The Organizer (*Sanchalak*)

Except in the case of credit societies set up primarily to serve workers with stable employment, the central figure in all the CBCGs is the *Sanchalak* who is generally a local resident and who is distinct from the members of his/her savings group in terms of his/her relatively higher economic and social status

He/she commands respect and has an insight into the lives of the people he/she chooses as members He/she is the primary risk taker and his/her functions and responsibilities spread over the entire life cycle of the CBCG Every CBCG passes through three major stages, and in each, the role of the *Sanchalak* is extremely crucial The three stages are

Initiation of a CBCG The *Sanchalak* has to make a correct assessment of the needs and behavior of its probable members and then offer a mechanism which matches the assessment

Operations Once a CBCG has been constituted, the overall operating framework concerning installment amounts, pattern of payments, operating rules, and a code of conduct is decided by the *Sanchalak* This person looks after the administration of the group, which involves monitoring members for regularity of payments

Dissolving and Re-organizing a CBCG All CBCGs operate for a specific period, after which the *Sanchalak* dissolves them, to be reconstituted after a brief break The operating period of each CBCG is determined by the count of the number of members constituting the CBCG (Chit funds and *vishis*) or is fixed for a number of months (*Bachat Mandals*) At the time of dissolving the CBCG, the *Sanchalak* has to close accounts, settle all dues and distribute the accumulated interest to the members After the break, the *Sanchalak* reorganizes the ex-members plus any new ones with the same or modified set of rules

Some characteristics contribute towards the making of a successful *Sanchalak* They are

- *Sanchalak's* length of residence in a locality, the longer he/she has stayed, the stronger the social bonds are likely to be
- Visibility of the *Sanchalak* to the residents of the locality ensures good faith and enables the person to develop a good understanding of the lives of the residents
- *Sanchalak's* relatively higher economic status than the other residents earns the person the respect and gives a sense of perceived financial power
- *Sanchalak's* skill in managing people and money, leadership qualities and his/her organizing and entrepreneurial abilities help him/his in maintaining group cohesiveness
- *Sanchalak's* ability to maximize his members' profit through efficient recoveries and re-investments reinforces his credibility
- *Sanchalak's* better access to information because of his/her relatively better-off socio-economic status, reinforces his/her position in the society
- *Sanchalak's* ability to network with other CBCGs/individuals effectively, enhances the persons potential to mobilize funds at extremely short notices Such potential builds trust in him

Strengths and Limitations of Informal Savings Groups

Informal saving groups respond to the expressed needs of their members These groups enable members to respond to crisis situations and hence, become an integral part of their life The operational mechanism of the saving groups is very simple, enabling a poor household to obtain credit at any time of day One of the major strengths of the saving groups is that they operate on principles of sustainability The informal savings groups consider members as friends, not as customers They lend money to members at 3 to 5 percent interest instead of 8 percent to 10 percent per month which they otherwise have to pay to moneylenders Saving groups operate on social relationships rather than on legal terms where members cooperate with each other in times of crisis and need

On the other hand, these saving groups have a number of limitations The "small-group-of-friends" approach limits their coverage to specific settlements or to members of one or the other social group They do not have enough funds to cater to the needs of those who need larger amounts They operate for a specific period of time, mostly 11 months, hence, long term loans are not available to members These groups largely depend on the resourcefulness of one person, the *Sanchalak,* hence in times of natural calamities, death of the *Sanchalak* or other problems, there is a lot of risk involved in operationalizing these groups

Summary

The study of CBCGs has revealed that they are highly innovative and are firmly rooted in the socio-economic milieu of the urban poor The existence of CBCGs proves that the poor who are generally thought to be 'unbankable,' in fact display a strong habit of thrift and are credit-worthy Recovery rates of such systems are even higher than those of the formal finance systems The myth of high administration and transaction costs is disproved by the style of functioning of the *Sanchalaks*

CBCGs have shown that mutual faith and social bonds can effectively replace collateral and other security conditions needed to procure formal loans Though this is potentially risky, if methodically managed and provided with realistic incentives, the reach of the poor to larger funds can increase manifold

III Recent USAID Experience in the Indian Housing Finance System

Background

In September 1988, the Agency for International Development Mission to India (USAID/India) approved a Housing Guaranty (HG) Program of US$ 50 million for the refinancing of long-term loans for low-income housing (HG-003) The focus of this initial Program was to assist in the expansion of the country's housing finance system by, among other actions, providing US$50 million in loan funds to the National Housing Bank (NHB) of India, the country's newly-organized apex housing finance institution, for the refinancing of loans made to below-median income households in an effort to expand the supply of formal mortgage credit available to this target group In addition to its apex function in refinancing housing loans made by approved financial institutions, NHB is statutorily responsible for the regulation and supervision of Housing Finance Companies (HFCs), as well as for promoting the creation and growth of HFCs in order to expand the availability of housing finance in India Together with the disbursement of US$25 million in HG loan funds, USAID's support was primarily aimed at achieving transformations in the existing housing finance institutional arrangements as well as for NHB's core functions of promotion, regulation and supervision A June, 1991 interim evaluation of HG-003 concluded that progress toward realization of the Program's objectives, together with the need for additional resources on the part of HFCs to sustain their growth were grounds for authorization and disbursement of an additional US$25 million in HG resources under the HG-003 Program

To ensure continuity, the original project was amended to become the Housing Finance System Expansion Program (HFSEP), Project Nos 386-HG-003A and 386-0526 The Project Paper was approved in September 1991 The program was to provide a further US$50 million in HG funds, together with an additional US$4 3 million in grant funds for technical assistance and training These funds were to be disbursed over a period of about four years, from mid-1992 until the Project Assistance Completion Date (PACD) of September 1996

Policy Objectives

The Housing Finance System Expansion Program was designed to build upon the gains realized during the first three years of the HG-003 Program, with the additional purpose of *promoting the development of a financially sound, self-sustaining housing finance system which makes long-term shelter finance available to a wider range of households, particularly those below the median income* Both the HG loan component, and the US$ 4 3 million technical assistance, training and management support grant component, were intended to achieve the following policy agenda

The **goal** of HFSEP was identical to that of its predecessor project, HG-003

> *to increase the availability of formal housing finance to low-income households nationwide*

and its **purpose** was

to support the development of a financially sound, market-oriented housing finance system available to a wide range of households, including those below the median income

The Program's **strategy** as stated in the PP, was

to assist the NHB in developing the policy framework for a market-oriented housing finance system and by that help reduce the financial resource constraint on the growth of HFCs with a view toward sustaining the expansion of the private housing finance system and intensifying the focus on loans for low-income households

The Program had three principal policy objectives

- to increase resources for the housing sector,
- to expand market-oriented housing finance institutions, and
- to expand the supply of housing finance for low-income families

Program Evaluation

The Program included a requirement for "small annual interim evaluations," which would measure progress in achieving policy objectives, and evaluate the effectiveness of technical assistance and training activities The first of these annual interim evaluations took place in early 1994 (Lintz, January 1994) Following the review of that document, USAID and the NHB re-assessed the validity of the assumptions and benchmarks contained in the original agreements and, in mid-1994, approved a "Reassessment Document "

The salient message of the above evaluation was that use of the HG-003A Program's HG resources should be redirected from support of NHB's refinance window to a scheme or schemes that would allow the housing finance system to look to India's broader financial markets for sources of funds and that support be provided to ensure adequate regulation and supervision of the system It was also recommended that the use of housing guaranty resources be redirected for securitization of mortgages and other activities in pursuit of a market solution to sectoral resource mobilization

A mid-term evaluation of the Program took place in February, 1995 (Lee, June 1995) This evaluation examined progress made since the start of the program in September 1991, with a more detailed review of accomplishments for the period between October 1993 and February 1995 under the two main components support of expansion of the housing finance system and technical assistance, training and management support

The mid-term evaluation concluded that the available data, though not unequivocally clear, indicated that no significant expansion of housing loans had taken place during the lifetime of HG-003A and that the share of housing finance going to below-median income households had been declining or was likely to do so Therefore, the two concluding recommendation were (i) to lay greater emphasis on expanding the supply of housing finance for low income families, and (ii) to switch attention from strengthening the financial management of HFCs to promoting the "product " long-term shelter finance loans (Lee, 1995, page 50)

USAID has asked that this final project evaluation address itself to evaluating how well the HFSEP did in meeting its goals and objectives by answering the following four questions

- What were the major accomplishments of the Project over the period of its implementation?
- Did the Project contribute to prospects for long-term improvements in the quality and coverage of shelter-related finance options for Indian families, with particular attention to enhancing access on the part of lower-income women ?
- Did the training and technical assistance activities undertaken through the Project have the desired impact ?
- Are there lessons that can be learned from the performance of the various entities that played important roles in implementing the Project The NHB, India's Housing Finance Companies, USAID, the Management Support Services contractor (for that period during which the MSS was engaged), and other parties contributing to the execution of the Project ?

Major Milestones of HFSEP

The HFSEP had to function through very trying times Very soon after signing an Implementation Plan, the NHB is alleged to have become involved in funding unsuccessful securities speculation that resulted in a nationwide securities scandal and led to the resignation of the Chairman/Managing Director and litigation that continues to this day For fifty-two months between 1993 and 1996 — a period which overlapped the entire life of the HFSEP technical assistance program for NHB and the housing finance system, the GOI did not appoint a new Chairman/Managing Director Moreover, the NHB also saw frequent changes of Executive Directors In the absence of stable leadership at the top, the NHB did not have sufficient institutional motivation or direction to enable it to expand its activities in the housing finance sector during this period

The initial period of the project concentrated largely on a dialogue between USAID and NHB over the degree of emphasis to be placed on low-income housing finance activities, providing program support for the development of an HFC trade association, and organizing several study tours and the consultation visit of a senior US housing finance executive to NHB Unfortunately, due to events beyond the control of USAID or the MSS Contractor, the NHB was not able to respond to external assistance or benefit from it to the desired extent

Nevertheless, during the same period, the Indian finance system was expanding New HFCs were being set up and the volume of market-derived resources continued to expand This growth in the number of companies and their resources needed to be buttressed with appropriate training However, the NHB restricted the MSS Contractor from having any meaningful contacts with the new and as yet unrecognized HFCs, even though their staff were in real need of appropriate training

Based on the Lintz evaluation, a reassessment of the entire program was undertaken in early 1994 In November 1994, USAID began to take a fresh comprehensive look at the program's priorities Considering the scale of the problem concerning the lack of access to housing finance by the urban poor, USAID's reasoning was that it was necessary to concentrate the focus of time and energy into low-income shelter finance issues

In December 1995, new top level managers were appointed at the NHB These managers had an interest in issues which were central to USAID's concerns about the involvement of women and access to credit by low-income families 1996, which was the last year of the project, was probably the most fruitful in terms of focused activity and collaboration between NHB, USAID, the MSS Contractor, and several NGOs Between October 1966 and September 1997, the Program's efforts led to the involvement of around two dozen CBFIs, NGOs and others to become active partners with USAID and the NHB to explore different ways to meet the shelter finance needs of urban lower-income households

To answer USAID's question on what the major accomplishments were it should be said that (i) during the life of the HFSEP, the housing finance system actually took shape, more because of the expansion experienced in the national finance market *per se*, (ii) USAID's assistance to the NHB enabled that organization to institute several institutional transformations which eventually helped the urban middle-class to have increased opportunities to access long term housing finance, (iii) the urban poor continued to be left out from having any access to formal sector housing finance, (iv) however, because of HFSEP, the large multitude of the urban poor who did not figure in the discussions or policy concerns on housing finance in India, have become the focus of a growing number of official as well as NGO programs and activities Even though this current situation was reached over a difficult road, the fact that the urban poor have been recognized as prime clients for future efforts, is in itself a major accomplishment

HFSEP's Contribution to Prospects for Long-term Improvements In Housing Finance

In light of the above discussion it is clear that HFSEP's major contribution was to have drawn and focused attention on the urban poor We need to recognize the efforts of the MSS Contractor who (mainly during the initial stages of the Program) worked under difficult professional conditions Despite several interactional issues between the NHB and the MSS Contractor, their inputs by way of studies and workshops on issues such as the development of a secondary market for home mortgage loans and mortgage-backed securities, mortgage insurance, capital adequacy, variable rate mortgages, and micro credit for housing for low-income urban communities have certainly contributed substantially towards establishing a direction for the current evolution of the formal housing finance system in India

Did these efforts specifically address issues of access on part of lower-income women? Not directly The bulk of work on HFSEP was addressed towards the development of the formal housing finance system which specifically does not differentiate by gender However, USAID's efforts towards the latter part of the project when attention was focused on NGO activity did address and begin to answer some of the concerns with respect to enhancing access on part of urban based lower-income women

Impact of Training and Technical Assistance

As mentioned above, HFSEP concentrated mainly on the formal housing finance system and therefore the bulk of training activities were targeted at that sector Moreover, the selection of candidates for training was determined by the NHB alone Until the second half of the fourth year of the program, NHB invited only representatives of NHB-approved housing finance companies to participate in program training This meant that participants from only around 21 of the 300-odd housing finance companies could benefit from the bulk of training under HFSEP After the redirection of USAID's activities to the informal sector, it was only in early 1996, that the NHB agreed to include staff from all registered HFCs for training, but the program had almost come to an end by that time (Genz, 1996)

During the field visits undertaken as a part of this final evaluation, there was overall appreciation for the training and technical assistance activities undertaken under the Program The HFCs appreciated the professional interaction with USAID and the MSS Contractor All HFCs visited expressed their concern that with the conclusion of HFSEP, their access to training and technical assistance would be hindered Currently, there are no suitable arrangements to continue the much needed training agenda, or alternative mechanisms to provide appropriate technical assistance to the growing number of HFCs The training and TA provided under the HFSEP by USAID has ably demonstrated the need for such continuing activities and leaves behind a model for similar programs that could be instituted by the NHB itself

Lessons Learned

Four important lessons can be drawn from the HFSEP experience

First, the HFSEP technical assistance effort serves as a reminder of how important it is for external assistance to flow into a local environment that is prepared for and receptive to it It is important that the counterparts involved are directly and actively involved in deciding the training and technical assistance goals and agenda

Secondly, we believe that the experience of the last few years clearly demonstrate the existence of a large and profitable market for housing finance in India, and also that this market can best be served by well-managed private financial enmities such as the Housing Development Finance Corporation (HDFC) As has been indicated, a solid foundation has been laid, but there remains ample room for new entrants and sustained rapid growth in the industry, as it continues to expand coverage on an ever more competitive and efficient basis Moreover, it is crucial that the NHB clearly define its role in the larger housing finance system

Third, however, we believe that the HFSEP experience also clearly reveals the limits of what can be achieved through deposit-taking institutions in directly serving very low-income people who lack either property or stable employment Deposit-taking institutions have a legal and a moral obligation to operate in a way that covers costs and safeguards the security of the deposits entrusted to them They can not operate safely in an environment that does not offer even the most minimal legal protections to lenders, and which is in addition characterized by high costs and unavoidably high risks at the individual transaction level

Finally, we believe that the HFSEP experience points to the need to develop alternative institutional channels and instruments to serve the needs of low-income borrowers lacking in either collateral or stable employment Study of traditional community-level, group-based savings and lending mechanisms in use within the so-called "informal" financial sector, reveals that there are ways to successfully meet the credit needs of such groups responsibly, flexibly and by incorporating unique and innovative methods to isolate and distribute the risks that are peculiar to this specific market segment This points to a new direction in developing programs of assistance for such low-income populations, based on understanding and strengthening promising "informal" methods of finance, and encouraging their linkage and integration within the greater financial system, rather than their displacement by "formal" sector institutions and mechanisms necessarily designed to operate under other conditions

Based on VIKAS' extensive research on the informal financial systems used in urban slum communities in India today, and the evaluation team's analyses cited in Chapter II above, we shall attempt in the following chapter to lay out a framework for a proposed pilot program that draws on this final lesson, and that would put into place a framework whereby existing community-based savings and credit groups and the organizers and intermediaries who serve them can be further organized to enable them to continue to develop and grow so as to be able to operate through larger and better-managed units that can tap into a variety of formal sector sources of finance

IV A Proposed Approach to Supporting Community Infrastructure and Shelter Finance

General Guidelines

- Build on existing institutions and practices, avoiding the creation of new institutions or organizations
- Reinforce the work of informal sector entities and groups by providing links and access to formal financial sources
- Design a bottom-up solution (where interested borrowers provide new and appropriate incentives to encourage lenders and/or investors to understand and meet their borrowing objectives and repayment abilities), instead of focusing on the usual top-down solution (where governments try to direct bank credit to meet their own perception of how lower income credit needs are to be met)
- Require a principal measure of financial self-help from borrowers, together with their full conformity with market rates, and release from all subsidized, concessional and grant funding at the beneficiary level

Demand Organizers

The goal of bringing low-income households into the formal financial sector will necessitate their being organized and grouped into credible (i e creditworthy) and profitable borrowing units that are also large enough to support the fixed operating costs of the system To this end, the intervention of existing and potential "Demand Organizers" will be critical

Typical demand organizers will include most of the entities and individuals, such as micro-finance companies, savings groups and NGOs, already working within the lower-income population, as well as new entrepreneurs discovering business opportunities in the informal sector

Broadly speaking, two types of "Demand Organizer"-based lending structures are envisaged First are those existing micro-credit organizations, potentially including entities such as SEWA Bank, that have established a successful track record of good loan recovery and cost-effective management Only as an example at this stage, SEWA Bank itself currently has about 21,000 borrowers and manages about Rs 86 million (US$ 2 2 million) in deposits and Rs 47 million in loans, averaging about Rs 2,200 (US$ 60) each As it is already attempting to do, organizations such as SEWA Bank may be reaching the point of being able to demonstrate sufficient stability and profitability in the markets they serve to be able to access a certain amount of external refinancing from financial institutions or capital market sources

Parallel to such established micro-lender "Demand Organizers", another structure to serve small, informal community-based savings groups such as the *Bachat Mandals* described in Chapter II is envisaged Here, established NGOs — such as the VIKAS Centre for Development in Ahmedabad, for example — or other entrepreneurs discovering business opportunities in the informal sector would organize groups of 50 to 100 pre-screened and qualified *Sanchalaks*, each working in different neighborhood within a major urban area, and serve as an intermediary between the groups managed by the *Sanchalaks* and market sources of capital Like SEWA Bank, a group of 50-100 *Sanchalaks* and the *Bachat Mandals* they serve would represent a pool of 10-20,000 individual saver-borrowers and aggregate savings on the order of $1-2 million US dollars

Either type of "Demand Organizer" could therefore serve as a channel to distribute placements of approximately US$1 million each, without over-leveraging the pooled savings of the low-income borrower group, or exposing financial investors or lenders partially refinancing their operations to excessive risks

A pilot program for India could aim at mobilizing US$ 10 million into an initial "Community Infrastructure and Shelter Investment Fund", to be channeled on a revolving basis to borrowers served by approximately 10 initially-selected "Demand Organizers" operating in different cities and regions across the country The Community Infrastructure and Shelter Investment Fund might take the form of a closed-end mutual fund with, say, a 10-year life, and capitalized through private placements to a selection of large institutional investors Management of the Fund could be contracted through an established investment management company on a percentage fee basis

The role of the demand organizers will be to prepare the borrowing groups to structure and submit their credit requirements in form and substance to overcome the main objections currently raised by market lenders or investors when considering (if at all) the lower-income groups These objections and their overcoming measures are

1 Transaction costs - Banks and financial institutions in general are reluctant to consider loan applications for relatively small amounts Their reluctance is based on the grounds that it is just as costly (if not more so) to evaluate a small denomination loan as it is a larger one, with the inevitable consequence of an increase in their origination costs for a given investment Demand organizers can play an important role in overcoming this constraint To the extent that they can effectively evaluate potential borrowers and suitably document their loans, they relieve the lender from these costs Also, inasmuch as demand organizers are much closer to and knowledgeable of the prospective borrowers, their costs are expected to be considerably lower than those of a formal financial institution
2 Collection costs - The same applies to collection costs as to transaction costs Where the service and recovery of small denomination loans can be expensive for a formal financial institution, a demand organizer dealing directly with the savings group-borrowers can perform these tasks more efficiently and at greatly reduced costs to the corresponding relief of the lender
3 Credit risk - Evaluating credit risk is another area where a demand organizer can considerably help to reduce a lender's costs Firstly, by selecting, evaluating, organizing and managing the borrowing pool, a demand organizer will be well placed to ensure timely fulfillment of all borrower obligations And secondly, to the extent that a lender's experience of working with a given demand organizer develops with few or nil defaults, it will come to place a growing reliance on the demand organizer's underwriting with a corresponding reduction of its own underwriting requirements and costs
4 Low yield - Formal lenders' perception that small denomination loans to low income groups must inevitably carry a lower interest rate than conventional loans, is not borne out by the facts

Lower interest rates are expected by prospective borrowers only when governments directly sponsor these, usually through indirect subsidy schemes It is a proven fact that when low-income borrowers incur debts other than on government sponsored borrowing, they do so at market and even higher rates The proposal for demand-organizer sponsored loans as suggested herein is very definitely based on market rates and terms

5 Lack of follow-up relationships - It can be expected that a low denomination loan to low-income borrower will not lead to additional follow-up business for the lending institution However, repeat business originating from established demand organizers can very clearly be expected

What inducements and incentives are expected to motivate the "Demand Organizers"? Following is a short sample

- Micro-credit organizations - These organizations encourage savings from their clients, which they use (together with donor funds as available) to grant small individual loans, mostly on specialized community or co-guaranteed terms To the extent that they can have recourse to a relatively permanent outside funding source, they will greatly (and progressively, as suggested herein) increase their lending capacity Additionally to serving a larger spectrum of its target population, these financial organizations can, if they so wish, expect to retain a financial margin from their intermediation, as well as covering the origination and servicing costs related to their expanded operations
- Savings clubs, etc - As in the case of micro-credit organizations, these savings and loan organizations and groups have the incentive of expanding their loans to members and of potentially retaining a profit margin therefrom
- NGOs and non-profit organizations - Their incentive is the ability to serve a larger segment of their target population, all while covering the operating and servicing costs related to the expanded operation
- Developers, builders and tradespeople (e g roofers, door and window carpenters, sanitation installers, etc) - To the extent that they can pool a group of clients with appropriate credit credentials and guarantees, the conduct of their business activities will benefit from the loan funds made available to their clients

And what are the corresponding inducements for formal financial institutions to lend to low-income borrowing groups as pooled by demand organizers?

- First of all, the mechanism suggested herein –for the participation of financial institutions in the financing of small denomination loans for lower income groups– involves an "investment" in an intermediary vehicle rather than a direct loan operation by the institutions themselves As such, it will be subject to the accounting and reporting treatment accorded investment assets instead of that applicable to the loan portfolio
- To the extent that shelter lending to the very lowest income groups is generally of the incremental variety (i e for small amounts and short repayment terms repeated sequentially), the investment pool will be more liquid and the financial institutions involved will be better able to manage the "borrow short, lend long" mismatch between their assets and liabilities which normally appears in long-term mortgage lending
- Participation in an investment pool will allow financial institutions to share the ultimate credit risk among themselves

- Additionally, the reduced amount of individual borrowing within the overall group, in itself, produces a diversification and concurrent reduction of credit risk
- As this type of investment develops a favorable track record, financial institutions will be able to expand on it by growing the existing vehicle, as well as by the creation of new similar ones Furthermore, they may eventually also elect to take into their own portfolios the type of small denomination loans to lower income groups proven as safe, liquid and profitable by their investment experience
- There is an expanded savings component in the proposed operation which can be captured by the financial institutions involved together with, at its upper fringes, the possibility of developing complementary banking relationships

Borrowers

The type of borrowing envisaged by this Program will fall into two categories

- Home Improvement loans, where borrowing are organized under the micro-credit concept of mutual self-help and shared liability
- Slum Rehabilitation and Basic Infrastructure loans, where borrowing are organized on a community participation basis

In the case of rehabilitation and infrastructure loans, the borrowing groups will have to not only coalesce in a credibly cohesive unit, but also anticipate their borrowing with a demonstrated savings effort and the establishment of an adequate collective guarantee fund

It is suggested that, as a way of providing slum dwellers with a goal to strive for and the expectation of a solution those slums where the neighbors join in a substantially meaningful way to seek the upgrading of their urban environment be given recognition as "emerging neighborhoods" apt to receive the support of the authorities This, apart from the stimulus it may provide to the dwellers themselves, will serve as a signal and inducement to potential demand organizers that this is a neighborhood ripe for their intervention

Investment Fund

Recognizing that it will take time and a substantial body of successful lending experience to entice financial institutions to deal directly with the lowest income groups, regardless of how organized and creditworthy the latter may prove themselves to be, a gradual approach is suggested

A first phase will be the establishment of a mutual (or equivalent type) fund with its shares taken up on a risk basis by those financial institutions which can more readily be enticed to participate in the provision of home, infrastructure and related financing for lower income groups By participating in the fund, such institutions can avoid direct contact and underwriting of the individual loans involved, as well as having to book the loans per se on their balance sheets Instead they will show their share ownership in the fund as a simple financial investment

A working example of this fund would have its share capital subscribed for in the amount of Rs 40 crore (US$ 10 million) by six to ten financial institutions, with shares to be paid-up in incremental tranches over a period of three to four years in the measure that resources are being safely and remuneratively invested Initial shareholders could be HUDCO, NHB, UTI and a selected group of banks, HFCs and private mutual funds who were also preliminarily consulted by the evaluation team regarding the fund concept The fund would be structured as a mere financial vehicle, without need for premises, equipment or staff Its management would be entrusted, on a bid basis and for a contingent fee, to a financial institution with appropriate resources and a disposition to oversee the innovative alternatively-secured (non-mortgage) lending involved

Future growth, as the system matures, would be provided by expansion of the initial fund, by the establishment of additional funds, and eventually also by direct access from lending institutions to those borrowing groups with a demonstrated record of continuously safe and remunerative loans

The fund's lending to the organized borrower groups will be of the line-of-credit variety, rather than of a rediscount or refinancing facility Initially the line of credit should supplement the borrowers' own funds in a relatively small proportion (let's say 30%), with the ratio being gradually increased over time as each borrower's experience and reliability solidifies This line of credit would be assured repayment in preference to and prior to any recovery by the borrowing group or demand organizers themselves

Appendix 4 contains preliminary *pro forma* financial analyzes demonstrating the potential viability of the operating concepts discussed above Specifically, they show that

- the proposed US$ 10 million pilot program could potentially reach 100,000 low-income saver-borrowers throughout India through a network of 10 "Demand Organizers"
- while not increasing the size of individual loans beyond the current practices of experienced *Sanchalaks* based on a prudent assessment of borrowers' capacity to repay, the operations of the fund can significantly increase the average term of loans extended through established savings groups, and thus increase the average volume of credit available to these low-income communities by 60 percent or more
- the proposed structure can achieve financial results commensurate with the following preliminary indications —
    - reduced interest cost to low-income saver-borrowers, from 4 to 3 percent per month
    - payment of up to 24 percent annual interest rate to affiliated saver-borrowers, before loan losses, if any
    - generation of a gross annual return of up to 37 percent on loaned funds, before loan losses, if any
    - return of 16-20 percent annual return to institutional investors in the fund, allowing a comfortable margin to cover the costs and earnings of *Sanchalaks*, "Demand Organizers" and contracted fund management
- with good management and careful underwriting by "Demand Organizers" and the fund manager, the fund can adequately control risks, through —
    - diversification among 100,000 primary borrowers operating through up to 500 *Sanchalaks* and 10 "Demand Organizers" located in diverse regions of the country
    - collection of advances made by the fund before return of member savings or

distribution of earnings to *Sanchalaks* and "Demand Organizers"
- assumption of primary exposure to loan losses, first by saver-borrowers within the local savings group, then by *Sanchalaks* up to the extent of their margin, followed by "Demand Organizers" up to the extent of their margins and available equity

Project Manager

A project manager will be required to provide for the promotion, establishment, coordination and expansion of this Initiative, with the principal tasks of

- Assisting "Demand Organizers" in developing the Initiative and in reaching out to an expanded client base of borrower groups
- Arranging for and supervising technical assistance to the "Demand Organizers"
- Sensitizing beneficiary groups to the possibilities of organized borrowing
- Sensitizing municipal and State authorities to the opportunities for assisting in contributory slum upgrading projects
- Sensitizing fund management and shareholders (existing and potential) to the merits of the Initiative

Technical and Grant Assistance

The following technical assistance requirements should be addressed

- Detailed study and selection of Program sites, institutions and beneficiary groups
- Identification and selection of Project Manager
- Periodic monitoring of Initiative development and expansion

Grants of approximately US$ 100,000 each for the "Demand Organizers" to acquire necessary computer hardware and software, to cover their initial (two year) operating costs in communications, transport, relevant office supplies and wages for up to two additional staff members and contribute to an equity reserve of at least US$ 50,000 each

V Further Recommendations to Strengthen the Housing Finance System and Improve the Shelter Conditions of Low-Income Households in India

The evaluation team's review of experience gained through the Housing Finance System Expansion Program and current conditions in the infrastructure, housing and financial sectors point to a number of additional areas that merit the consideration of the Government of India and consideration by USAID for possible inclusion in future programming efforts in these sectors These are identified in Table 11, and will be briefly discussed below Recommendations fall into three broad categories, namely 1) those affecting urban infrastructure and urban land supply, 2) those affecting low-income shelter and community infrastructure finance, and, 3) those affecting the formal housing finance system Only a brief description of salient recommendations is attempted here, as many will require further in-depth study before decisions regarding implementation can be made

As has been discussed extensively elsewhere in this report, a major cluster of problems hampering the amelioration of shelter conditions for low-income families in most major Indian cities is centered on the constraints to expanded investment in and improved management of urban infrastructure (especially transportation, water, wastewater disposal and treatment) and on a series of conditions and constraints that compound the effect of an inadequate urban infrastructure to unnecessarily constrain the development of urban land, restricting its supply and pushing its cost beyond any measure of affordability for a majority of urban residents including, especially, the poor

As has been repeatedly emphasized by the World Bank, fiscal adjustment and reform at the national, state and local levels are at the heart of a solution to the country's infrastructure finance problems, as also one of the keys to improving conditions for financial sector and banking reform[10] As noted in the report of an Expert Group on infrastructure cited by the Bank, the first priority for addressing India's infrastructure needs is "fiscal reforms to strengthen state and local governments capacity to mobilize resources to invest", second is "regulatory and pricing reforms to translate India's immense infrastructure needs into viable commercial ventures", and third is, "financial sector reforms to enable the large pool of India's financial savings to flow to high return infrastructure investments"

The first four recommendations listed in Table 11 below echo and support the World Bank's emphasis on the centrality of fiscal adjustment and reform as an overriding priority for alleviating urban infrastructure and associated urban land supply constraints in major Indian cities

Mention is also made of the need to modify or repeal the Urban Land Ceiling Act which has shown itself in practice to be counterproductive to the Government of India's laudable intent to mitigate the uncontrolled rise in urban land prices So-called speculation can best be controlled through facilitating competition in the development of solutions to urban land and infrastructure constraints, not by artificially restricting the ability of developers to assemble economically-sized tracts

[10] See "India Poverty, Employment and Social Services", 1989, "India Country Economic Memorandum — Five Years of Stabilization and Reform - The Challenges Ahead", 1996, and, "India Sustaining Rapid Economic Growth", 1997, for a broad historical perspective on Indian public finances and their sectoral implications

Table 11 Summary of Recommended Actions to Strengthen Urban Infrastructure and Shelter Finance in India

Problem Area — **Action Item**	**Immediacy of Impacts** ST	MT	LT
I Urban Infrastructure and Urban Land Supply			
a Strengthen fiscal performance of national and State governments to relieve pressure on domestic financial markets, reduce "crowding out" in domestic credit market, and facilitate financial sector deregulation		✓	
b Improve urban financial management		✓	
c Revise urban revenue policies & practices	✓		
d Contain/reduce urban fixed operating expenditures	✓		
e Modify/repeal Urban Land Ceiling Act	✓		
f Reduce/eliminate Stamp duties	✓		
g Expedite permitting process for residential & commercial development	✓		
h Revise/liberalize Provident Fund and Life Insurance Corporation investment rules		✓	
i Sanction development of private contractual savings vehicles, e g retirement plans, life insurance, mutual funds		✓	
j Develop bond insurance/commercial credit enhancement industry		✓	
k Establish policy guidelines & special tribunals to expedite and adjudicate conflicting ownership claims for urban property in slum areas		✓	
l Establish expedited titling procedures		✓	
m Revise urban infrastructure development planning process to make more open, participatory and continuous		✓	
n Revise urban zoning concepts, procedures & regulations to allow more flexible use and higher densities	✓		
o Eliminate rent controls where they still exist			

Problem Area **— Action Item**	**Immediacy of Impacts** **ST**	 **MT**	 **LT**
II Low-Income Shelter & Community Infrastructure Finance			
a Design pilot "demand organizer" network and Community Infrastructure & Shelter Investment fund	✓		
b Identify/motivate necessary official sanctions and/or exemptions to facilitate formal/informal sector collaborations for community infrastructure and shelter finance	✓		
c Provide small capital grants & TA to strengthen "demand organizer" organizations		✓	
d Provide small capital grants & TA to identify, register, document, rate and "accredit" community-based organizations and community organizers or *Sanchalaks*		✓	
e Organize nucleus of pioneer investors in pilot Community Infrastructure & Shelter Investment fund, and determine fund management arrangements		✓	
f Strengthen urban finances & financial management as in I b , c , and d , above		✓	
g Support new public/private sector partnerships for urban infrastructure development and community upgrading, *a la* Ahmedabad Municipal Corporation's Slum Improvement Partnership (SIP)	✓		
h Study means to promote a higher degree of financial system integration to expand funding sources for lenders serving regularly-employed low-income workers, e g through establishing credit arrangements between commercial banks and credit unions, cooperatives and/or cooperative banks		✓	
i Study means to provide private refinancing and deposit insurance coverage through "demand organizers" for "accredited" *Sanchalaks*			✓

Problem Area — **Action Item**	**Immediacy of Impacts** ST	MT	LT
III Formal Housing Finance System Development			
a Amend foreclosure laws and procedures	✓		
b Allow "approved" HFCs to offer demand deposits like banks	✓		
c Facilitate use of adjustable-rate and/or indexed savings and lending instruments by all financial intermediaries	✓		
d Support securitization of home mortgage loans through actions cited under I a , f , h , i , and j , as well as by liberalizing rules governing the investments of commercial banks, HFCs and the NHB, allowing these to become investors in mortgage-backed securities		✓	
e Facilitate commercial bank entry into housing finance market and expedite review and approval of non-"approved" HFCs by the NHB, both as measures to stimulate growth and competition in the industry	✓		
f Support the reprivatization of the financial system		✓	
g Free-up asset powers of financial institutions while simultaneously strengthening prudential supervision, financial reporting and disclosure requirements		✓	
h Eliminate any kind of interest rate controls	✓		
i Centralize financial system regulation in the Reserve Bank of India, including for freed-up HFCs and other non-bank finance companies	✓		
j Strengthen prudential supervision of the financial system by the RBI or independent supervision authority, complemented by private rating agencies and strong public disclosure rules for financial companies		✓	
k Develop credit reporting system to allow financial companies to gather and share data on borrowers		✓	
l Focus NHB resources and energies on credit enhancement and refinancing roles directed towards all entities providing shelter finance		✓	

Much has been written and said about the perverse effects of Stamp duties on housing development and housing finance As a cascading tax levied each time real estate is transferred from one owner to another, high Stamp duties hamper the operations of residential developers and make real estate markets less liquid, depressing the value of real estate holdings for investors They also affect the ability of financial institutions to transfer whole loans or securitized loan portfolios, as the transfer of financial assets is also subject to the applicable Stamp duty

A number of things could be done to further develop vehicles for long-term savings in India, and for the mobilization of such savings to provide long-term financing for infrastructure and residential development, and these are listed in Table 11, above

The impact of public sector legal and regulatory interventions in land and housing markets are also immense, and a series of recommendations are cited that would together serve to remove distortions and impediments in the planning and permitting processes utilized by local authorities, as well as in establishing and registering title, hypothecating or transferring property Finally, attention is called to the negative impacts of rent controls where these continue to exist, in discouraging investment in new buildings or the maintenance of the existing stock, and therefore perversely impacting on the cost of shelter by drastically reducing supply

With regard to Low-Income Shelter and Community Infrastructure Finance, recommendations for the development of a pilot network of "Demand Organizers" and fund have been discussed in detail in Chapter IV , above, and we have also mentioned the importance of public financial management for alleviating infrastructure and shelter constraints, especially for low-income families

Two other important recommendations are also cited in Table 11 in this regard, and these are support for public/private sector partnerships at the local level, and the encouragement of a greater degree of integration with the broader financial system of specialized intermediaries, such as credit unions, that serve low-income workers in the organized sector of the economy

Appendix 2 contains a short description of the Ahmedabad Municipal Corporation's Slum Improvement Partnership, which provides a model of how local government, the local business community and the self-help efforts of low-income families themselves — organized through the work of community-based "demand organizers" — can be harnessed together to focus energy, imagination and financial resources to solve seemingly intractable urban development problems This and similar efforts can be supported for replication in other communities, for example by providing support for the exchange of ideas and experience among and between municipal corporations, business groups and community-based organizations Sponsorship of special conferences and seminars could be useful, as would be supporting the organization of associations of community-based organizations, for example

Much of the attention devoted in this study to developing options for improving access by low-income families to shelter and infrastructure improvement loans has been focused on the especially-difficult problem of financing families who earn their livelihoods in the informal economy, and who lack either real property or stable employment to facilitate their access to formal sector financing sources Such families make up an unusually high proportion of urban families in India, and we therefore believe that the emphasis we have placed on their particular difficulties is appropriate

However, we also realize that there are a large number of low-income families in India's cities who may perhaps have regular employment in formal business establishments, but whose shelter and infrastructure finance needs are also inadequately being met Often, such families may already belong or have access to a credit union set up at their place of employment, but these may not be providing the range and quality of financial services needed by their members

Frequently encountered problems with credit unions (Urban Cooperative Credit Societies, or UCCS), in India as in other countries around the world, include low capitalization, inability to mobilize savings competitively, limited loan product offerings and rigid rules, low operating efficiency, poor loan recovery and high administrative costs The credit unions are vertically integrated and obtain refinancing from State and national level cooperative banks, which is probably a main contributing factor to their operating rigidities and relative lack of flexibility in adapting and competing under evolving market conditions The credit unions represent an important institutional resource for mobilizing and distributing credit to low-income families with regular employment, however[11] It is therefore proposed here that a special study be undertaken to determine how the existing institutional infrastructure represented by the UCCS can be more closely integrated with other parts of the formal financial system such as the commercial banking and housing finance company sectors, for example to enable them to obtain loans directly from banks and HFCs, benefit from training resources available in the wider financial sector, and strengthen their capital and technology bases

With regard to continued future efforts to strengthen the formal housing finance system, our recommendations summarized in Table 11 generally are motivated conceptually by three interdependent concepts, "liberalization/deregulation/privatization", "easing entry, encouraging competition and leveling the playing field for all participants", and "public disclosure and improved prudential supervision" Of immediate concern for the continued near-term financial viability of the HFCs are measures to enhance their ability to compete for deposits with commercial banks, as well as the encouragement of more widespread use of adjustable-rate or indexed savings and lending instruments to alleviate their future exposure to interest rate mismatches between their loan portfolios and funding sources

Encouraging the development of mortgage loan securitization is also of fundamental importance in allowing a larger number of financial companies to participate in the origination and servicing of home mortgage loans within a system that appropriately matches the tenor of those loans with ultimate sources of funding This will, of course, require the development of the contractual savings and institutional investment management sectors of the financial industry in India, as well as due attention to more specific issues such as the impact of Stamp duties on securities transactions and hence on market liquidity

Finally, attention is drawn to the conflicts between the financing, promotional, regulatory and supervisory roles supposedly being played by the NHB under current statutes One or the other role is likely to be suffering at the expense of the others, and a more focused mandate is recommended

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11 As noted by Dr Meera Mehta in "Strategy Down Marketing Housing Finance Through Community Based Financial Systems", Abt Associates, Inc , March 1994, "it is not often recognized that there are over 32,000 credit cooperative societies in urban centres in India with over 15 million members"

Appendices

1 Evaluation Scope-of-Work
2 Ahmedabad Municipal Corporation's Slum Improvement Partnership
3 Shri Mahila SEWA Sahakari Bank Ltd
4 *Pro Forma* Financial Analyses of Proposed Community Infrastructure & Shelter Investment Fund
5 List of Persons Contacted
6 Housing Statistics for India

Appendix 1

BACKGROUND AND BRIEFING
SHELTER FOR INDIAN FAMILIES
AND THE
HOUSING FINANCE SYSTEM EXPANSION PROGRAM

BACKGROUND AND CONTEXT

In the terminology of the day, when this project was authorized in 1991, USAID identified the "Sector Goal" of the project as "To improve housing conditions of low-income households" and the "Project Goal" as "to increase the availability of formal housing finance to low income households nationwide "

In the current world of Strategic Objectives and Results Packages, the articulation might vary, but the desired effects would be the same ones- to have more resources available, through more channels, on a more reliable and predictable basis, and on terms and conditions (a) that meet the needs of the families, (b) that are financially viable for the institutions, (c) that make sense within India's broader financial and economic policies And today, as it did in 1991, USAID would have a particular interest in making sure that those effects explicitly considered the needs of lower-income Indian families, of women, and of families not served by the traditional formal financial sector

USAID and housing finance in India

Twenty years ago the GOI and USAID reviewed the housing conditions of urban families, determined that the absence of a private housing finance industry was a major constraint to improving the housing conditions of Indian families, and agreed to work together in developing one Through several programs which provided technical assistance, training and $120 million in loan guarantees under the USAID Housing Guaranty Program the GOI and USAID have helped create one of Asia's strongest private housing finance industries

India's private housing finance industry is a success story by any standard- in less than two decades

* the number of private housing finance companies has grown to twenty-three,
* the number of branches and outlets serving the Indian public has increased to over 250,
* the number of families served and the variety of products offered have grown rapidly, and
* the size of the system's portfolio has increased rapidly, at times growing as rapidly as 26% per year

Yet, in the face of this remarkable success story, the number of ill-housed urban families has increased and continues to grow Did the demand just grow faster than the supply? Were the Housing Finance Companies simply not able to keep up with a rapidly growing market?

The answer, of course, is more complicated The sector of the market which grew so fast--and which continues growing rapidly--is a sector which the traditional housing finance industry is ill-equipped to finance loans to families in the "informal sector" whose incomes are difficult to measure, loans for housing in the "informal sector", where the values (and even the permanence) of the stock are difficult to judge for lenders accustomed to different markets

In the course of the first three years of the HFSEP, USAID and the NHB focused primarily on approaches and strategies to expand the availability of formal-sector shelter credit to lower-income and informal sector families NGOs were engaged to "find" low-income but "reliable" clients for HFCs Evidence was presented to demonstrate that lower-income families were often better credit risks than their middle-income counterparts HFCs were required to make loans to lower-income families USAID resources from the Housing Guaranty program were exclusively available for loans affordable by lower-income families

While these approaches produced an increase in the number of loans to low income families, neither the NHB nor the majority of the HFCs saw these operations as central to their mandate or to their interest An evaluation in the third year of the program confirmed that progress on the Program's objective of increasing access to shelter credit for lower income families had been elusive- the Program had done well in its efforts to help strengthen the housing finance system and to stimulate its expansion, but efforts to "downmarket" had been less effective

The program crossed a threshold in 1995 when USAID and the NHB agreed to shift approaches- instead of focusing on trying to entice existing HFCs into a new market, to instead go to that market, find out which institutions were furnishing shelter-related credit to low-income families, and see what could be done to expand and upscale their operations- including finding ways to link them up with formal-sector Housing Finance Companies the program shifted from "down-marketing", which nobody seemed to want, to "up-borrowing", which was a more acceptable approach

Over the remainder of the Program, USAID, and to a limited degree the NHB, collaborated with a growing set of new "partners" interested in improving low-income families' access to the kinds of financial resources they needed for their shelter needs upgrading loans, home improvement loans, technical guidance on how to get "better value" from their shelter expenditures, even on establishing savings accounts so they could accumulate money to pay for "lumpy" upgrading costs or to provide matching funds for other programs

What the program did was not so much to demonstrate the limitations of the formal sector, or the limitations of community-based financial institutions, but to provide a framework within which representatives from both those groups could begin to think creatively about ways to transcend those limitations, to collaborate in ways which best capitalized on the strengths of each

The implementation of the Program has raised new important issues and questions the responses to which are crucial to the goal and objective of the effort- finding more, and more suitable, ways that the shelter-related financial services needs of Indian families can be met

WHAT NEEDS TO BE EVALUATED, AND HOW CAN AN EVALUATION PRODUCE THE MOST USEFUL RESULTS

We are interested in having the evaluator approach this assignment in three related efforts- (1) describe the "housing context" in India today, (2) evaluate USAID's HFSEP within that context, and (3) derive options and recommendations for consideration by USAID in its current or potential near-term programming A few thoughts on each of these three efforts follow

1- The Context The degree to which this project has contributed to USAID's goals in India can only be evaluated meaningfully if the evaluator, and subsequently the reader of the evaluation, adequately understands the changes that have occurred in the broader economic and institutional context within which the financing of housing occurs in India Thus, we want the Evaluator to prepare a reasonably detailed summary describing the current status of the shelter sector in India This will perforce rely heavily on the assembly, validation, and organization of existing information It can be carried out much more readily in India than elsewhere, and there is no shortage of qualified Indian professionals who can do the work and do it very well

Within the limitations of such an approach and the time available to do the work, that "status report" should address such issues as these

- How well are urban Indian families housed today? Is the situation improving? What are the trends? How does this vary across income groups?
- How does housing which is affordable to lower-income Indian families come onto the market?
- How much of this housing is self-built by the user families? What role does housing finance play in their development of housing?
- Which are the major institutional players in the housing sector? What role does housing finance play in their development of housing?
- What are the key changes of the past decade?
- What are the key constraints to improving the supply of housing which is affordable to lower-income indian families?
- To what degree is the absence (or limited availability) of shelter finance a limiting constraint?
- What are the GOI's most important initiatives in the shelter finance sector? What measures have been taken with a view to improving shelter conditions for low income families? Have they been effective?
- Are there significant disincentives to large-scale involvement of the private entrepreneurial sector in developing and marketing shelter which is suitable for and affordable to lower-income families? What are the main ones?

2- The Housing Finance System Expansion Program- how well did the HFSEP do in meeting its goals and objectives?

* What were the major accomplishments of the Project over the period of its implementation

* Did the Project contribute to prospects for long-term improvements in the quality and coverage of shelter-related finance options for Indian families, with particular attention to enhancing access on the part of lower-income women,

* Did the training and technical assistance activities undertaken through the Project have the desired impact?

* Are there lessons that can be learned from the performance of the various entities that played important roles in implementing the Project the National Housing Bank, India's Housing Finance Companies, USAID, the Management Support Services contractor (for that period during which the MSS was engaged), and other parties contributing to the execution of the Project?

3- The Value of the Evaluation The availability of suitable, timely financing is clearly a strong determinant of the quality of shelter, and, particularly for lower-income families, of the quality of life, of prospects for good health, of prospects for economic growth, and of expanded options for women In surprisingly direct ways, it has much to do with prospects for improved management of urban environmental conditions The Mission is interested in a systematic consideration of these points, drawing on findings of the shelter sector status report, the evaluation of the USAID-NHB Housing Finance System Expansion Program, and other relevant information noted in the course of this assignment The Mission is interested in informed views on these questions

a) Which are the current GOI policies which encourage efficiency and responsiveness in the provision of shelter finance? Are there policies, practices or regulations which limit efficiency, discourage creativity? What steps can be taken to improve the situation?

b) Are there other important constraints to the improvement and expansion of shelter-related finance in India, with particular attention to meeting the needs of lower-income families? Are there practical steps that can be taken to reduce these constraints? Short/medium/long term ones?

c) The information provided by community-based financial institutions involved in the HFSEP suggests that a very large amount of the financing which supports the development of shelter affordable to lower-income families is delivered through channels entirely outside India's formal financial sector To the extent this is so, what are the implications? For the users of these financial services? For the financial sector itself? More broadly, for the Indian economy? Are there measures that would improve the efficiency of these operations?

c) In connection with the observations emerging from this evaluation and analysis, what role might USAID consider playing? How could it most effectively do so?

Appendix 2
Slum Improvement Partnership, Ahmedabad Municipal Corporation

The Slum Improvement Partnership (SIP), in Ahmedabad is an innovative approach for the improvement of slums It is a comprehensive project for upgrading and providing new infrastructure in slums and integrating it with the city's infrastructure Though the major emphasis is on physical infrastructure, the project also focuses on environmental up gradation, sanitation, housing, health, education and income generation The slum communities, private sector firms, NGOs and the Ahmedabad Municipal Corporation (AMC) are partners with specific roles and responsibilities The entire project is designed to cover 40,000 households over five years at an estimated cost of Rs 480 million A pilot project has been successfully completed at Sanjaynagar The lessons learned from this experience are proposed to be utilized in scaling up the project to the city level

This partnership aims to provide basic infrastructure through a cost sharing arrangement The initiative comprises of three components

Component	Cost Per Household (Rs)	Shared By
Provision of infrastructure (individual water supply, toilet, road paving, street lighting)	6,000	Municipal Corporation, Private industry, Beneficiary (one-third each)
Integrating slum infrastructure with city system	9,000	Municipal Corporation (100%)
Community Development	1,000	NGO (70%) and Municipal Corporation (30%)

The Sanjaynagar Pilot Project

The Sanjaynagar settlement consists of 181 households spread over 20,871 square meters of land which belongs to the AMC The community consists mostly of vegetable vendors (50 per cent), salaried workers (15 per cent) and skilled daily-wage workers (10 per cent) Basic services such as water, drainage, individual toilets, street lights and health services were completely absent prior to implementation of the pilot SIP

The project comprised of physical development and community development Physical development included the provision of individual water supply and toilet facilities, formation of internal roads and paving, storm water drainage, street lighting, solid waste management and landscaping within the slum and integrating with city-level infrastructure The establishment of neighborhood women and youth groups, mobilizing community savings, educational activities for pre-primary children, school dropouts and illiterate adults, were the elements of the community development

The resident community, The Arvind Mills Ltd (A city-based industry,) SAATH (an NGO) and the AMC were the major players Arvind Mills promoted a trust - Strategic Help Alliance for Relief to Distressed Areas (SHARDA) to implement this project The individual beneficiaries, AMC and the Arvind Mills Ltd contributed Rs 2,000 for each household towards provision of infrastructure within the slum Beneficiaries not in a position to raise this amount were encouraged to avail a loan facility offered by the Self Employed Women's Association (SEWA) bank The loan amount was Rs 2,000 against a savings contribution of Rs 500 The AMC (which owns the land) gave a guarantee that it will not evict the dwellers for at least the next ten years

The pilot project was completed in ten months The AMC's share of the project (which included Rs 2,000 per household towards infrastructure within the slum, Rs 9,000 per household towards integrating the slum network with the main city lines and Rs 700 per household towards community development) was funded through a soft loan assistance window from Housing and Urban development Corporation (HUDCO)

National Acceptance

As part of the celebrations of its Golden Jubilee of Independence, Government of India announced a new scheme called *Swarnajayanti Shahiri Vikas Yojana* (Golden Jubilee Urban Development Scheme) Slum Development Program, which is similar to the SIP of the AMC has been incorporated as a component of the national scheme The GOI, through its Ministry of Urban Development will provide 30 per cent as a grant and the balance as a soft loan at 13 per cent interest to any urban local body through its state government towards provision of infrastructure and community development in slums

Appendix 3
Shri Mahila SEWA Sahakari Bank Ltd
(Women's SEWA Cooperative Bank Ltd , popularly known as "SEWA Bank")

The SEWA Bank was established in 1974 by the members of the Self Employed Women's Association (SEWA) This bank is registered as an Urban Cooperative Bank under the Gujarat Cooperative Societies Act and under the Indian Trusts Act, 1882

Objectives

The aim of SEWA Bank is to provide an integrated set of banking services such as savings and fixed deposit accounts, credit for productive economic and income generating activities Technical assistance is also provided to borrowers whenever needed in purchase of raw materials, tools and marketing The bank also provides social security services like life insurance, accident insurance and occupation related insurance

Clients

The clients of the bank fall in three groups

- self-employed women workers,
- small vendors, traders and home-based workers such as weavers, potters, tailors etc , and
- laborers, including head loaders and agricultural laborers

Innovative Methods

The bank has adopted innovative savings mechanisms like collecting savings from places of business Keeping in view the requirements of poor illiterate women, the bank has introduced procedures like assessing credit worthiness without depending on collateral, emphasis on group pressure, credit related extension service, simple procedures and maintaining interactive contact with clients

Operations

At the end of 1995/96 there were 19,258 share holders, 56,541 depositors and 20,840 borrowers The deposits with the bank aggregated Rs 86 3 million Loan operations of the bank expanded over the years from Rs 12 million to 9,132 borrowers in 1990/91 to Rs 47 3 million to 20,840 borrowers in 1995/96 Maximum ceiling on loans to individual borrowers is generally fixed at Rs 30,000 (unsecured loans not to exceed Rs 15,000) All loans are of medium term which have to be repaid within 35 months Interest rates vary from 12 per cent to 17 5 per cent per annum The bank has been able to maintain a high repayment rate at around 95 per cent

Housing Initiative

In November 1994, a new entity called Gujarat *Mahila* (Women's) Housing SEWA Trust was formed under the SEWA umbrella The objectives are to improve housing and infrastructure conditions and living environment of SEWA members, to create improved access to services (finance, legal advice, technical assistance, and information on housing market) and to influence housing and urban development policies and programs

Responding to demand from its members, SEWA Bank has been gradually increasing its share of loans for housing, which presently constitute about one-third of its loan portfolio The bank recognizes that for self-employed women, their home plays a central part in economic activities Loans for housing range from small repairs and minor additions to new housing and infrastructure provision Details of housing loans given during the last five years are as below

Year	No of Borrowers	Total Loan Amount (Rs million)	Average Size of Loan (Rs)
1992	900	7 76	8,620
1993	636	6 29	9,890
1994	550	6 75	12,270
1995	1,583	24 71	15,610
1996	1,449	24 15	16,670

The bank also assisted 181 slum households with loans of Rs 2,000 each under the Slum Improvement Partnership program of the Ahmedabad Municipal Corporation to assist the beneficiaries to pay their own contribution for infrastructure

Appendix 4
Pro Forma Financial Analyses of Proposed Community Infrastructure & Shelter Investment Fund

Appendix 5
List of Persons Contacted

D R Gangopadhyay General Manager	Reserve Bank of India Mumbai
N Nagarajan Advisor	Reserve Bank of India Mumbai
P K Handa Executive Director	National Housing Bank New Delhi
R V Verma General Manager	National Housing Bank New Delhi
P R Jaishankar Deputy Manager	National Housing Bank New Delhi
V Raghu Asst General Manager	National Housing Bank New Delhi
N K Madan Manager	National Housing Bank New Delhi
P S Rana Director Corporate Planning	Housing and Urban Development Corp , Ltd New Delhi
Conrad D'Souza Chief - Management Services	Housing Development Finance Corporation Ltd , Mumbai
Nasser Munjee Deputy Managing Director	HDFC and Infrastructure Development Finance Co Ltd Mumbai
Jayshree Vyas Managing Director	SEWA Bank Ahmedabad
K Oza Senior Officer	Development Credit Bank Ltd Mumbai
B R Gupta Executive Director (Investment)	Life Insurance Corporation of India Mumbai
Y P Gupta Chief Executive	LIC Housing Finance Ltd Mumbai
V R Ramakrishnan General Manager	LIC Housing Finance Ltd Mumbai
A K Ganguly General Manager	LIC Housing Finance Ltd Mumbai

S Jayaraman Deputy General Manager, Investment Div	Canara Bank Bangalore
N V Rangaswamy Chief Manager	CanFin Homes Ltd Bangalore
K P Kamath General Manager	CanFin Homes Ltd Bangalore
Nitin Palany Managing Director	GRUH Finance Ltd Ahmedabad
Sudin Choksey Executive Director	GRUH Finance Ltd Ahmedabad
Kaushal Mulani Product Manager, Housing Finance	GRUH Finance Ltd Ahmedabad
B M Ramachandra Managing Director	Vijaya Home Loans Ltd Banglore
Mihir L Chandra Managing Director	SBI Homes Finance Ltd Calcutta
K L Majumdar Dy General Manager & Corp Credit Manager	SBI Homes Finance Ltd Calcutta
Sudarshan Kumar General Manager	SBI Homes Finance Ltd Calcutta
A K Ghosh Executive Director	Peerless Abasan Finance Ltd Calcutta
S G Roche Sr Vice-President	GIC Housing Finance Ltd Mumbai
B K Madhur General Manager	Dewan Housing Finance Corporation Ltd Mumbai
M Goverdhan Reddy Asst Vice President	AB Homes Finance Ltd Hyderabad
P Gopala Krishna Chief Vigilance Officer	AB Homes Finance Ltd Hyderabad
R J Vaidyanathan Asst General Manager	Andhra Bank Funds & Investments Dept Hyderabad
Upendra Kamath Managing Director	Weizmann Homes Ltd Banglore

Sriraman Jagannathan Asst Vice President	CITIBANK Mumbai
K V Parameshwar Treasurer	CITIBANK Mumbai
T S Anil Relationship Manager	CITIBANK Mumbai
M R Prabhakar President	Mercantile Housing Finance Ltd Chennai
Anshukant Taneja	CRISIL Mumbai
D Thyagarajan Assistant General Manager	CRISIL Chennai
Prasana Desai Manager	J M Financial & Investment Consultancy Services Ltd , Mumbai
Chitresh Mody	J M Financial & Investment Consultancy Services Ltd , Mumbai
R S Kaushik Commissioner	Central Provident Fund, Govt of India New Delhi
Adolf Tragler Director	Slum Rehabilitation Society Mumbai
Uday Kumar Managing Director	SHARE Hyderababd
Shashi Rajagopalan Secretary	Co-operative Development Foundation Hyderabad
Rama Mohan Sarma Secretary	VIKASADARSHINI Hyderabad
Rajiv Shaw	SHARAN New Delhi
Giridhar Vasvani Director	Baroda Citizen's Council Vadodara

Appendix 6

Housing Statistics for India

Table A Housing and Household Formation

Sector	Households HHs (millions)	Residential Units RUs (millions)	HHs / RUs	Growth Rates (%)	
				HHs	RUs
1981					
Rural	93 5	87 2	1 07		
Urban	29 1	27 2	1 07		
Total	122 6	114 4	1 07		
1991					
Rural	111 6	107 9	1 03	19 36	23 74
Urban	40 4	39 1	1 03	38 83	43 75
Total	152 0	147 0	1 03	23 98	28 50

Source Census of India, 1991

Table B Households Living in Owned House

Sector	1981	1991
Rural	93 0	94 5
Urban	53 5	63 1

Source Census of India, 1991

Table C Distribution of Households According to Number of Rooms Occupied

Number of Rooms	Rural		Urban		Total	
	1981	1991	1981	1991	1981	1991
1 Room	44 3	40 8	45 8	39 6	44 7	40 5
2 Rooms	28 9	30 6	27 8	30 4	28 6	30 6
3 Rooms	12 2	13 5	12 2	14 8	12 2	13 8
4 Rooms	6 3	6 9	6 3	7 8	6 3	7 1
5+Rooms	5 8	7 0	5 7	7 0	5 8	7 0
No of exclusive rooms	2 4	1 1	2 1	0 5	2 3	1 0

Source Census of India, 1991

Table D Quality of Housing Stock

Year	1981			1991		
Sector	Rural	Urban	Total	Rural	Urban	Total
Total Housing Stock (millions)	88 7	28 0	116 7	121 9	39 5	161 4
Permanent (*Pucca*) Houses	21 2	64 6	31 6	28 0	72 7	38 9
Semi Permanent Houses	37 5	24 3	34 4	32 6	17 7	29 0
Houses made from non-durable materials (*Kutcha*) (serviceable & unserviceable)	41 3	11 1	34 0	39 4	9 6	32 1

Source Census of India, 1991

Table E Households with Available Facilities

Facility	Houses with Facility (%)					
	Total		Rural		Urban	
	1981	1991	1981	1991	1981	1991
Safe Drinking water	38 2	62 3	26 5	55 4	75 1	81 4
Toilet Facilities	NA	23 7	NA	9 5	58 2	63 9
Electricity	26 2	42 4	14 7	30 5	62 5	75 8

Source Census of India, 1991

Table F Housing in India, 1991 Census

Census Houses	Number	%
Total No of Building Units	195,024,357	100 0
Building Units in Urban Areas	52,037,905	26 7
Building Units in Rural Areas	142,986,452	73 3
Vacancy		
Total Vacant Building Units	12,411,900	6 4
Vacant Urban Building Units	4,444,980	8 5
Vacant Rural Building Units	7,966,920	5 6
Residences		
Building Units used as Residendes Total	140,079 652	71 8
Building Units used as Residendes Urban	37,022,564	71 1
Building Units used as Residendes Rural	103,057,088	72 1

Source Census of India, 1991

Table G TOTAL URBAN BUILDING UNITS AND THE USES TO WHICH THEY ARE PUT

State	Total Urban Building Units	Building Units Used for Various Residential Uses in Urban Areas							
		Residences		Shop cum Residences		Workshop/Factory cum Residences (incl hh industry)		Residences in combination with other uses	
		No	%	No	%	No	%	No	%
INDIA	**52,037,905**	**37,022,564**	**100 00**	**671,508**	**100 00**	**757,962**	**100 00**	**291,630**	**100 00**
Andhra Pradesh	4 100 820	3 165 015	8 55	52 960	7 89	70,475	9 30	30 830	10 57
Arunachal Pradesh	32 538	24 412	0 07	676	0 10	200	0 03	285	0 10
Assam	635 385	456 765	1 23	9 200	1 37	2 630	0 35	2 390	0 82
Bihar	2 285 370	1 680 245	4 54	50 395	7 50	16 865	2 23	21 545	7 39
Goa	137 093	87 205	0 24	757	0 11	1 809	0 24	1 068	0 37
Gujarat	3 749 105	2 458 020	6 64	26 645	3 97	32 880	4 34	13 735	4 71
Haryana	1 065 685	705 500	1 91	10 640	1 58	4 200	0 55	4 450	1 53
Himachal Pradesh	175 552	106 340	0 29	1 523	0 23	599	0 08	908	0 31
Karnataka	3 333 460	2 350 540	6 35	25 855	3 85	68 695	9 06	22 625	7 76
Kerela	2 096 650	1 304 085	3 52	5 355	0 80	24 025	3 17	4 150	1 42
Madhya Pradesh	3 468 185	2 508 025	6 77	68 885	10 26	91,635	12 09	29 325	10 06
Maharashtra	8 015 435	5 671 470	15 32	73 355	10 92	107 735	14 21	33 255	11 40
Manipur	106 469	70 132	0 19	2 123	0 32	2 635	0 35	1 532	0 53
Meghalaya	82 069	60,724	0 16	978	0 15	450	0 06	589	0 20
Mizoram	69 323	53 181	0 14	1 939	0 29	553	0 07	678	0 23
Nagaland	63 876	46 267	0 13	2 329	0 35	75	0 01	45	0 02
Orissa	1 112 025	752 855	2 03	12 665	1 89	14 055	1 85	6 605	2 26
Punjab	1 412 295	934 470	2 52	19 105	2 85	7 030	0 93	5 010	1 72
Rajashthan	2 428 330	1 648 930	4 45	27 650	4 12	26 135	3 45	10 405	3 57
Sikkim	11,741	6 947	0 01	719	0 10	45	0 00	114	0 00
Tamil Nadu	4 767 590	3 688 870	10 00	38 695	5 80	104 275	13 80	19 305	6 60
Tripura	108 498	82 986	0 20	513	0 10	372	0 00	203	0 10
Uttar Pradesh	5 805 385	3 927 515	10 60	131 135	19 50	86,615	11 40	42 540	14 60
West Bengal	4 450 010	3 437 260	9 30	60 955	9 10	66 185	8 70	25 250	8 70
Andaman & Nicobar Islands	20 077	14 331	0 04	228	0 03	53	0 01	154	0 05
Chandigarh	157 868	125 210	0 30	923	0 10	638	0 10	842	0 30
Dadra & Nagar Haveli	2 324	1 249	0 00	24	0 00	19	0 00	17	0 00
Daman & Diu	11 924	6 389	0 00	87	0 00	140	0 00	78	0 00
Delhi	2,209 620	1 558,782	4 20	43 905	6 50	25,178	3 30	12 898	4 40
Lakshwadeep	9 124	4 351	0 01	51	0 01	38	0 01	18	0 01
Pondicherry	114,079	84,493	0 20	1 238	0 20	1,723	0 20	781	0 30

Source National Housing Census 1991

Table H Composition and Value of Housing Stock

Year	Kutcha		Semi-Pucca		Pucca		Total	
	%	Value	%	Value	%	Value	%	Value
1971	12 97	1 30	23 24	4 20	63 78	71 00	100 0	76 5
1981	11 07	5 10	24 29	20 10	64 64	329 50	100 0	354 7
1991	8 40	15 77	15 77	53 40	75 83	1575 60	100 0	1644 7
1995	7 06	21 14	15 04	91 59	77 90	2887 93	100 0	3000 6

Note 1 Census of India defines *kutcha semi-pucca and pucca* in terms of the durability content of the materials used, particularly in walls and roof *Kutcha* is the least durable and *Pucca* is the most durable

2 Value of housing stock estimates are in Rs billion at current prices

Source India National Report, 2nd UN Conference on Human Settlements Habitat II, Istanbul, 1996, Ministry of Urban Affairs and Employment, Government of India

Table I Income Distribution in Selected Indian Cities

City	% of Households with Monthly Income (Rs /month)					Average Monthly Household Income (Rs)
	< 1000	1000 - 2000	2000 - 5000	5000 -10,000	> 10,000	
Varanasi	6 06	39 18	48 75	5 08	0 93	2845 15
Vadodara	9 60	20 50	49 20	18 00	2 70	3831 00
Ludhiana	1 10	28 71	51 17	13 98	5 04	3905 89
Visakhapat	1 20	14 30	66 40	16 70	1 40	3436 00
Bhopal	5 90	20 80	52 20	19 70	1 40	3850 00
Nagpur	4 00	10 60	53 90	24 50	7 00	4784 30
Kanpur	6 00	31 06	46 60	11 44	1 90	3327 01
Pune	0 90	5 90	48 50	35 10	9 60	5240 00
Ahmedabad	8 80	26 40	46 00	14 40	4 40	3790 00
Madras	NA	NA	NA	NA	NA	3392 00
Delhi	4 98	22 73	45 92	19 43	6 94	4471 00
Calcutta	5 24	24 10	50 99	16 00	3 67	3868 68

Source RITES Survey, 1994 as published in the Report of the Sub-group on Urban Transpoprt for the Ninth Five Year Plan, 1996 Dept of Urban Development, Min of Urban Affairs and Employment, Government of India

Table J Population Distribution by States

State	Rural		Urban		% State Urban to Total Urban	Total Population (No)
	No	%	No	%		
Andhra Pradesh	48,620,882	73 1	17,887,126	26 9	8 3	66,508,008
Arunachal Pradesh	753,930	87 2	110,628	12 8	0 1	864,558
Assam	19,926 527	88 9	2,487,795	11 1	1 2	22,414,322
Bihar	75,021,453	86 9	11,353,012	13 1	5 3	86,374,465
Goa	690,041	59 0	479,752	41 0	0 2	1,169,793
Gujarat	27,063,521	65 5	14,246,061	34 5	6 6	41,309,582
Haryana	12,408,904	75 4	4,054,744	24 6	1 9	16,463,648
Himachal Pradesh	4,721,681	91 3	449,196	8 7	0 2	5,170,877
Karnataka	31,069,413	69 1	13,907,788	30 9	6 4	44,977,201
Kerala	21,418,224	73 6	7,680,294	26 4	3 6	29,098,518
Madhya Pradesh	50,842,333	76 8	15,338,837	23 2	7 1	66,181,170
Maharashtra	48,395,601	61 3	30,541,586	38 7	14 1	78,937,187
Manipur	1,331,504	72 5	505,645	27 5	0 2	1,837,149
Meghalaya	1,444,731	81 4	330,047	18 6	0 2	1,774,778
Mizoram	371 810	53 9	317 946	46 1	0 1	689,756
Nagaland	1,001,323	82 8	208,223	17 2	0 1	1,209,546
Orissa	27,424,753	86 6	4,234,983	13 4	2 0	31,659,736
Punjab	14,288,744	70 5	5,993,225	29 5	2 8	20,281,969
Rajasthan	33,938,877	77 1	10,067,113	22 9	4 7	44,005,990
Sikkim	369,451	90 9	37,006	9 1	0 0	406,457
Tamil Nadu	36,781,354	65 8	19,077,592	34 2	8 8	55,858,946
Tripura	2,335,484	84 7	421,721	15 3	0 2	2,757,205
Uttar Pradesh	111,506 372	80 2	27,605,915	19 8	12 8	139,112,287
West Bengal	49,370,364	72 5	18,707,601	27 5	8 7	68,077,965
And & Nicobar	205,706	73 3	74,955	26 7	0 0	280,661
Chandigarh	66,186	10 3	575,829	89 7	0 3	642,015
Dadra & Nagar	126,752	91 5	11,725	8 5	0 0	138,477
Daman & Diu	54,043	53 2	47,543	46 8	0 0	101,586
Delhi	949,019	10 1	8,471,625	89 9	3 9	9,420,644
Lakshwadeep	22,593	7 2	291,144	92 8	0 1	313,737
Pondicherry	290 800	36 0	516,985	64 0	0 2	807,785
INDIA	622 812,376	74 2	216,033,642	25 8	100	838,846,018

Note Figures for Jammu and Kashmir State not available
Source Census of India 1991