U N C L A S S I F I E D PN-ABK-143

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

INDIA: Housing Finance System Expansion Program 386-HG-003A (386-0526)

Dated: September 17, 1991

U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete

Amendment Number

DOCUMENT CODE 3

2. COUNTRY/ENTITY: INDIA

3. PROJECT NUMBER: 386-HG-003A 386-0526

4. BUREAU/OFFICE: APRE/A 29

5. PROJECT TITLE (maximum 40 characters): HOUSING FINANCE SYSTEM EXPANSION PROG.

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY: 09 30 96

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4)

A. Initial FY 91 B. Quarter 4 C. Final FY 96

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 91 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	-	-	-	3,364	936	4,300
(Grant)	(-)	(-)	(-)	(3,364)	(936)	(4,300)
(Loan)	( )	(-)	(-)	(-)	(-)	(-)
Other U.S. 1. HG LOAN	5,400	-	5,400	50,000	-	50,000
Other U.S. 2.						
Host Country	-	-	-	-	51,500	51,500
Other Donor(s)	-	-	-	-	-	-
TOTALS	5,400	-	5,400	53,364	52,436	105,800

9. SCHEDULE OF AID FUNDING ($000)

A. APPRO-PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) SD	*	*	*	-	-	-	-	4,300	-
(2) HG							5,400	-	50,000
(3)									
(4)									
TOTALS							5,400	4,300	50,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) *

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code *

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

Promote the development of a financially sound self sustaining Housing Finance System which makes long-term shelter finance available to a wide range of households, particularly those below the median income.

14. SCHEDULED EVALUATIONS: Interim MM YY MM YY 04 94 Final 04 96

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☒ 000 ☐ 941 ☐ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

* Per Handbook 18, Appendix D Page DII-TC-1, these codes are not required.

Clearance: CO: William C. Graham

17. APPROVED BY

Signature

Title: Walter G. Bollinger, Director

Date Signed MM DD YY: SEP 27 1991

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY

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ANNEXES (Continued)

LIST OF ABBREVIATIONS

A.I.D.	Agency for International Development
APRE	Bureau for Asia and Private Enterprise, A.I.D.
BIS	Bank for International Settlements
CP	Condition Precedent
DA	Development Assistance
FY	Fiscal Year (begins October 1 for USAID; April 1 for HFCs)
GIC	General Insurance Corporation of India
GOI	Government of India
HDFC	Housing Development Finance Corporation
HFC	Housing Finance Company
HG	Housing Guaranty Loan Program
HG-003	Third Segment of the HG Program
HG-003A	Proposed HG-003 Expansion Program
HLA	Home Loan Accounts
HUDCO	Housing and Urban Development Corporation, Ltd.
IE	Interim Evaluation of HG-003
IFC	International Finance Corporation
LIC	Life Insurance Corporation of India
MIS	Management Information System
MPIP	Master Program Implementation Plan
NGO	Non-Governmental Organization
NHB	National Housing Bank
NPD	New Project Document
OECF	Overseas Economic Cooperation Fund
PP	Project Paper
PRE/H	Office of Housing and Urban Programs, APRE
RBC	Risk-Based Capital (guidelines)
RBI	Reserve Bank of India
RHUDO	Regional Housing and Urban Development Office
RHUDO/Asia	RHUDO for Asia
Rs.	Indian Rupees (Rs. 26 = $1 as of July 3, 1991)
TA	Technical Assistance
Tapoban	Tapoban Housing Finance, Ltd.
USAID	United States Agency for International Development
USAID/India	India Mission of USAID

Note: 1 lakh = 100,000; 1 crore = 10,000,000

I. INTRODUCTION AND SUMMARY

A. Program History

In September 1988, USAID approved the project paper for a $50 million Housing Guaranty (HG) program that provided for the refinancing of long-term loans for low-income housing in India. For this purpose, it authorized $25 million in loan funds, to be provided through the National Housing Bank (NHB) of India. NHB had been established under the National Housing Bank Act of 1987 and had commenced operations in July 1988. NHB has functioned as an apex housing finance institution and is wholly owned by the Reserve Bank of India (RBI).

NHB carries out a number of key functions in connection with the fledgling housing finance system in India. It acts as the key regulatory and supervisory agency of Housing Finance Companies (HFCs). At the same time, it is responsible for fostering the creation and growth of HFCs, so as to expand the availability of housing finance in India. Consistent with its promotional function, NHB refinances housing loans made by approved financial institutions such as commercial banks and HFCs. Support of NHB's core functions of regulation, supervision, and promotion of HFCs is central to the USAID Housing Finance System Program (HG-003). In addition, another major component of HG-003 has been to provide additional resources for NHB to refinance loans made to below-median income households, in an effort to expand the supply of formal housing finance available to this group.

In April 1991, USAID and NHB signed the HG Loan and Guaranty Agreements for an authorized $25 million in loan funds, and NHB drew down and disbursed the entire amount of the loan. An interim evaluation of the program was conducted in June 1991 and concluded that program progress with regard to the stated objectives, as well as the needs of the HFCs for financial resources to sustain their growth, supported authorization and disbursement of an additional $25 million. By June 1991, USAID had authorized another $25 million of HG-003 loan funds. This document assumes that this second tranche will be disbursed by mid-1992.

This Project Paper (PP) Supplement provides support for recommending an expansion of the HG-003 program, through the authorization of $50 million of additional HG funding. The expansion program (HG-003A) will build upon the gains that have already been realized during the first three years of the HG-003 program and those that are expected to occur during the coming year. The program expansion is being initiated at a time of potentially great change in the Indian financial system and economy. HG-003A thus ensures continuity in A.I.D.'s involvement during a critical period in India's transition to a market-oriented, financially-sound housing finance system. The program expansion is expected to be carried out over five fiscal years, from mid 1992 through September 1996.

This PP Supplement also supports a recommendation for authorization of a new Development Assistance (DA) grant of $4.3 million, which is expected to be expended over five fiscal years, between mid-1992 and September 1996. The DA grant consists of an agenda of training, technical assistance and applied research studies, and the management support services for implementation of the same.

Information in this document is supplemental to the HG-003 Project Paper. The material is based on the June 1991 interim evaluation report, other consultant reports, material obtained from NHB, and interviews with NHB, HDFC, and experts in housing finance, low-income housing supply, and low-income-oriented financial intermediaries.

B. Problems to be Addressed

The first two years of the HG-003 program have witnessed significant progress in the regulatory and legal environment in India affecting housing finance. The growth of the housing finance sector has been extremely rapid. Nevertheless, important areas will need to be addressed in order to achieve the goals of the program.

The HG-003 Interim Evaluation (IE) noted that NHB has actively promoted expansion of the housing finance system, has mob lized resources for the sector and has established the regulatory framework for the systems operations. However, the IE identified several areas that warrant immediate and concerted attention, including the need to strengthen NHB's supervision of HFCs.

These recommendations will be reflected in an updated Master Program Implementation Plan (MPIP) which will establish conditions for the disbursement of the second $25 million tranche of the HG-003 program. The HG-003A program expansion will provide sustained support in these key areas, as well as in additional policy areas.

The IE also estimated that, to date, approximately 20 percent of the rupee volume of NHB-refinanced loans (equivalent to more than US $50 million) has comprised loans to households below the urban median income. An emphasis of the HG-003A program expansion will be to increase the supply of formal-sector housing finance to households with incomes below the median, including informal sector workers.

C. New Project Description (NPD) Review

A number of issues were identified by the APRE review of the NPD for HG 003A. These have been fully examined within the IE or within this Project Paper (PP) supplement.

The rationale for the program expansion and the DA grant program is discussed below. It notes that the key function of the HG program is to foster policy dialogue and policy change on related issues and that the HG funds will provide a stable source of funds during a critical period in the history of the housing finance system in India. The DA-funded technical assistance (TA) and training greatly enhance the effectiveness of the HG program by providing the means to strengthen discussions on policy issues. Specific TA and training plans for the DA component and an illustrative budget are contained in this PP Supplement.

D. Recommendations

The Mission and RHUDO recommend approval of $50 million in additional HG resources to support the India Housing Finance System Program Expansion (HG-003A). Disbursement of resources will be contingent upon satisfactory progress on policy issues which are described herein and which will be described in the revised Program Implementation Agreement. Part of the focus of the program expansion is to increase access to formal-sector housing finance by low-income households. As part of this effort, a portion of HG funds will be set aside to refinance housing loans made to low-income households through a model housing loan program that is designed to more effectively reach low-income households.

The Mission and RHUDO also recommend approval of a new $4.3 million DA grant, which will fund a series of TA and training activities which support the objectives defined in the proposed Policy Matrix (Annex B) and provide management assistance for the program.

II. OVERVIEW OF THE HOUSING FINANCE SYSTEM PROGRAM (386-HG-003)

A. Program Goal and Purpose

The Housing Finance System Program (386-HG-003) was designed to support the development of a financially sound, market-oriented housing finance system that serves a wide range of households. The original program goal and purpose remain unchanged.

The program strategy is 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. The HG-003 program expansion continues these goals, with a view toward sustaining the expansion of the private housing finance system and intensifying the focus on loans for low-income households.

B. Relationship to GOI Policies

The HG-003 program and its expansion are consistent with the Government of India's (GOI) twin goals of economic growth and social equity, especially with the expansion's added emphasis on increasing access to formal housing finance by low-income and informal-sector households. The HG-003A objectives will be greatly furthered by the recent GOI efforts to reorient economic policies such as: delicensing all but eighteen industries, opening up nine more areas for private competition, liberalizing foreign investments (up to 51 percent foreign equity allowed for 34 industries), de-controlling hiring of foreign technicians, and substantial relaxation in monetary and financial controls. The RBI has given flexibility to banks to raise lending rates beyond the floor rate of 11 percent depending on analysis of risk. Similar announcements are in the offing for term lending institutions. The RBI has relaxed its guidelines to finance companies and leasing units. This reoriented policy environment is likely to induce more competition in the financial sector including housing finance, thus making the sector expand more effectively to include a wide variety of households including low income group and informal-sector ones.

In order to promote equity with economic growth, the 1991-92 GOI Budget incorporates resource mobilization schemes for the poor. These include: a) a safety net program which is proposed to be started with GOI funding in order to provide a social safety net to workers from the adverse consequences of the economic transformation; and b) 40 percent of the unrevealed/untaxed income deposited with the National Housing Bank which will be utilized for financing low cost housing for the poor, and the remaining 60 percent which can be withdrawn by the depositor without any question asked.

World Bank's 1991 Annual Economic Memorandum provided specific recommendations on India's future financial sector reforms. These included the need to introduce more competition into the banking system and capital markets; liberalize interest rate controls; strengthen financial institutions' capital structure; and phase out directed credit targets and interest subsidies in the system. The expanded policy agenda of 003A will support these recommendations. Increasing the number of market oriented lenders, providing additional training, and developing a trade association will introduce more competition in the banking system. Fulfilling some of the key preconditions to the development of the secondary mortgage market will introduce more competition into capital markets. NHB requesting RBI to allow HFCs to set interest rates and terms on deposits and interest rates on loans will liberalize interest rate controls. Increasing NHB's and HFCs' share of resources obtained from domestic competitive markets will help to phase out interest subsidies.

C. Relationship to the Mission Strategy

1. Relationship with the CDSS

The Mission's strategy aims at supporting an evolution in India to middle-income status by addressing critical constraints to increased growth and productivity, while ensuring complementary, well targeted actions to help alleviate poverty among India's most vulnerable groups. The program expansion supports efforts to address one of the most critical constraints on urban economic development, distorted financial markets. Housing finance is a visible part of India's overall financial sector and plays an important role in setting the stage for market-oriented policies. The program expansion will build on A.I.D's excellent track record in policy change in this sector.

The Mission's Program Performance Information System (PPIS) includes housing as one of its major components. This indicates the priority given to the HG-003 Program within the Mission's portfolio. Application of these indicators have provided dramatic evidence of the performance of India's housing finance system.

One of the principle outcomes of the program expansion will be to improve the environment and health in urban areas. This proposal is supportive of the Mission's Health Sector Goal, "to enhance India's capacity to improve public health through increased system efficiencies."

The Mission's strategy aims to support well targeted actions to alleviate poverty. The HG program necessarily benefits poorer households by virtue of its being targeted to below-median income families. The increased availability of housing finance will help to alleviate poverty conditions by supporting improvements to living conditions for low-income households. The program will explore outreach mechanism whereby HFCs work with organizations which are more directly involved with poor communities to expand their services in those communities. Finally, increased financing for housing will improve access to job opportunities for low-income workers in the field of building trades and supplies.

2. Relationship to the Urban Strategy

The USAID/India Urban Strategy Statement identifies support for the development of a housing finance system as integral to continued economic development in India. India's urban population is expected to double over the next twenty years. Unless job formations can keep pace with population growth, household incomes will decline.

The program expansion is designed to stimulate housing supply as an important economic development tool. Increased availability of housing finance will stimulate housing construction related jobs. In addition, the forward and backward linkages with job formation in other domestic consumption markets can be substantial. It is estimated that an investment in housing has an overall economic multiplier effect of from 3 to 7 times the original investment.

D. Accomplishments of HG-003

Accomplishments of HG-003 to Date

Since the authorization of HG-003 in September 1988, the main change in the regulatory and supervisory environment that has directly affected housing finance has been the establishment of NHB and its assumption of many of the regulatory and supervisory functions of the Reserve Bank of India that pertain to housing finance institutions. HFCs can now deal with an institution that is specifically dedicated to housing finance.

The recent Interim Evaluation (IE) of HG-003 noted three major program accomplishments:

1. The NHB was commended for its very active promotion of new HFCs.

The growth of HFCs has been explosive. Approximately 300 HFCs are now registered. The number was 30 in 1988. NHB has reviewed and classified 31 of these companies and has recognized 16 as eligible for loan refinancing. The number of loans sanctioned by HFCs has grown by 50 percent per year. The number of branch offices of the 16 recognized HFCs has grown from 51 to 136 in just two years.

2. The HFCs have performed well in terms of risk management, raising funds, and profitability.

The newly formed HFCs have demonstrated good management practices which have resulted in good repayment and low credit risk, reasonable exposure on interest rate risk, and a good debt to equity ratio. These companies have raised considerable levels of resources, mainly through domestic term loans (almost half of liabilities), and from deposits (one-quarter of liabilities). Finally, as a group, the HFCs have surpassed the minimum acceptable level of profitability (15-20% given an inflation rate of 12%).

3. One quarter of the borrowers have been below the median income.

The HFCs have increased their lending to below median income families faster than total lending has grown. This has occurred in part because of the growth of branch offices in smaller cities. The IE estimates that there will be substantial demand for HFC lending to this income group, about $75 million in the next few years.

Expected Additional Achievements of HG-003

The IE also made recommendations regarding NHB's activities in the near term, principally the strengthening of NHB's supervisory function. These recommendations will be reflected in an updated Master Program Implementation Plan (MPIP) which will establish certain conditions for the disbursement of the second $25 million tranche of the HG-003 program. These include:

- NHB will establish a management information system (MIS) that allows for supervisory reporting, effective HFC management analysis, and monitoring of HG-refinanced loans;

- NHB will develop a strategic plan for its own funds mobilization; and

- NHB will make quarterly contacts with all recognized HFCs and establish a schedule for review of them. The disbursement of the second loan tranche is expected to take place by mid-1992.

E. Summary of the Expanded Program and Policy Objectives

The goals, purposes, and objectives of the HG-003 program remain the same in the HG-003A expansion. The expansion program builds upon the gains of the HG-003 program in the areas of resource mobilization for housing finance, the establishment of a financially sound system of market-oriented HFCs, and lending to low income families.

A $50 million HG loan and a $4.3 million grant are envisioned over a five-year period beginning mid-1992 and completed by the end of fiscal year 1996. Out of the HG loan, four loan tranches of $12.5 million each are proposed to be disbursed in 1993, 1994, 1995 and 1996. These disbursements will be contingent upon the progress achieved in the policy objectives outlined in the amended Program Implementation Agreement. The host country matching contribution to the $50 million HG loan will consist of $35 million to be mobilized by the NHB and $15 million as downpayments from individual households that borrow from HFCs.

The DA grant, which will also contain funds for program management support, will be expended from mid-1992 through mid-1996. A commitment from NHB of an additional $1.5 million will consist of a combination of in-kind contributions and financial assistance.

Accordingly, the entire program described below will have a five-year budget of approximately $105.8 million, including HG, DA and counterpart funds.

Policy Objectives of the Expanded Program

The policy agenda of HG-003A is organized around three strategic objectives: to increase domestic, private-sector sources of funds for housing finance; to expand market-oriented housing finance institutions; and to expand the supply of housing finance to low income families. Annex 'B' presents these objectives in a policy matrix which outline the benchmarks for reviewing the progress made towards policy objectives using proposed HG funds and the DA grant funds.

F. Expected Additional Achievements of the Expanded Program (HG-003A)

1. Increased Resources for the Housing Sector

   This will be accomplished by:

   a. HFCs increasing household savings as share of total resources; and

   b. The share of NHB and HFCs resources derived from market-oriented sources being increased as a share of total resources.

2. Expansion of Market-Oriented Housing Finance Institutions

   This will be accomplished by:

   a. Increasing the number of recognized HFCs;

   b. Training being made available to recognized HFCs;

   c. Level of management quality and technical expertise in housing finance being improved throughout the nation; and

   d. Improving supervision of HFCs by the NHB.

3. Expanded Supply of Housing Finance to Low-Income Households

   This will be accoplished by:

   a. Creating a greater share of housing loans for families below median income; and

   b. Increasing access to institutional housing finance by families from the informal sector.

G. Institutionalization

The DA Grant funded activities will identify the training needs for housing finance system development by developing an information base through research studies and developing training modules on housing finance. The program will develop the local capacity to provide long-term training and technical assistance support for an expanded private housing finance system.

H. Description of Policy Agenda for the Expanded Program

Policy Objective I: Increased Resources for the Housing Sector

1. Continuing Problem

To be self-sustaining, the housing finance system will have to mobilize funds that are priced at market rates of interest. Mature HFCs, which have established a solid track record, are likely to be able to raise funds in the wholesale market through the issuance of bonds and debentures. HFC subsidiaries of the big state-owned commercial banks and insurance companies generally have access to the resources or backing of their parent companies. In contrast, the new, independent institutions will not have access to the wholesale market for some time. It is likely that the major source of funds available to the small HFCs, and particularly the private ones, will be from the household sector.

However, the competition for household savings is substantial. The largest mobilizers of such savings in India are all in the public sector.* As government bodies, these institutions enjoy the confidence of the public. In addition, certain impediments in HFC deposit regulations, such as the minimum term on deposit accounts and the rigid interest rate structure set by the RBI, work against the mobilization of savings by the HFCs.

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* These include government agencies such as the National Savings Organization (postal savings), statutory corporations such as the Life Insurance Corporation, the General Insurance Corporation and the Unit Trust of India, and the large public-sector banks.

Unless both NHB and the housing finance lenders develop domestic resource mobilization capabilities, the housing finance system cannot become self-sustaining. And unless HFCs develop domestic resource mobilization capabilities (which require a supportive legal and regulatory environment), their growth represents only another vehicle for disseminating public funds which are in limited amounts and should be targeted to the very lowest income groups.

2. Expected Accomplishments of HG-003A

a) Household savings in HFCs will increase as share of total resources;

b) The share of NHB's and HFCs resources derived from market-oriented sources will increase as a share of total resources.

Some of the actions by NHB which are expected to help increase household savings in the housing finance system are detailed in the policy matrix (Annex B) as benchmarks. For example, relaxation of restrictions on savings deposits, lending rates, and advertising should increase the competitiveness of HFCs with public sector banks and in turn help them to capture more savings.

3. HG Conditions

a) NHB will implement a formal, written strategic plan for generating sufficient resources to meet current and projected obligations through 1995, with particular attention to funds obtained from domestic, market-oriented sources.

b) Housing finance institutions eligible for HG funds will consist only of those HFCs that are without substantial access to public-sector funds. This will be a determination made jointly by USAID and NHB, based on the following principles, but necessarily involving some subjective judgment: HG funds are intended to support the sound growth of market-oriented HFCs that are establishing a market presence and achieving the necessary scale for efficient operations. Eligibility for NHB refinancing will be based on the extent of actual and potential funding that an HFC has arranged with a public-sector parent company or affiliate and not only on the basis of equity ownership. Institutions that have a substantial resource base of and access to public-sector funding will be excluded from HG refinancing.

c) A per-institution cap of 25 percent of HG funds over the life of the HG-003A period will be imposed to ensure that a number of the newer, smaller organizations will have access to HG refinancing.

4. DA Grant Funded Activities

The companion grant of the HG-003A program will support technical assistance, training and studies on resource mobilization for housing finance. Grant funded TA and studies will include, among others, the following:

- Development of marketing strategies and tools that can be used by HFCs operating under the current regulatory framework, to enable them to more effectively mobilize households savings and to better tap the savings market potential through their branch office system.

- Evaluation of the factors that affect saver's use of different national savings institutions (e.g., postal savings scheme, commercial banks, HFCs, mutual funds, and pension funds).

- Studies of demand for the Home Loan Accounts (HLA) scheme as it is now devised with recommendations for increasing its effectiveness and reducing its impact on the obligation of NHB; review of other compulsory, loan-linked savings schemes; and other ways of attracting financial savings for low-income depositors.

- Studies on HDFC's experience with mortgage-backed securities and the feasibility of mutual fund and pension fund models for NHBs ability to raise domestic, market-oriented resources.

- Studies of assessment of demand for mortgage-backed securities recommendations and considerations for establishing standards for mortgage loans and estimation of aggregate supply of standardized mortgages that are likely to be available for sale in the secondary mortgage marketing.

Training activities related to resource mobilization will include:

- Fee based seminars/workshops for senior HFC management on methods of marketing deposit accounts.

- Development of training modules and staff training in areas such as marketing techniques for deposit instruments.

Policy Objective II: Expansion of Market-Oriented Housing Finance Institutions

1. Continuing Problem

The fact that the formal housing finance sector has developed so recently means that the breadth and depth of knowledge and expertise is, in general, less than desirable. This is true of housing finance participants at all levels: government policymakers, regulatory agency management and staff, management of the housing finance lenders, loan customers, and investors.

With the emergence of new HFCs, the supply of training opportunities has grown -- for example through courses and seminars sponsored by HDFC or NHB, or through in-house efforts. HDFC has opened a housing finance training center and NHB has plans for opening its own national training institute for housing finance. Yet, there is not enough capacity in India to provide enough TA and training of the types that are critical for the sound development of a quickly-growing, market-oriented housing finance system.

More training and TA are needed to disseminate information on the current state of new techniques to participants in the Indian housing finance system. At a more basic level, a number of applied research studies are needed to clarify the institutional and economic behavior of housing finance sector participants and to recommend improved TA and training approaches specifically geared to the Indian context. Especially when these concepts are conveyed to the level of senior management or through trainers to management, these efforts can lead to a permanent rate of increase in the expertise within India.

2. Expected Accomplishments of HG-003A

a) The total number of recognized HFCs increases.

b) Training is made available to the recognized companies and the level of management quality and technical expertise in housing finance improves throughout the nation.

c) NHB is increasingly capable of engaging in effective, forward looking supervisory regulations, which are aimed at developing a stronger and more competitive, dynamic housing finance system.

Some of the actions by NHB which are expected to help in the expansion of market-oriented housing finance institutions are detailed in the policy matrix (Annex B) as benchmarks. These include actions related to making foreclosure for non-payment more available to HFCs, strengthening NHB's regulatory powers in cases where HFCs are troubled, and determining the extent to which other private financial institutions like cooperatives should participate in NHB refinancing.

3. HG Conditions

An MIS system is developed and is operational for all recognized HFCs. This will facilitate regular supervisory reports to NHB by the HFCs.

4. DA Grant Funded Activities:

The companion grant of the HG-003A program will support technical assistance, training and studies for expanding market-oriented housing finance institutions. Grant funded activities will include the following:

- Development of training modules for NHB and other training institutions in subjects such as a) loan portfolio diversification; b) credit underwriting appraisal; c) loan management and collections; and d) customer service and fiscal accountability.

- Exploring possibilities and establishment of collaborations between NHB and U.S. training institutions on development and delivery of training on the above subject.

- Sponsoring study tours and participant training of Indian professionals in U.S. institutions and other third countries on the subject of housing finance and related subject.

- Evaluating the potential for cooperative housing lenders to be included as HG eligible sub-borrowers.

Policy Objective III: Expanded Supply of Housing Finance to Low-Income Households

1. Continuing Problem

As detailed in the IE, most housing finance lenders are targeting their loans primarily to middle and high-income households. However, the very large market of households with below-median income is likely to contain a large, creditworthy element that could contribute substantially to the profitability, rate of growth, and efficiency of market-oriented housing finance lenders. Yet, considerable uncertainity persists as to what are the risk and return characteristics of loans made to low-income households and how that risk and return may be affected by the financial institution's structure and its methods of underwriting, appraisal, service delivery, loan counseling, and collection.

Information that is now available on low-income housing production indicates a serious lack of housing finance supply. These households need relatively small loans to purchase and improve housing which often has no legal title. Low-to-middle income households who work in the informal sector also lack a ready supply of housing finance.

The obstacles to obtaining housing loans are based in part on characteristics of low-income households that may reduce their effective demand, such as their low (and often less-stable) incomes, informal-sector housing, and low levels of savings. However, within the low-income sector there are many creditworthy borrowers. Therefore, it appears that the obstacles also may be due to supply factors, most prominently the failure on the part of formal-sector financial institutions to assemble information that would identify creditworthy low-income subgroups. Moreover, little effort has gone into developing efficient techniques for low-income loan marketing, loan underwriting, and loan collection. These may be quite different from the cost-effective methods that have been developed for middle and high-income households.

As a result, many low-income and informal-sector households obtain housing finance primarily from informal sources at extremely high interest rates. Access to formal-sector housing finance would improve the quality of housing, thereby increasing the welfare of low-income households, the income-generating activity of those with home-based enterprises, and opportunities for upward income mobility. Increased access to housing finance could also instill greater motivation for financial savings by these income groups.

2. <u>**Expected Accomplishments of HG-003A**</u>

a) A greater share of housing loans by HFCs for families below medium income.

b) Increased access of institutional housing finance to low income families from informal sector.

Some of the actions by NHB which are expected to help in the expansion of below median income and informal sector borrowers are detailed in the policy matrix (annex B) as benchmarks. These include development of experimental lending programs for the target population which use Non Governmental Organizations (NGOs) as a channel for lending from HFCs to low income groups which do not have access to formal finance. A risk sharing mechanism and a set aside of HG resources may also be developed as potential incentives for increasing loans to this group. The purpose of the experimental programs will be to demonstrate that such lending can be carried out in a market environment and are viable. In case the feed back received on the experimental lending programs are positive, TA and training programs will be suitably modified to incorporate support for making the programs replicable.

3. HG Conditions

In order to encourage the growth of low income-oriented HFCs, a small portion of HG funds will be set aside to refinance loans made through the two model lending programs.

4. DA Grant Funded Activities

The companion grant of the HG-003A program will support technical assistance, training and studies for expanding the access of low income and informal sector families to formal housing finance. Grant funded studies will include, among others, the following activities:

- Development of non-traditional underwriting criteria for informal sector borrowers (potential model for a Group-Guarantee Housing Loan Program is attached in Annex J);

- Technical assistance in financial management for NGOs involved in the experimental lending; and

- Feasibility studies of incentive and risk sharing mechanisms for lending to low income families.

III. Technical Analyses

A. Institutional Framework

1. National Housing Bank (NHB).

NHB, established under the National Housing Bank Act of 1987, commenced operations in July 1988. It functions as an apex housing finance institution and is wholly owned by the Reserve Bank of India. A major component of the HG-003 program, authorized soon thereafter, was to provide support to NHB in helping to achieve its objectives.

NHB has the responsibility not only of promoting the expansion of a housing finance system, but also of serving as a key regulatory and supervisory agency for HFCs. NHB refinances housing loans of approved financial institutions, including commercial banks and HFCs. Furthermore, it is authorized to provide up to 20 percent of the equity capital in selected institutions. While some of the functions of NHB appear to be somewhat in conflict -- such as supervising an institution in which it holds an equity position -- the broad range of functions was deemed desirable (at least initially) to provide the necessary impetus for this newly-forming industry.

NHB was created at a point in time when the housing finance system was fairly primitive and had two clear characteristics: it was heavily dominated by governmental bodies, and it was delivering a low volume of housing finance. NHB is attempting to implement a new vision of the housing finance system in which the government acts as more of a facilitator of resource mobilization and less as a direct participant. Its view is that local development authorities should restrict themselves to the preparation and allocation of serviced sites, and that housing construction and finance should be left to the private sector, including households, employers, and developers.

At the same time, an innovative HFC -- the Housing Development Finance Corporation (HDFC) -- had been demonstrating for a decade what could be done by a market-oriented firm if it was given modest latitude to operate in the financial markets. A major part of NHB's mission is to foster the creation and growth of additional HFCs as a vehicle for expanding the availability of housing finance. Support of this mission is the heart of the USAID program.

Further details of NHB's financial resources and regulatory activities, including limits of the terms on HFC deposit accounts, guidelines for refinancing, and other programs, are contained in Annex C.

2. Housing Finance Companies (HFCs).

Some 300 firms have now registered as HFCs with the Registrar of Companies, although it is not clear how many are actually functioning. Of these, only 31 have been formally classified by NHB, and, of the 31, NHB has officially recognized 16 which are eligible for NHB refinancing. At present, two more HFCs are in the process of applying for NHB recognition. Based on current USAID equity-based definitions, two of the recognized firms are public sector enterprises, seven are joint sector firms and seven are private. Both firms applying for NHB recognition are joint sector firms.

One criterion for NHB recognition that has excluded many HFCs from NHB loan refinancing is the minimum capital requirement of Rs. 10 million, or $385,000. Nevertheless, the growth of the industry has been very rapid. Virtually all HFCs, with the exception of HDFC, were founded after 1984; only 30 HFCs existed in September 1988.

HFCs' share of formal sector housing finance amounted to 10.1 percent in 1987-88. Over the last three years, HFCs' housing finance volume increased by approximately 60 percent per year. In 1991, total loans sanctioned by nine of NHB's recognized HFCs totalled Rs. 12.6 billion ($485 million). Thus, even though housing investments by other formal-sector lenders grew significantly over the last three years, it is likely that the market share of HFCs has increased.

Several factors have contributed to the growth of this industry. HDFC's tremendous success in the field has inspired much emulation. HDFC earned an impressive 33 percent return on equity during fiscal year 1989-1990, and in the following year it sanctioned loans totaling Rs. 8.1 billion. The creation of NHB has also encouraged entrance to the field. Many potential investors viewed the NHB's founding as an indication that the GOI would increasingly target the housing finance sector and thus that the profitability of this sector would improve.

Several commercial banks have created HFC subsidiaries and more are under consideration. In addition, the two largest insurance companies, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC), felt that their direct lending programs for housing were becoming too large to be accommodated under their general corporate structures. LIC has launched an HFC and GIC is in the process. Many real estate developers have also entered the field as a means of providing financing to their customers.

Overall, HFC branch growth has been very rapid. NHB-recognized firms alone have increased their total number of branches from 51 in 1988-1989 to 136 in 1990-1991, an annual increase of 63 percent.

While HFCs initially establish offices in the largest cities, most branch expansion takes place in cities with populations below one million. Firms are moving into smaller cities because they encounter less competition there and housing is more affordable for prospective borrowers. HFCs are now present throughout the country, although there are still relatively few in the northern and eastern regions. Additional information on HFCs is provided in Annex C.

B. Women in Development

The HG-003A program expansion continues the goal of increasing access to below-median income households in India. HG-003A introduces a number of new efforts to increase access to formal-sector financial institutions by low-income groups living and working within the informal sector. Because women are over represented among the low-income, low-wealth, landless, informal-sector, and illiterate populations, achievement of the objectives of HG-003A has the potential of benefiting them more than their representation in the Indian population overall.

C. Other Donors

The Overseas Economic Cooperation Fund (OECF) of Japan has entered into an agreement with NHB to provide a 20-year loan in the Yen-equivalent of approximately $22 million to support NHB's refinance facilities under the same terms and conditions as USAID's HG program. The International Finance Cooperation (IFC), one of the original shareholders in HDFC, has recently committed an additional $100 million to HDFC in general furtherance of its objectives. A $40 million direct loan by IFC has already been disbursed. The additional $60 million will be syndicated by IFC with various international commercial banks under the IFC umbrella. Thus, there is complementarity between USAID's support of the development of a housing finance system and the activities of the other international donors involved in this sector. (See Annex G.)

D. Environmental Assessment

A.I.D.'s environmental review procedures aim to ensure that the environmental consequences of USAID-financed activities are identified and considered. They also aim to help developing countries better evaluate the environmental effects of proposed projects and introduce effective environmental programs. Environmental considerations were addressed in a June 1991 analysis by an urban environmental team (see Annex L). A categorical exclusion for this project was recommended, since it supports an intermediate credit institution (NHB) and since USAID does not reserve the right to review or approve individual loans made by NHB.

The recommendation was accompanied by several observations and suggestions of relevance to the HG-003A program. First, environmental problems associated with informal sector or slum (squatter) settlements are far more severe than those associated with the formal housing sector. Accordingly, to the extent the HG program assists in upgrading the quality of residential housing for low-income households, it reduces some of their most serious health hazards.

Within the formal housing sector, adequate environmental review is being carried out by the major institutions, although perhaps not by the newer and smaller HFCs. NHB is in a position to introduce training programs, technical assistance, public education efforts, and regulatory policies that would have the effect of better integrating an environmental awareness into lenders' investment and construction reviews, developers' construction designs and procedures, and consumers' home purchase decisions.

E. Debt Risk Assessment

Assessment by the Mission (August 1991) of India's debt servicing capability over the next three to five years concluded that India will continue to service its external debt, India's credit rating will improve in the near future, and that the current account deficit of India's balance of payments will improve within the next three to five years. Detailed Country Risk Assessment is provided in Annex O.

F. Program Management

A U.S. firm will be contracted to provide management support. This will include providing an on-site management coordinator with home office back-stopping and coordination of State-side activities.

Working with the designated representative of A.I.D. and the designated representative of NHB, the contractor will develop an Implementation Plan, to be approved by A.I.D. and NHB, for delivery of technical assistance and training. The Implementation Plan will be amended annually during the life of the contract to ensure that technical assistance and training are both current and appropriate. The contractor will meet as required with both A.I.D. and NHB and will provide a written quarterly status report in a form to be approved by A.I.D. and NHB.

The U.S. firm will be selected through competitive procedures and awarded an institutional contract. U.S. firms will be evaluated in part on their ability to draw from a wide variety of specialized experts in both India and U.S.

G. A.I.D. Management Resources

A RHUDO-funded Resident Advisor, supported by Mission funded FSN positions will be responsible for AID project management. The resident advisor will be A.I.D's designated representative for key contacts between USAID and NHB and will also be responsible for coordinating all program activities for both USAID and RHUDO.

The Resident Advisor will be responsible for integrating the HG loan activities with the DA funded technical assistance and training component to ensure cohesive program implementation.

RHUDO is responsible for program oversight of the HG loan. This will be accomplished through communications between RHUDO/Bangkok and USAID/New Delhi, including temporary duty assignments by RHUDO in India. In addition to funding the Resident Advisor, RHUDO will provide occasional nominal funding support as and when necessary to fund staff development and activities to carry out the program goals and objectives.

Management of the HG-003A expansion program will require considerable contact with NHB in Bombay in order to adequately evaluate the achievement of goals and objectives. Mission OE funds will be required to support travel for FSN staff in connection with program monitoring.

H. Monitoring Evaluation

Work is beginning under the current program (HG-003) on the system development and implementation of an integrated MIS which will, among other things, enable NHB to report to USAID in detail about HG-refinanced loans, the lending institution it refinances, and beneficiary households. This will greatly improve regular monitoring of the operations of HFCs and the HG program.

A system of small annual interim evaluations will be tied to each amendment of the Implementation Plan. These annual interim evaluations will, among other things: 1) measure progress in achieving policy objectives of the revised Program Implementation Agreement, both before and after disbursing HG loan proceeds; and 2) evaluate the effectiveness of technical assistance and training activities and recommend changes.

Gender-disaggregated data, which were not available at the outset of the HG-003A program, are now expected to be available. Accordingly, the interim evaluation will draw from these data (and analyses contained within DA grant funded studies) (1) to identify constraints to women's participation in all project activities and opportunities for enhancing women's participation; (2) to recommend strategies to overcome these constraints or to make use of these opportunities; and (3) to recommend benchmarks to measure progress in implementing these strategies.

A final evaluation will be conducted at the end of 1996. It will contain evaluations of NHB's supervision and domestic resource mobilization; HFC management and resource mobilization; and the achievements, difficulties, and lessons learned from the two model lending projects.

I. Cost Estimate and Financial Plan

The program involves several distinct activities to be financed by different mechanisms over the five year life of the program. The financial plan as described in the Project Paper for HG-003 remains the same except as listed below.

1. Financial Analysis

A.I.D. will guaranty a HG loan to be disbursed in several tranches totalling U.S. $50 million over the five year life of the program. NHB will mobilize refinancing resources equal to the rupee equivalent of approximately U.S. $35 million. Individual households that borrow from HFCs will contribute their own funds as downpayments for acquiring or improving their homes. Assuming that HFCs achieve an average loan to value ratio of 70 percent, then the matching household contribution will be the rupee equivalent of approximately U.S. $15 million.

A total of U.S. $4.3 million of A.I.D. grant funds over five years will be used to fund program management support, technical assistance, training in both the U.S. and in India, interim and final program evaluations, and non-federal audits. NHB will contribute a minimum in-kind rupee equivalent of U.S. $1.5 million over five years for annual costs of administering the program.

Table H-1 provides project summary cost estimates, and Table H-2 provides details on expenditures by fiscal year.

Program management support by a U.S. firm under the terms of an institutional contract is estimated to be $900,000 over five years.

TABLE H-1
ILLUSTRATIVE SUMMARY COST ESTIMATE ($000)

	A.I.D.				
	FX	LC	TOTAL	H.C.	TOTAL
CAPITAL RESOURCES					
HG loan	50000	0	50000	0	50000
NHB Matching Refinance Resources and Individual Borrower' Downpayments	0	0	0	50000	50000
TOTAL CAPITAL RESOURCES	50000	0	50000	50000	100000
ILLUSTRATIVE SUMMARY OF DA FUNDED PROJECT BUDGET BY INPUT ELEMENTS					
Technical Assistance	1546	384	1930	0	1930
U.S. Training	1070	0	1070	0	1070
In-country Training	140	400	540	0	540
Evaluations, non-federal audits and other payment verifications.	200	50	250	0	250
Contingencies	152	38	190	0	190
Inflation	256	64	320	0	320
TOTAL FOR ILLUSTRATIVE SUMMARY OF DA FUNDED PROJECT BUDGET BY INPUT ELEMENTS	3364	936	4300	0	4300
NHB MATCHING FUNDS FOR RECURRENT OPERATING COSTS	0	0	0	1500	1500
TOTAL FOR ALL FUNDS	53364	936	54300	51500	105800

TABLE H-2

PROJECTION OF EXPENDITURES BY FISCAL YEAR ($000)

	FY '92		FY '93		FY '94		FY '95		FY '96		TOTAL		TOTAL
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	BOTH
A.I.D. EXPENDITURES													
HG Loan	0	0	12500	0	12500	0	12500	0	12500	0	50000	0	50000
Technical Assistance	197	48	384	96	384	96	384	96	197	48	1546	384	1930
U.S. Training	140	0	265	0	265	0	265	0	135	0	1070	0	1070
In-country Training	17	50	35	100	35	100	35	100	18	50	140	400	540
Evaluations	0	0	40	10	40	10	40	10	80	20	200	50	250
Total at Current Costs	354	98	724	206	724	206	724	206	430	118	2956	834	3790
Contingency	19	4	38	10	38	10	38	10	19	4	152	38	190
Inflation	32	8	64	16	64	16	64	16	32	8	256	64	320
Total for AID Grant Funds	405	110	826	232	826	232	826	232	481	130	3364	936	4300
Total for all AID Funds	405	110	13326	232	13326	232	13326	232	12981	130	53364	936	54300
HOST COUNTRY EXPENDITURES													
Recurrent Operating Cost	0	225	0	350	0	350	0	350		225	0	1500	1500
Matching Refinance and Downpayments	0	0	0	12500	0	12500	0	12500		12500	0	50000	50000
Total for Host Country Expenditures for HG Component	0	225	0	12850	0	12850	0	12850		12725	0	51500	51500
TOTAL FOR ALL EXPENDITURES	405	335	13326	13082	13326	13082	13326	13082	12981	12855	53364	52436	105800

Training in the U.S. is estimated at $1,070,000. Over five years this should provide funding for training approximately 107 participants. Training in India is estimated at $540,000. Over five years, an estimated 540 participants will be trained in various aspects of housing finance.

The technical assistance component is estimated at $ 1,930,000 over five years. This will fund research and analysis by short-term U.S. experts and local consultants. The U.S.training, the in-country training and the technical assistance estimates include the cost of program management support services.

Five evaluations are planned over the five year life of project and non-federal audits and payment verifications will be performed as required. Contingencies and inflation have provided for in the Summary Budget (Ref. Table H-1) @5% and 8% respectively.

2. Recurrent Cost Analysis

The host country's contribution of $1.5 million (matching contribution for the DA grant program) will be provided by NHB and the HFCs. This accounts for 25.86 percent of project cost. Thus the stipulation of Section 110 of the FAA that the host country must contribute"... at least 25 percent of the costs of the entire program, project or activity..." has been complied within so far as the costs relate to the program to be implemented by the NHB.

Recurrent costs are defined as the operating expenditures needed to carry out the project activities. The recurrent costs envisaged under this project include the cost of training center charges, salary payments of staff directly/indirectly associated with the implementation of the Project; the costs of office space to be provided by NHB and HFCs to carry out identified activities; and the costs of domestic travel of faculties participating in the seminars, workshops, outreach programs and training courses conducted within India. Because NHB is an autonomous institution, it does not have to seek approval/assistance from any agency of the GOI in planning for its recurring costs.

Because NHB already has a cell which manages its HG related programs, the recurring costs associated with this project will be provided from the budgets of that cell. NHB will also provide floor space and other infrastructural support within its office premises to the staff assigned to manage this project and to related consultants.

2.1 Audit

NHB is a financial institution incorporated by an act of the Indian Parliament. It is statutorily required to maintain various books and reports. Also, NHB is required to have its books of account audited each year by a Chartered Accountant (Indian equivalent of a CPA). A.I.D. will have access to all NHB records of operations pertaining to the project.

2.2 The Project agreement will contain the standard provisions allowing A.I.D. reasonable access to project records and accounts. In addition, A.I.D. may directly contract for non-federal audits during the course of the Project. The budget for evaluation includes provision for local payment verfication services and audits.

2.3 Disbursement procedures

The amount under DA grant funds for TA and Training will be contracted by A.I.D. to a U.S. institutional contractor who will manage the different elements of the Project such as: procurement of technical assistance, training in U.S. and elsewhere including India, commissioning of studies. Payment under these procurement actions will be made directly by A.I.D. to the institutional contractor and charged to the Project.

3. Demand for HG Refinancing

The interim evaluation estimated that demand for HG refinancing would exceed $50 million over a three-year period, even under very conservative assumptions (see Annex C-9). This conclusion, however, should be supplemented by several other considerations. Chief among these is the likelihood that the current criterion for HG-eligible housing loans (loans that are less than Rs. 55,000 and therefore affordable to below-median-income households) may be changed to a requirement that the loans are actually made to below-median income households.

Based on information provided in the IE, it is possible to make a rough estimate of the portion of the 1990-91 volume of loans that were made by eight recognized HFCs to below-median-income households. Even under a very conservative assumption of no growth in the volume of lending to below-median-income households since 1991 (and assuming a per-institution cap of 25 percent), the total volume of HG-eligible loans over the four-year period would be Rs. 1,394 million, or $54 million.

Additional factors that would considerably raise this estimate include the additional volume of low-income lending by all other recognized HFCs (but excluding those that are dependent on funds from public-sector parent companies); the expected increase in the number of recognized, HG-eligible HFCs over the next four years; the possibility that USAID will confer HG-eligibility to market-oriented housing institutions other than HFCs; and reasonable rates of growth of lending to below-median-income households over the next five years.

However, other factors that could significantly offset this increase in the estimate of HG demand are restrictions to HG eligibility that are proposed as part of the HG-003A program expansion. One proposal restricts HG-eligibility to those HFCs that have no ready access to significant amounts of funds from public-sector parent companies or affiliates.

On net, effective demand for HG refinancing is likely to exceed $50 million over the course of the HG-003A expansion program. The exact level will depend greatly on the continued pace of expansion of the housing finance sector, as well as on the precise conditions that are determined for HG eligibility during the HG-003A program expansion.

J. Implementation Schedule

Authorization of the HG-003A program expansion is expected to occur by September 30, 1991. Disbursement is expected to occur for the first HG-003A tranche by early 1993. Upto four tranches are expected to be disbursed over the life of the project. The HG-003A program expansion is expected to be completed by September 1996.

The DA grant is expected to be obligated during the first quarter of FY'92 and to be available for funding during the second quarter of FY'92.

Details of the proposed Implementation are as follows:

Negotiations with NHB on amending the HG Program Implementation Agreement, and entering into a new Program Agreement for DA assistance completed	By 31 December 1991
Contracting for the U.S. firm to provide management support services completed	By 31 March 1992
Second HG-003 loan tranche disbursement completed	By 30 June 1992
Commence activities under the program management support contract	By 30 June 1992
Implementation Plan approved by A.I.D. and NHB	By 30 September 1992

First Annual Interim Evaluation completed	By 31 March 1993
First HG loan tranche disbursement completed	By 30 June 1993
First Amendment to Implementation Plan approved	By 30 June 1993
Design of Model lending programs completed	By 30 September 1993
Second Annual Interim Evaluation completed	By 31 March 1994
Second HG loan tranche disbursement completed	By 30 June 1994
Second Amendment to Implementation Plan approved	By 30 June 1994
Third Annual Interim Evaluation completed	By 31 March 1995
Third HG Loan tranche disbursement completed	By 30 June 1995
Third Amendment to Implementation Plan approved	By 30 June 1995
Fourth Annual Interim Evaluation completed	By 31 March 1996
Fourth HG Loan tranche disbursement completed	By 30 June 1996
Final Evaluation completed	By 30 September 1996
PACD	30 September 1996

HOUSING FINANCE SYSTEM PROGRAM EXPANSION

PROJECT DESIGN SUMMARY LOGICAL FRAMEWORK

NARRATIVE SUMMARY	*VERIFIABLE INDICATORS*	*MEANS OF VERIFICATION*	*IMPORTANT ASSUMPTIONS*
Program & Sector Goal:	**Measures of Goal Achievement:**		**Assumptions for achieving goal targets:**
Sector Goal: To improve housing conditions of low-income households. Project Goal: To increase the availability of formal housing finance to low income households nationwide.	Increase in the amount of funds lent for housing by the formal private sector. Increased borrowing by low-income households.	Special finance sector studies. Project records.	That increased availability of formal housing finance will result in increased borrowing by low-income households. That increased borrowing will improve the housing conditions of low income households.

Project Purpose:	Conditions that indicate purpose has been achieved: End of Project Status		Assumptions for achieving purpose:
To promote the development of a financially-sound, market-oriented housing finance system which makes long-term shelter finance available to a wide range of households—including those below the median income.	1) loan volume for HFCs increases by 20% per year; 2) loan volume for below median income borrowers, as a percentage of total loan volume, increases by 10% to 15% per year; 3) Number of recognized HFCs doubles over life of program; 4) Volume of loans to below median income households doubles over life of program; 5) loan volume of HDFC, as a percentage of total loan volume for all HFCs, declines by 15% per year.	Monitoring of number and distribution of commercial HFCs and their branches; studies of financial structure, soundness; market shares; loan collection rates; terms of loans and types of facilities; volume of lending to low income households; etc.	That the formal financial sector will permit new HFCs to operate in a financially sound manner. That sufficient demand exists in the target population to support system expansion.

Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
1) Increased resources derived from household savings, as a share of HFCs' total resources; 2) Increased resources derived from market-oriented sources, as a share of NHB's and HFCs' total resources; 3) Access by HFCs to a newly evolving secondary mortgage market; 4) Increased number of recognized HFCs; 5) Expanded training available to HFCs; 6) Increased market-oriented lending by other Housing Finance Institutions; 7) Improved housing finance system supervision by NHB; 8) Support for initiating a housing finance trade association; 9) Increased share of HFC loans to low-income households; 10) Increased access by informal sector families to formal sector housing finance institutions.	1) HFC household savings as percentage of total resources; 2) NHB & HFCs market-oriented resources as percentage of total; 3) Number of key pre-conditions for secondary market development; 4) NHB doubles recognized HFCs, HFC branch offices increased; 5) Ongoing fee-based training modules established, recognized HFCs trained; 6) Co-op housing lenders included or excluded as HG eligible sub-borrowers; 7) MIS reports on recognized HFCs, NHB supervision extended to classified HFCs; 8) Trade association formed; 9) Number and volume of HFC loans for low-income borrowers, as a share of total lending; 10) Number of informal sector households with loans from formal sector housing finance institutions.	For indicators 1, 4, and 9) Monitoring NHB's reporting generated from its MIS; 2) An examination of NHB financial records and audited annual reports; for indicators 3, 5, 6, 7 and 8) Monitoring program implementation activities and evaluations; 10) Evaluation of model low-income lending programs.	1) Growth of housing finance system will be sustained by: HFCs' attracting more household savings; NHB's increasing access to market-oriented resources; initiation of secondary mortgage market. 2) Number of market-oriented housing finance institutions will be expanded by: NHB's improved supervision, established capacity for sustained housing finance training; determine HG eligibility for housing co-op lenders; develop trade association. 3) Supply of housing finance to low-income households will expand by increasing access of low-income borrowers to loans from HFCs;access of informal sector families to formal sector housing finance institutions.

Inputs	**Implementation Target (Type and Quantity)**		**Assumptions for providing inputs:**
1) HG loan funds; 2) NHB resource mobilization and borrower down payments; 3) DA grant funds for management support, TA and training, and evaluations; 4) NHB funding for program administration.	1) $50 million in additional housing guaranty authority, with disbursements over 5 years beginning in FY '92; 2) $35 million in additional resources mobilized by NHB and $15 million in borrower down payments; 3) $4.3 million in grant funding over 5 years to fund management support, technical assistance, U.S. and in-country training, and evaluations; 4) Minimum of $1.5 Million for NHB administration costs.	For all indicators, project records and evaluations	1) That NHB assigns adequate staff and other resources; 2) that necessary agreements are concluded between A.I.D. and NHB, and between NHB and HFCs; 3) that the number of HFCs recognized by NHB will continue to increase.

PROPOSED POLICY MATRIX

STRATEGIC OBJECTIVES - POLICY AGENDA	BENCHMARKS	TA, TRAINING, STUDIES/GRANT FUNDED
I. INCREASED RESOURCES FOR THE HOUSING SECTOR		
A. Increase household deposits in HFCs	HFCs derive an increasing share of their total resources from household deposits; (e.g: this share increase by 5-7 percentage points each year relative to the baseline established as of January 1992, to be negotiated).	1. Develop tools for HFCs to tap the savings market potential of branch offices.
	NHB demonstrates progress on discussions with RBI on the 24-month minimum maturity on HFC household savings deposits, if it is shown that this significantly affects the competitiveness of HFCs (see grant funded study).	2. Develop marketing strategies and tools for HFCs to mobilize household savings.
	NHB initiates discussion with RBI on relaxation of interest rate ceilings on household deposits.	3. Carry out study on the demand for the HLA scheme and recommend ways to increase its effectiveness and reduce its impact on the liabilities of NHB.
	NHB relaxes restrictions on advertising for recognized HFCs.	4. Carry out a study on the factors affecting demand for different types of national institutions, e.g. postal saving scheme, commercial banks, mutual funds, etc.
	NHB permits access of more recognized HFCs to offer the HLA scheme, if it is shown that HLAs are an appropriate funding mechanism. (See grant funded studies.)	
	All studies, TA and training of household savings supply and HFC marketing methods evaluate data disaggregated by level of household income, houshold composition, and gender of borrower.	

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STRATEGIC OBJECTIVES - POLICY AGENDA	BENCHMARKS	TA, TRAINING, STUDIES/GRANT FUNDED
B. Facilitate development of secondary mortgage market.	Some key preconditions to the development of a secondary mortgage market are fulfilled in order to increase the future likelihood of HFC's access to domestic wholesale funds.	1. Carry out studies on growth potential of mortgage backed securities. 2. Develop strategies to facilitate secondary mortgage market transactions.
C. Increase market-derived domestic resources for NHB's refinancing program.	NHB increases its share of resources for refinancing generated from: - market debentures (vs. Government bonds); and - mutual funds/pension funds, - mortgage backed securities. NHB increases the total share of its resources obtained from domestic, market-oriented sources (by e.g. 10 percentage points per year: to be negotiated).	1. Carry out analysis of the feasibility of the mutual-fund and pension-funds models for raising resources for NHB. 2. Prepare a case study of the experience of HDFC with mortgage-backed securities— and implications for its future use by NHB. Carry out a study of demand for such securities. 3. Carry out a study on standardization of mortgage instruments for mortgage-backed securities. Estimate the impact of alternative mortgage standards on the volume of standardized mortgages, dis-aggregated by level of household composi-tion, and gender of borrower. 4. Carry out a study analyzing the relationship between HFC's costs of funds and their current mortgage interest rate schedule. 5. Analyze the feasibility of using debentures for raising resources for the housing sector.

STRATEGIC OBJECTIVES - POLICY AGENDA	BENCHMARKS	TA, TRAINING, STUDIES/GRANT FUNDED
D. Ensure the availability of sufficient resources to meet NHB's refinancing needs.	As part of the Master Program Implementation Plan (MPIP), NHB provides a plan for generating sufficient resources to meet current and projected obligations through 1995 with particular attention to schemes like HLAs. This will be updated regularly. NHB determines if there should be cap on refinancing, and whether the refinancing instrument can be used to encourage the mobilization of other kinds of resources, e.g., after the first three crores of refinancing provide refinancing on a 1 to 1 basis with increases in household deposits.	1. Analysis of NHB's refinancing program.

STRATEGIC OBJECTIVES - POLICY AGENDA	BENCHMARKS	TA, TRAINING, STUDIES/GRANT FUNDED
II. EXPANSION OF MARKET ORIENTED FINANCE INSTITUTIONS		
A. Develop the local technical assistance and training capacity to support an expanded private housing finance system.	Operations of 300 registered companies are reviewed and help provided to viable ones; 40 companies reorganized over 3 years (Baseline:Jan.'92). NHB Develops training modules over one year (see grant-funded activities) Training provided to 40 recognized HFCs. NHB provides support to initiatives taken by HFCs to form a Trade Association.	1. Develop fee based training modules, with appropriate training initiations, for training in India in: (a) the role of Board of Directors in HFC development, (b)fiscal accountability, (c) developing a marketing facility for savings and lending services, (d) opening branches and managing branch services, (e) developing and using MIS systems, (f) developing a capital base and diversifying the loan portfolio, and (g) developing a customer-service orientation. 2. Provide information and technical assistance for establishment of a HFC Trade Association.
B. Consider refinancing to additional private sector institutions.	Determine if housing cooperatives should be considered eligible for HG funding.	1. Review NHB's criteria for providing refinancing to housing finance cooperatives, cooperative banks and private commercial banks. 2. Develop criteria for identifying financially viable cooperative institutions. 3. Study on how cooperatives reach low-income households and women. Provide criteria for any that should be considered eligible for HG refinancing.

STRATEGIC OBJECTIVES - POLICY AGENDA	BENCHMARKS	TA, TRAINING, STUDIES/GRANT FUNDED
C. Support policy changes which will strengthen private housing finance institutions.	Progress made on adopting legislation by the NHB to streamline foreclosure procedures.	
	NHB obtains powers to close HFCs in cases of near insolvency.	
	Progress made by NHB on request to RBI for giving NHB/HFCs some latitude in setting interest rates on loans.	

STRATEGIC OBJECTIVES - POLICY AGENDA	BENCHMARKS	TA, TRAINING, STUDIES/GRANT FUNDED
III. EXPAND THE SUPPLY OF HOUSING FINANCE FOR LOW INCOME FAMILIES		
A. Develop the information on savings and lending models that will allow formal-sector financial institutions to reach informal-sector households.	Carry out two experimental lending programs for low-income, informal-sector households. HFCs increase percentage (to be negotiated) of borrowers below median income. (baseline - Jan. 1992)	1. Develop alternatives to traditional underwriting criteria (e.g. using group loan guarantee models). Estimate the impact of alternative underwriting criteria on effective demand for housing loans, disaggregated by household income level and composition and by gender of individual. 2. Identify NGOs which could act as intermediaries between HFCs and low-income, informal sector household in obtaining household loans. 3. Design and implement a paper-based MIS for NGOs. At regular intervals, analyze the data describing the lending programs, socio-economic and demographic characteristics of beneficiaries, size and terms on their housing loans, and repayment records. 4. Identify HFCs willing to participate in experimental lending programs. 5. Develop the institutional arrangements for NGO-HFC model lending programs. 6. Analyze the feasibility to using a HLA scheme for low-income, informal-sector households.

STRATEGIC OBJECTIVES - POLICY AGENDA	BENCHMARKS	TA, TRAINING, STUDIES/GRANT FUNDED
B. Develop incentives to encourage HFCs to lend to low-income, informal-sector groups.	NHB consideras establishing a small guaranty fund (e.g. $500,000) to cover the first 10% losses on loans made to low-income, informal-sector households (see grant-funded activities.) USAID establisnes a set-aside of a small portion (e.g. approx. 10% to be negotiated) of HG funds to refinance eligible loans made to low-income, informal-sector households.	1. Carry out a feasibility study on the potential value of developig a guaranty fund to support lending to low-income, informal-sector households. Estimate expected claims on the fund by household income level and composition, and by gender of individual. 2. Evaluate the pros and cons of NHB establishing a guaranty fund to support the experimental lending programs.

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ANNEX C

Updated Institutional Analysis

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* Attached in this Package
** Not attached here but available in the PPS file.

Annex C

Updated Institutional Analysis: Overview

A significant proportion of all financial transactions continues to take place outside the formal financial system. In the case of housing finance, for example, less than 20 per cent of new housing units are financed by the formal housing finance system.

The formal sector includes budgetary allocations of the central and state governments, financial institutions such as the Life Insurance Corporation (LIC), the General Insurance Corporation (GIC), the Unit Trust of India (UTI), commercial banks and provident funds and the public sector housing finance institutions, Housing and Urban Development Corporation Limited (HUDCO), and the National Housing Bank.

Many of the specialized housing finance institutions up until recently have been heavily dependent on general financial institutions for financial resources, either by way of loans or by way of subscriptions to their debentures and bonds. More recently, they have been able to obtain refinancing from NHB. LIC and scheduled commercial banks either channel their funds directly to individual beneficiaries and or to the specialized housing finance institutions.

LIC is obliged to invest one-fourth of the net accretion to its controlled funds in socially oriented schemes - housing, electricity, water supply, sewerage and road transport. This it does by extending loans to primary and apex cooperative housing finance societies and to state governments. LIC is the principal source of finance for housing cooperatives. UTI and GIC route their finances exclusively through intermediaries, principally HUDCO. Provident funds, on the other hand, deal directly with beneficiaries.

In 1987-1988, the last year for which complete figures for the system are available, total formal sector housing investment totaled Rs. 116.3 billion. The formal housing finance system provided approximately 22 percent of this or Rs. 25.3 billion. As table C-1 indicates, the GOI, provident funds and insurance companies were the largest contributors to this market. HFC loans accounted for only 10 percent of total housing finance, but have since grown significantly.

Other Institutions

Commercial Banks. The Reserve Bank of India (RBI) has been making annual credit directives to the commercial banks for lending to the housing sector. The allocation has increased from Rs.1.5 billion in 1987 to Rs.2.25 billion in 1988. For the year April, 1989 - March 1990, the banks were asked to lend 1.5 percent of their incremental deposits, that is,

Table C-1

Share of Total Housing Finance by Sector

Sector	Share of Total (Percent)
State and Central Governments	21.1%
HUDCO	17.4
LIC and GIC	14.9
Cooperatives	12.9
Provident Funds	12.6
HFCs	10.1
Banks	9.4
Unit Trust of India	1.6

Source: Munjee (1991)

about Rs. 3.6 billion, with increasing emphasis on direct lending to beneficiaries. As bank deposits have in the recent past grown at the rate of 17 percent per annum, banks will continue to have a major role to play in the housing finance system unless the system of directed credits changes.

The lending norms for housing loans by banks have also been revised in consultation with the NHB. Under the revised norms, effective November 1988, margins have been reduced; interest rates on loans in the ranges of Rs. 5,000 to Rs. 20,000 and Rs. 50,000 to Rs. 100,000 reduced; the period of repayment extended from 10 to 15 years; and banks have been given the discretion to fix the installments on a graduated basis. Where mortgage of property or government guarantee is not available, banks have been permitted to accept other forms of security. Bank credit can now be extended for additions, repairs and alterations. Banks have also been asked to lend to public agencies for acquisition and development of land and to private builders for construction. More recently the banks have been setting up subsidiary housing finance companies and one of them, CanFin is the most active HFC next to HDFC.

HUDCO. The Housing and Urban Development Corporation, Ltd. (HUDCO), set up as a wholly-owned company of the GOI in 1970, raises resources by way of debentures or bonds, subscriptions to which are made by LIC, GIC and scheduled commercial banks by virtue of these being guaranteed by GOI. HUDCO finances State housing boards, development authorities etc. The thrust of housing finance of HUDCO is towards the lowest income groups. Fifty-five percent of HUDCO's funds are meant for the lowest categories. In terms of dwelling units, 90 percent benefit the lowest two groups.

HUDCO has co-financed with the World Bank urban development projects in Madhya Pradesh and Tamil Nadu. Further, it has secured assistance from German aid for low-income housing. Besides financing housing loans, the corporation renders technical services such as area planning, physical and social infrastructure planning, layout and architectural planning etc. It also supports project management, conservation, supply of building materials and research and training in all areas relevant to human settlements. HUDCO's annual disbursement has reached the order of Rs. 4.3 billion.

Cooperative financial institutions. A large number of financial institutions in India are cooperatively owned. The most important institutions in connection with housing finance are the systems of cooperative banks and cooperative housing finance societies. Each cooperative system is organized in a pyramid structure, with institutions at the national, state, district, and primary level. The region in their title refers only to the geographic region within which they operate, and not to ownership. Cooperatives are not government-owned institutions; rather the cooperatives at each level are owned by the cooperatives at the next level below; primary cooperatives have individuals as members.

NHB finances cooperatives at the state level. It deems institutions at various levels as "scheduled" if they meet certain minimal criteria.[2] All scheduled cooperatives are eligible for direct refinancing from NHB; in addition, unscheduled primary cooperatives can obtain indirect refinancing if their state apex cooperative is scheduled. Despite the lax criteria, only 14 of the 28 State Cooperative Banks and only 14 of the 1,400 primary cooperatives are scheduled. The criteria for housing loans made through the 25 state housing cooperative societies and 44,000 primary cooperative housing societies are even looser,[3] but information on the number of scheduled organizations is not readily available.

Each state has a State Cooperative Land Development Bank (formerly known as an Agricultural and Rural Development Bank). Lately, the agricultural finance focus of these organizations has been widened to include rural housing finance. Land development banks plan to mobilize sources of funds through issuance of mortgage-backed Special Rural Housing Debentures (SRHDs), which are guaranteed by the state government in terms of repayment of principal and payment of interest. Criteria for scheduling these institutions is also loose, and information on the number that are scheduled is not readily available.[4]

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[2] Refinancing is available to state cooperative banks that have housing loan recovery performance of at least 85 percent of the total volume of themselves and their urban primary cooperatives (however with regard to their total loan performance, recovery must exceed only 40 percent of the total loan volume and 80 percent of the total state and primary loan volume). Scheduled primary cooperatives can be refinanced directly if they meet the 85 percent recovery rate on housing loans and 80 percent on all loans. (Source: NHB Bombay)

[3] Scheduled cooperative housing finance societies' primary cooperative members must not exceed 25 percent of loan volume over the last three years.

[4] Scheduled State Cooperative Land Development Banks must have a recovery performance of at least 65 percent of overall lending during the immediately preceding year.

The National Housing Bank

Overview. The NHB, established under the National Housing Bank Act of 1987, commenced operations in July 1988. It functions as an apex housing finance institution and is wholly owned by the Reserve Bank of India (RBI). At the time HG-003 was authorized, NHB had just been formed. Support to the NHB to help achieve its objectives was a major component of the HG-003 program.

NHB is the principal agency that promotes the expansion of a market-oriented housing finance system. In this context it is also the regulatory and supervisory institution for housing finance companies, it will raise its own resources and it will provide refinancing for specific programs to approved institutions. It will also be able to provide up to 20 percent of the equity capital in selected institutions. While some of these functions may appear to be somewhat in conflict -- for example, supervising institution in which it holds an equity, the broad range of functions is deemed necessary, at least initially, to provide the necessary impetus to get this newly-forming industry off the ground.

As an apex institution, NHB does not lend directly to households or developers, but rather operates through existing financial institutions, including commercial banks and specialized housing finance companies (HFCs).

Consistent with the GOI's shift in approach to the housing sector embodied in the Eighth Five-Year Plan (1990-1995) (the actual start of the Plan has been delayed due to interim governments), the NHB is trying to implement a new vision of the housing finance system. NHB envisions the government acting as more of a facilitator of resource mobilization and less of a direct participant. Its view is that local development authorities should restrict themselves to the preparation and allocation of serviced sites. Construction and financing of housing should be left to the more efficient practices of the private sector, including households, employers, and developers.

The National Housing Bank was created at a point in time when the housing finance system was fairly primitive and had two clear characteristics: it was heavily dominated by government bodies, and it was delivering a low volume of financing for home purchase and much less for housing development by the private sector. However, at the same time, an innovative private housing finance company -- the Housing Development Finance Corporation (HDFC) -- had been demonstrating for a decade what could be done by a private firm if it was given modest latitude to operate in the financial markets. A major part of NHB's mission is to foster the creation and growth of additional HFCs as a vehicle for expanding the availability of housing finance and support of this mission is the heart of the USAID program.

As of June 1, 1989 the regulatory powers concerning HFCs were transferred from RBI to NHB. In this connection NHB issued formal directions effective June 26, 1989. The directions encompass deposit acceptance activities of HFCs that are registered with the

Registrar of Companies as companies whose primary business is the provision of finance for housing. Of major importance is setting the maximum rate of interest that can be paid by HFCs for deposit and the minimum and maximum term of the deposit. (See Annex C-2). Currently the maximum rate of interest that can be paid for deposits is 14 percent and the term must normally be more than 24 months up to a maximum of 84 months. Lending rates on housing loans are actually set by the RBI and which, therefore, affect the refinancing programs of NHB described below. Current lending rates are listed in table C-2.

Table C-2

Schedule of Permissible Interest Rates on Housing Loans

Amount of loan	Rate of Interest (%)*
Up to and including Rs.7,500	10%
Rs. 7,501 to Rs. 15,000	11.5
Rs. 15,001 to Rs. 25,000	12
Rs. 25,001 to Rs. 50,000	14
Rs. 50,001 to Rs. 200,000	15
Rs. 200,001 and over	16

Note: The rate of interest will be related to the full amount of loan and is not on slab basis, i.e., different interest rates no not apply to separate components of a loan.

NHB has two offices, one located in New Delhi and the other in Bombay. The New Delhi office handles policy and developmental activities and the Bombay office deals with the financial operations and regulatory work relating to housing finance institutions. NHB is thus a wholly-owned subsidiary of the RBI, which has assumed its regulatory and supervisory functions from RBI, and has obtained many of its staff member from RBI.

NHB's lending programs. NHB's lending programs take the form of refinancing a specified set of programs to eligible institutions. The primary lending institutions eligible for refinance from NHB are: Scheduled commercial banks; Scheduled State co-operative banks; Scheduled urban co-operative banks; State level apex co-operative housing finance societies; and HFCs.

To pursue its programs NHB has issued guidelines for (i) the promotion of HFCs, (ii) finance of land development and shelter projects (which can be undertaken by public agencies, co-operative societies and professional developers), (iii) financing rental housing projects to be undertaken by employers in the organized sector for low-income employees, and (iv) supporting building material projects through equity investments. Summaries of these programs are contained in Annex C-3. However, the USAID program is focused on the promotion of HFCs and the financing of residential housing particularly aimed at low-income borrowers. Housing built in connection with projects financed under the land development and shelter program could be eligible for other USAID financing.

NHB's standard refinancing program currently entails 100 percent refinancing of direct loans up to Rs. 100,000 made for the acquisition of construction of new housing units with a built-up area of 40 square meters or where the cost of the unit, excluding land, does not exceed Rs. 200,000. (loans eligible for disbursement against the HG Program have been until now all those up to Rs.50,000, a proxy for those loans affordable to median-income households). In addition to new construction, NHB will refinance loans up to Rs. 30,000 for upgrading and major repairs, irrespective of the house size.

NHB's interest rates on refinance currently range between 8 and 14 percent. Borrowers are charged between 10 to 15 percent; the latter being governed by the RBI directions (see table C-3). Thus, the spread between interest rates on refinance and those on retail loans is 2 percent for housing loans [illegible] Rs. 25,000, 1.5 percent for housing loans between Rs. 25,001 and 50,000 and 1 percent for [illegible] loans above Rs. 50,000. NHB has also extended its refinance window to HFCs for financing various land development and shelter project schemes, described in more detail in Annex C-3.

Table C-3

Interest Rates on NHB Refinancing

	Rate of Interest (percent per annum)	
	To borrowers	Refinancing by NHB
Up to Rs. 7,500	10%	8%
Rs. 7,501 to Rs. 15,000	11.5	9.5
Rs. 15,001 to Rs. 25,000	12	10
Rs. 25,001 to Rs. 50,000	14	12.5
Rs. 50,001 to Rs. 200,000	15	14

Finally, NHB will fully guarantee refinancing of loans made under a contractual savings program known as the Home Loan Account (HLA) Scheme, offered by commercial banks and approved HFCs. HLA is a loan-linked scheme for a three- or five-year period paying 10 percent interest compounded annually to the participants. Housing loans are available up to some multiple of savings, as shown in table C-4. Note that the interest rates on these loans are somewhat below those charged on standard loans.

Although NHB describes this program as a scheme by which NHB will mobilize a significant portion of its funds from household savings, in fact, HLA generates a net future claim on its resources and thus represents another program against which it provides refinancing. An eligible institution that offers HLA accounts has use of the funds during the contract period. At the time of maturity, participants apply the funds in the account toward a down payment. The

HFC will make the loan and seek NHB refinancing. (See Annex C-4 for a more detailed description of the HLA.)

Table C-4

Description of Home Loan Account Scheme

Loan as a Multiple of Accumulated Savings	Amount of Loan (Rs.)	Rate of Interest (per annum)
4 times	up to 50,000	10.5%
3 times	50,001 to 100,000	12.0
2 times	100,001 to 200,000	13.5
1.5 times	200,001 and above	14.5

NHB's resources. NHB's authorized share capital is Rs. 5 billion ($192 million), of which Rs. 2 billion ($ 77 million) is paid up. NHB can raise resources in addition to its capital by issuing bonds and debentures and borrowing from RBI, its parent; central government-approved institutions; and external agencies. From RBI, NHB can obtain both short-term funds not exceeding 18 months, and long-term loans from the National Housing Credit Long Term Operation Fund. Externally, NHB is receiving funds through the HG Program and the Japanese OECF (see Annex C-5). Table C-5 indicates sources of funds for the nine-month period from July 1, 1990 through March 31, 1991.

Table C-5

Synopsis of NHB's Sources of Incremental Funds
July 1990 - March 1991

Source	Interest Rate (annual)	Amount (Crores)	Percent of Total
Capital (RBI)	-	50.	12.8
Profit	-	21.6	5.5
Borrowings :			
RBI-Long term Operating fund	6.0	50.0	12.8
GOI-guaranteed bonds	11.5	50.0	12.8
Capital gains bonds	9.0	43.2	11.1
LIC	12.0	171.0	43.7
Miscellaneous	*	4.8	1.0
Total		390.6	99.7

* interest rate not known.

Note: This listing does not include the Japanese loan or the first $25 million HG-003 loan.

One of NHB's major sources of funds in the future is expected to be through the issuance of capital gains bonds. These are three year 9 percent bonds which offer tax exemption to holders on capital gains accruing from the sale of long-term capital assets. A description of the program is contained in Annex C-6.

NHB's operations to date. To put some perspective on NHB's operations to date, it is useful to look at its refinancing data which is available for the period through March 8, 1991 Up to that date, NHB had refinanced loans totalling Rs. 3,237 million ($125 million) for 147,475 units. Of this, Rs.1,704 million ($66 million) was refinancing for HFCs (excluding loans handled by HFCs but originated by HUDCO). This amounts to some 52 percent of total NHB refinancing. By comparison, commercial banks availed themselves of NHB refinancing for less than one percent of individual unit loans (although banks did finance Rs. 148 million in land development and shelter projects for public agencies).

Of all individual housing loans (excluding loans by HUDCO) 68 percent were for loans below Rs. 50,000. In addition, NHB refinanced some 7,000 upgrading/repair loans amounting to Rs. 122.8 million ($4.7 million). Further details are contained in Annex C-7.

Housing Finance Companies (HFCs)

HFCs are public limited companies registered with the Regisurar of Companies (ROC) under the Companies Act. An HFC is engaged only in financial activity and its main business is in providing long-term finance for the construction or purchase of residential housing. Seventy-five percent of an HFC's lending activities must be addressed to loans for housing.

After registration, and designation as an HFC by the ROC, the HFC's registration is forwarded to NHB. NHB formally classifies the company as an HFC after review of documentation. Under NHB guidelines, HFCs are directed to mobilize resources mainly through household deposits and to minimize borrowings from institutions. Although classification generally does not confer any direct benefits on an HFC, it is important to the HFC in enabling it to obtain certain tax advantages.

Of more importance, however, is for an HFC to be formally "recognized" by NHB, which grants it access to the NHB refinancing program. In addition, NHB recognition conveys to investor and savers assurance of the HFC's soundness and integrity. Recognition is based on an application and review by NHB for compliance with its guidelines, and usually must be substantiated by an established track record. The review can take several months for public or joint sector firms and longer -- up to several years -- for firms that are defined as private.[5]

[5] NHB defines a private sector HFC as one with over 50 percent of its equity owned by private sector interests; a joint sector firm as with no more than 80 percent ownership by the public sector; and a public sector firm as with over 80 percent ownership by the public sector.

As noted in the earlier table, HFCs held 10.1 percent of formal-sector housing finance in 1987-88. Over the last three years, the volume of HFC housing finance increased by approximately 60 percent per year. In 1991, total loans sanctioned by nine NHB-recognized HFCs totalled Rs. 12.6 billion ($485 million). Thus, while housing investments by most of the other formal sector lenders in housing has grown significantly, it is likely that the share of the total market by HFCs has increased above 10 percent over the last three years.

Some 300 firms have now registered as HFCs although it is not clear how many are actually functioning. Of these, only 31 have been formally classified by NHB and of the 31, 16 have been officially recognized. (Two more are in process.) Two of the recognized firms are public sector enterprises, seven are joint sector firms and seven are considered private. Both firms in process are joint sector firms.

Many of the unrecognized HFCs probably do not have sufficient capitalization (Rs. 10 million or $385 thousand) to qualify. Nevertheless, the growth of the industry has been very rapid. Virtually all HFCs with the exception of HDFC were founded after 1984; the HG-003 PP indicates there were only 30 HFCs in September 1988.

Several factors have contributed to the growth of this industry. HDFC's tremendous success in the field has inspired much emulation. In its fiscal 1990-1991 year, HDFC sanctioned loans totaling Rs. 8.1 billion and the company had an impressive 33 percent return on equity in 1989-1990. The creation of the NHB has also encouraged entrance to the field. Many potential investors viewed the NHB's founding as an indication that the GOI would increasingly be targeting the housing finance sector and thus that the profitability of this sector would improve. Several commercial banks have created HFC subsidiaries and more are under consideration. In addition, the major insurance companies have either launched an HFC (LIC) or are in the process (GIC). Many developers have also entered the field as a means of providing financing to their customers. Finally, extremely low barriers to entry and exit have encouraged many investors to create HFCs as subsidiaries to their main business or to register without any firm plans to begin operations.

While HFCs initially establish branches in one or several metropolitan cities, most branch expansion takes place in cities with populations below one million. Firms are moving into smaller cities, where they encounter less competition and where housing is more affordable for prospective borrowers. HFCs are now present throughout the country, although there are still relatively few in the northern and eastern regions of the country. Overall, branch growth has been very rapid. NHB- recognized firms alone have increased their total number of branches from 51 in 1988-1989 to 136 in 1990-1991, an annual increase of 63 percent.

Growth in the number of formally classified and recognized HFCs has not kept pace with overall industry expansion. This appears to be due in large measure to difficulties the NHB has had in contacting and monitoring new firms and the organization's caution regarding approval of private companies. Monitoring problems are primarily engendered by the oversight group's lack of resources and the small size of many HFCs.2

Lending norms for housing finance

From time to time, the Reserve Bank of India(RBI) has been revising the lending norms for housing finance by scheduled banks. Salient features are given below :

i. The scheduled banks can extend housing loans to individuals at interest rates ranging from 10% to 16% per annum with margin requirements between 20 and 35 per cent. Relaxations have been made in security requirements, where mortgage of property or Government guarantee is not feasible. The earlier repayment period of 10 years has been extended, with built-in moratorium or repayment holiday. Banks can accept repayments under graduated instalment method to make housing finance affordable by lower income groups. Housing finance can be extended to an owner for repairs, additions, etc. to a house/flat, even if it is tenant-occupied.

ii. Scheduled commercial banks are now required to allocate 1.5% of their incremental deposits for housing finance. Of this allocation, 30% should be by way of *direct lending to individuals*, including groups or co-operatives of individuals. *Half* of this direct lending should be *in rural and semi-urban areas.*

iii. Scheduled commercial banks were advised to channel term loans to housing finance institutions, housing boards, other public housing agencies etc. particularly for augmenting the supply of serviced land and constructed units.

iv. The earlier ceiling of Rs.3 lakhs on individual housing loans has now been removed. However, housing loans exceeding Rs.3 lakhs will not form part of the above housing finance allocation.

v. Lending by banks for the housing sector has increased from less than Rs.90 crores in the calendar year 1983 to Rs.315 crores in 1989-90.

NHB Programmes

i. Housing finance companies

NHB has been entrusted with the responsibility of promotion and development of housing finance institutions on sound lines. It has, in consequence, evolved guidelines for promotion of housing finance companies in private and joint sectors, compliance with which is a pre-condition for drawing refinance from NHB. Resources of HFCs should appropriately come mainly through mobilisation of household savings which would hinge on the public confidence an HFC is able to inspire which, in turn, would depend on the size and character of its equity base, besides the quality of its management and the financial discipline observed by it. Accordingly, the guidelines incorporate the following :

a. An HFC should be a public limited company and normally have a minimum paid up capital of Rs.1 crore.

b. It should function only as a financial institution and should not engage itself in any trading or construction activity and should not have any connection with any company engaged in construction activity.

c. There should be at least two Directors from scheduled banks or public financial institutions failing which NHB reserves the right to nominate two Directors.

d. Prior approval of NHB should be obtained for appointment of Auditors.

e. Seventy five percent of the total lending should be by way of long term housing loans (to justify the tax concessions given to the HFCs).

NHB has separately issued the Housing Finance Companies (NHB) Directions, 1989, under the National Housing Bank Act, 1987, regulating the maturity period of deposits, interest rates thereon, ceiling on borrowings, etc. (These generally conform to the directions issued by RBI to non-banking financial companies other than HFCs).

The object is to create an enabling environment for the growth of housing finance companies on sound lines. At the same time, HFCs should be able to compete with one another, on level ground, in a healthy manner.

ii. Land development & shelter projects

In view of the overall perception of NHB of the complementary roles of the public, private and co-operative agencies, guidelines for financing Land Development & Shelter Projects for all the three categories of agencies have been announced. NHB will provide loans to public agencies, co-operative societies and professional developers for implementation of the project within a stipulated period, which includes development, construction, allotment and handing over of plots/dwelling units.

a. In terms of the guidelines pertaining to the public agencies, NHB will finance *integrated projects*. *In the case of serviced plots*, 75% of the plots should be in the size range upto 60 sq.m. or cost range upto Rs.50,000 and no plot should normally exceed 200 sq.m. in size. At the same time, minimum 50 per cent of the net residential area should be allocated to the small plots. These requirements can be relaxed in smaller human settlements, provided the average plot size does not exceed 100 sq.m or average cost of the plot does not exceed Rs.75,000

In the case of built-up units, 75% of dwelling units should be in the size range upto 40 sq.m. or cost range upto Rs.1.5 lakhs and the maximum size upto 120 sq.m. At the same time minimum 50 per cent of the net residential area should be for smaller dwelling units.

For land areas measuring less than 2 hectares, the agencies can adopt somewhat flexible norms to respond to the special needs or potential of the neighbourhood.

For keeping land prices within the affordability of economically weaker sections(EWS), NHB will advocate internal cross subsidisation in the sale prices, to the extent feasible. For the purpose of assessing the affordability of EWS, income norm of Rs.1,150 per month may be adopted, with a sub-group of Rs.600 particularly in rural areas. The affordable cost of a dwelling unit for EWS may be assumed to be about 30 times the monthly income.

NHB will provide hundred per cent project finance, including cost of land. However, land acquisition alone will not be considered. Public agencies are expected to give preferential allotment of plots/ houses to members of HLA scheme, which has got in-built queue facility for allotment. The emphasis in projects to be undertaken by public agencies will be on provision of serviced plots. Lending norms also favour supply of serviced plots.

b. The primary co-operative housing societies engaged in construction of houses are often handicapped due to delays in payment of instalments by their members. NHB intends to remove this handicap through provision of *hundred per cent cost of project as loan*, while members separately save, under the HLA scheme, for obtaining housing loans for acquiring these units on completion. The houses should have an average area not exceeding 60 sq.m. or the average cost should be less than Rs.2.25 lakhs. It is expected that this scheme will have a significant impact on the progress of construction of houses by the co-operative housing societies and may well reduce the present time taken, by half. All the members of the co-operative society will have to be members of the HLA scheme

c. In the case of projects by professional developers, the guidelines are broadly similar (including and especially the stipulations regarding the sizes of [illegible] plots or dwelling units) to those in respect of public agencies. The developer is free to sell 20% of the saleable land or built-up accommodation, while the rest 80% will have to be sold at predetermined prices with preferential allotment to HLA members. *NHB will finance 80 per cent of the project cost.* It is expected that this scheme will also increasingly professionalise the construction industry.

iii. *Rental housing projects*

In view of the considerable need for rental housing for the employees of public/private sector organisations, NHB has announced a scheme for financing of rental housing projects in respect of their low income employees (with average built-up area not exceeding 60 sq.m. or an average cost of the unit not exceeding Rs.2.25 lakhs). *The scheme provides for financing of such projects upto 100 per cent of the cost of construction(excluding cost of land) or 75 per cent of the project cost, whichever is less.* In the case of specific disadvantaged groups like working women etc., employed by different employers any credit-worthy agency can avail of this facility, provided no built up unit exceeds 40 sq.m. in area or Rs.1.5 lakhs in cost.

It may be noted that in the case of projects by public agencies and professional developers, 75% of the units should have built-up area ranging upto 40 sq.m. or ceiling upto Rs.1.5 lakhs and the stipulated maximum size of the dwelling unit is 120 sq.m. However, in the case of projects by co-operative housing societies and rental housing projects the stipulated *average* area is 60 sq.m. or *average* cost is Rs.2.25 lakhs. Thus, irrespective of the type of agency being funded, the broad policy objective of optimum land use is sought to be uniformly achieved. Simultaneously, the cost ceilings provide for larger accommodation in human settlements where land is less scarce.

iv. *Building material projects*

NHB seeks to support building material industries as a part of its real sector intervention. It offers equity assistance to private/public limited companies generally having paid up capital of not less than Rs.1 crore. Promoter's contribution should not be less than 20 per cent of the cost of the project. NHB normally extends assistance in the form of equity participation upto 20 per cent of the paid up capital (in exceptional cases upto 30 per cent).

5. Demand for Additional Refinancing

Initially, US $50 million dollars was available in the HG-003 loan. Twenty-five million dollars of the total remains to be disbursed. Furthermore, USAID is considering the authorization of an additional US $50 million in housing guarantee funds to finance NHB purchase of HFC loans to below-median-income households. This chapter considers whether effective demand from households below the median-income is sufficient to absorb these funds.

There is a widespread perception that below-median-income households have trouble affording formal housing finance. HFC management were unanimous in their belief that land and construction prices have increased very rapidly in recent years and that a loan of Rs. 55,000, currently deemed to be the maximum that a household at the median income can afford, is adequate to cover the cost of the construction or major repair or extension of a house only if families are able to make very significant downpayments. However, the increase in the share of loans to below-median income borrowers by the nine recognized HFCs for which data were available indicates that some households are able to take advantage of small loans for housing purposes. HFC managing directors also report that below-median-income households are saving increasing amounts and making extra efforts to bridge the difference between the loan amount they can afford and the cost of their project.

The main question is the desire and ability of recognized HFCs to lend to below-median income people. An important determinant of the ability of these HFCs to meet this demand is their network of branches. India is predominantly rural. Unsatisfied effective

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demand lies disproportionately in rural areas and smaller towns. Encouragingly, as described in Chapter 2, HFCs have greatly expanded their branch network to smaller cities.

Another determinant, of course, is whether HFCs want to meet this effective demand for households eligible for NHB refinancing and for HG loans. As Chapters 3 and 4 indicate, the record so far is good. In addition, the recent rise in the cost of HFCs' funds has narrowed the options for resources suitable for these firms and, hence, focused their attention on NHB refinancing. One company, for example, projects its average cost of funds for 1991-92 at 14.1 percent. This rate is <u>above</u> the NHB regulated rate of 14 percent for loans below Rs. 50,000. Thus, HFCs increasingly must use their own funds to make larger loans, which carry rates above the cost of these funds, and utilize NHB refinancing to fund smaller loans. For these reasons, the problem facing the HFC industry in the medium term is likely to be an insatiable demand for NHB refinancing, and with it HG funds, rather than a lack of demand.

Estimates based on the projections of the seven[1] recognized HFCs with data for NHB refinancing bear out this conclusion. Table 5.1 details the HFCs' refinancing projections. Loans for up to Rs. 50,000 are eligible for refinance under the HG program. These figures shown in Table 5.1 are considerable underestimates of likely future demand because data were unavailable for Can Fin and LIC HFC, the second and third largest HFCs. Perhaps partly for this reason, the compound annual growth rate (CAGR) of 22 percent is less than half that of total loan volume and loans to below-median-income households from 1988-1989 to 1990-1991.

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[1] Dewan, Gruh, HDFC, HFD, PHFC, Saya, and SBI.

TABLE 5.1
REFINANCING PROJECTION BY SEVERAL RECOGNIZED HFCS
FOR NHB REFINANCING
(IN LAKHS)

year	loans up to RS. 50,000	total loans
1991-92	11,200	31,357
1995-96	24,472	82,862
compound annual growth rate for 1991-92 to 1995-96	21.6%	27.5%

Source: NHB Records

Yet even based on this conservative CAGR, refinancing eligible under the HG program substantially exceeds available funds. USAID regulations currently specify that no more than 25 percent of HG funds go to one HFC. HDFC, whose loan volume far exceeds the other recognized HFCs, has already used this amount and therefore is unable to draw from the remaining US $25 million. On the assumption that an 11 percent devaluation in the rupee relative to the dollar in the next year, six other HFCs project a demand of US $22,680,327 for the refinancing of loans up to Rs. 50,000. This amount is US $2.2 million short of the total US $25 million remaining to be disbursed. Yet, as noted, the two HFCs for which refinance projections are unavailable, Can Fin and LIC HFC, have been the largest lenders of the group of eight by far, accounting for a total of 76 percent of loans sanctioned of these eight HFCs in 1990-91.

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AID plans to exclude LIC from HG refinancing because that HFC has access to funds from its parent company. But Can Fin alone will almost surely ask for more than US $2 million in HG-eligible refinancing next year. Indeed, the HFC issued a total of Rs. 299,100,000 (approximately US $15 million) in credits under Rs. 50,000 in 1990-1991 alone and can seek approximately an additional US $4.7 million in refinancing while remaining under the stipulated 25 percent maximum. Thus, absorbing the second US $25 million in 1991-92 is highly likely.

- The HG-eligible refinancing demand estimate for 1991-92 is generally based on the HFCs' operating budgets for next year, and therefore should be relatively reliable. The plausibility of this demand estimate is further reinforced given the companies' 1990-1991 volume of loans under Rs. 50,000. Table 5.2 compares 1990-1991 volume of loans under Rs. 50,000 to 1991-1992 refinancing requirements for loans of the same size.

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TABLE 5.2
1990-1991 LOAN VOLUME VERSUS
1991-1992 REFINANCING PROJECTIONS

company	1990-1991 vol loans < Rs. 50,000 (in Rs. lakhs)	1991-1992 refinancing vol < Rs. 50,000 (in Rs. lakhs)	refinancing % previous year volume
DEWAN	1,643	1,330	81%
GRUH	1,957	1,054	54%
HDFC	16,783	5,666	1,558%
HFD	77	1,200	100%
PHFC	1,195	1,200	3,000%
SAYA	1	300	70%
SBI	664	400	50%
TOTAL	22,300	11,200	50%
TOT W/O HDFC	5,517	5,534	100%

Source: NHB Records

As the table indicates, most companies' projections call for them to refinance fewer loans under Rs. 50,000 in 1991-1992 than they sanctioned the year before. Only HFD and Saya expect to refinance significantly more loans in this size bracket next year than they underwrote this year, and both companies are projecting this rapid growth from a very small base. Excluding HDFC, companies overall expect to refinance next year the same volume of loans under Rs. 50,000 as they made this year. Given that these companies have a combined growth rate in lending volume of over 100 percent per year for the last two years, these projections seem obtainable.

Thus, it seems clear that there currently exists sufficient demand to utilize US $25 million of HG-003 refinancing in 1991-1992.

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Evaluating the NHB program's potential to absorb an addition US $50 million in the following three years is a somewhat more complex undertaking. In order to gauge this demand, we have evaluated the situation under several scenarios. Table 5.3 projects the growth in loans below Rs. 50,000 in 1991 US dollars based on an overall CAGR of 22 percent in loan volume and a depreciation in the rupee relative to the dollar of 11 percent per year. The projection is for the three years when the proposed HG funds of US $50 million would be used: 1992-93, 1993-94, and 1994-95.

TABLE 5.3
PROJECTION OF HG-ELIGIBLE
REFINANCING DEMANDED BY
SEVEN RECOGNIZED HFCS

year	amount (1991 US $)
1992-93	50,457,902
1993-94	55,474,209
1994-95	60,822,630
total	166,822,530

Source: Team's calculations based on NHB Records

According to this projection, total financing demanded is US $166 million. This figure is low in that it excludes demand from two important HFCs, Can Fin and LIC HFCs, seven additional recognized HFCs and HFCs that may become recognized during this period. But a consistent 22 percent CAGR might be considered high, even though the recognized

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HFCs have expanded at nearly twice that rate over the last three years. In addition, entrepreneurs sometimes overestimate future growth. For this reason, Table 5.4 delineates demand for refinancing for loans less than Rs. 50,000 assuming no expansion in HFC demand for loans of this size beyond that projected for the 1991-1992.

TABLE 5.4
PROJECTION OF HG-ELIGIBLE
REFINANCING DEMANDED FROM
SEVEN RECOGNIZED HFCS,
ASSUMING NO GROWTH BEYOND 1991-92

year	amount (1991 US $)
1991-93	41,358,936
1993-94	37,271,214
1994-95	33,532,934
total	112,163,084

Source: Team's calculations based on NHB records

Finally, USAID regulations currently specify that no more than 25 percent of total HG funds should go to one HFC. Currently, HDFC has exceeded this 25 percent. Despite the growth of other HFCs, it might do so again under the proposed additional US $50 million in HG funds. Table 5.5 assumes both that HDFC is limited to 25 percent of the total and that no growth in demand will occur beyond 1991-92 for any of the HFCs.

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ANNEX - D

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

6 September 1991

NEW DELHI, INDIA

ACTION MEMORANDUM FOR THE APRE ENVIRONMENTAL OFFICER

THROUGH: Walter G. Bollinger - DIR, USAID/New Delhi WGB

FROM: John A. Grayzel - TDE/USAID/New Delhi

ACTION: To approve a Categorical Exclusion from Environmental Procedures for USAID/India's i) Housing Finance System Program (386-HG-003A) Amendment in the Amount of $50 million and ii) a New DA Component of $3.5 million for Technical Assistance and Training Support to the Program

BACKGROUND: The Amended Housing Finance System Program (HG-003A) and the new DA component for training and technical assistance support will be implemented through the National Housing Bank (NHB). NHB is an intermediary credit institution and will have complete review and approval authority for the AID Housing Guarantee (HG-003A) funds which are loaned to Housing Finance Companies (HFCs) and the DA funded training and technical assistance component. Therefore, both the amended Housing Finance System Program (HG-003A) and the new DA funded Component are eligible for a Categorical Exclusion from Environmental Procedures under 22 CFR Part 2.16.2(c)(2)(x).

However, USAID and NHB have agreed that training and technical assistance support, under the DA component, will be provided to NHB to exert greater influence on the newer and smaller HFCs as well as existing HFCs in increasing and expanding their environmental awareness. Further, the environmental considerations are already adequately covered under both NHB and HFC's existing technical review process for loan approvals and these requirements apply to Project-funded activities.

RECOMMENDATIONS: That you sign below indicating your approval of the attached Initial Environmental Examination which states that both the Projects (HG funded and the DA Component) are Categorically Excluded from further Environmental Procedures.

Approved/Disapproved

Sept. 12, 1991

APRE Environmental Officer

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INITIAL ENVIRONMENTAL EXAMINATION

The Housing Finance System Program (HG-003A) Amendment (Housing Guarantee funded) and the new DA-funded training and technical assistance projects will be implemented by an intermediate credit institution, the National Housing Bank (NHB). Per 22 CFR Part 2.16.2(c)(2) of A.I.D's Environmental Procedures, Housing Finance System Program (HG-003A) and the DA Component for Training and Technical Assistance support are categorically excluded from an Initial Environmental Examination, Environmental Assessment, or Environmental Impact Statement under section (x):

> "Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institutions."

NHB will have complete review and approval authority for Housing Finance System Program (HG-003A) funded loans as well as the DA funded training and technical assistance.

During June 1991, environmental aspects of India Housing Finance System Program were reviewed by a team of U.S. experts. The team concluded that i) Conscientious and adequate environmental scrutiny existed at the National Housing Bank and the larger Housing Finance Companies (HFCs); ii) environmental considerations are adequately covered under the existing technical review process for NHB and HFC loan approvals; and iii) those review processes suggest not only a general awareness of environmental issues but more specifically address, to some extent, the importance of site suitability, soils and construction material analysis, and the availability of infrastructure as broader environmental/underwriting concerns. All these factors are already incorporated into the Indian loan approval process for residential development.

NHB is a development finance institution with a mandate of developing a healthy housing finance system, through refinancing support to a network of housing finance institutions. Therefore, NHB is in an excellent position to both receive and promote technical assistance and training that will facilitate the future development and integration of environmental policies and guidelines. Although AID is not involved in the review and approval of individual loans, providing training and technical assistance support to NHB will equip NHB to exert greater influence on the newer and smaller HFCs as well as existing HFCs in increasing and expanding their environmental awareness.

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TABLE 5.5
PROJECTION OF HG-ELIGIBLE REFINANCING
ASSUMING HDFC DOES NOT EXCEED THE 25%
LIMIT AND NO GROWTH BEYOND 1991-92

year	amount (1991 US $)
1992-93	27,267,799
1993-94	24,552,412
1994-95	22,089,820
total	73,910,031

Source: Team's calculations based on NHB records

In this most conservative scenario, lending for HG-eligible loans levels off. This could be caused by a shortage of affordable housing with legal title on which loans could be made or competition from other lenders, i.e., commercial banks or state bodies. Even then, the recognized HFC requirements for HG-eligible funds still significantly exceed the proposed US $50 million.[2]

In sum, the demand for HG-eligible funds is likely to exceed the $50 million currently proposed. Even if no growth in demand for refinancing occurs after 1991-1992 and HDFC is limited to 25% of total refinancing, demand still substantially exceeds supply.

[2] This conclusion is based on the assumption that the rules governing the eligibility of loans for HG refinancing are not modified.

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Revised Economic Analysis

The HG-003 expansion program continues the goal of increasing access to formal-sector housing finance by households with below-median incomes. This will result in a reduction of financing costs and an increase in the construction and upgradation of formal-sector housing. Accordingly, the types of forward and backward linkage effects on income and employment that were discussed in the HG-003 PP continue to hold under the expansion program.

However, HG-003A also introduces new efforts to increase access to housing finance by lower-income, informal-sector households. Some of these will obtain formal-sector housing. Many more will obtain housing which, while not formal-sector, will be larger, better-built and located in a more sanitary environment. Many of these households will produce some of the building materials themselves and will provide their own labor to the construction of their housing. Thus, *real national product will increase*, although it may not be measured by a corresponding increase in the reported GNP (that is, by market-mediated, officially-reported, formal-sector transactions).

HG-003A's emphasis on lower-income, informal-sector households is likely to have significant impacts on the level of economic activity, apart from its impact on housing construction. Many low-income households carry out at least a portion of their economic activity within the home. For these, improved access to housing finance should gain them larger and better-built housing which, in turn, should increase the volume of their home-based production and total income. Thus, the expansion program is expected to increase overall economic activity and income, (although, again, they may not be recorded in the national income and production statistics).

As discussed in the Environmental Analysis (Annex L), HG-003A will improve access to housing located in more sanitary and less polluted surroundings, particularly for the lower-income households, many of whom are now highly exposed. These households are likely to benefit from improved health, lower medical costs, and hence, greater capacity for continued economic activity and financial savings. Economic benefits will tend to accrue particularly to members of households who both live and work within the home, as well as to household members who typically bear the responsibility of caring for the sick.

The model lending programs are expected to provide still other stimuluses to economic activity of the lower-income, informal-sector beneficiaries. The NGOs that are involved in organizing the lending program typically provide a host of other training, educational, and social service programs. These act in a complementary way to the specific economic impacts of the HG program. By increasing access to housing finance at the same time other training, day care, elder care, and other services are provided, NGOs can help many low-income households achieve quantum leaps in both the level and rate of growth of economic activity.

Revised Social Analysis

The HG-003 expansion program continues the goal of increasing access to below-median income households in India. HG-003A introduces new efforts to increase access to formal-sector financial institutions by low-income groups living and working within the informal sector. It introduces nontraditional methods of ensuring creditworthiness, which serve as alternatives to household wealth and firm title to land. It also provides for training of public educators (both men and women) who will explain -- in the local language and in a format accessible to illiterate individuals -- the function of formal-sector financial institutions, and the opportunities provided by the two model lending programs. Because women are overrepresented among the low-income, low-wealth, landless, informal-sector, and illiterate populations, achievement of the objectives of HG-003A has the potential of benefitting them more than their representation in the Indian population overall.[10]

Two planned MIS systems will provide the first systematic information on the household income and composition of HG beneficiaries. They will also indicate whether women are in fact receiving benefits of the HG program in proportion to their representation in the beneficiary population. The computer-based MIS system for HFCs, which is to be designed and initiated during the HG-003 program, is intended to improve information not only on the financial and managerial condition of HFCs, but also on the characteristics of their customers (including socioeconomic and demographic characteristics of the household), the size and terms of the loans they obtain, and their subsequent repayment history.

A second, paper-based MIS system will be developed during HG-003A for NGOs and their affiliated low-income-oriented financial intermediaries (including those participating in the two model lending programs). This MIS system will produce data to supplement that generated by participating HFCs. It will focus on the extent to which the model programs help overcome the types of constraints that affect low-income households in general, and women in particular. If women and other disadvantaged groups do not receive benefits in proportion to their representation in the model lending program beneficiary populations the data may provide clues as to which obstacles prevent them from doing so.[11]

Finally, the DA grant funds a number of studies of the supply of household savings, access to housing loans, and related constraints. All of these are expected to obtain and evaluate data

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[10] Female beneficiaries include those who gain access to housing finance as the sole head of household, as well as those who gain access to housing finance as one of two or more adults within a household.

[11] The beneficiary populations for the general HG program consists of households with below-median income; for the model lending programs, the beneficiary population is lower-income, informal-sector households.

disaggregated by household income, household composition, and the gender of the loan recipient. In particular, since gender-disaggregated data and benchmarks are not available at the project design stage, the grant-funded studies will be expected to specifically identify obstacles to women's participation in financial institutions' savings and lending programs, to identify strategies for overcoming these obstacles (or making use of opportunities) during the life of the project.[12] Achievement of these objectives will be facilitated by the development of the MIS systems discussed above.

[12] See AID Handbook 3, Chapter 3, Project Development, Analysis, and Presentation, 3C9, "Gender Considerations," p. 3-26, June 14, 1990. Also see Trans. Memo. No. 3:69, Appendix 3P, "Indicators for Assessing Integration of Gender Considerations into AID Projects," p. 3P-1, June 14, 1990.

Other Donor Activities in the Housing and Urban Sector

The World Bank is the largest of the International Development agencies working in the urban and shelter sector of India. The other principal donors are the Governments of Great Britain, the Netherlands and Germany. The UNDP, UNICEF and the UN's Habitat sponsor workshops, training and poverty alleviation programs, especially UNICEF's interest in primary health care.

The World Bank program consists of 14 urban projects and a substantial loan of $250 million to HDFC. Total World Bank loan/credit value is $1,405 million for the urban sector. The loan to HDFC seeks to 1) initiate the development of a regulatory environment for housing finance; and (2) promote competitive resource mobilization and the formulation of measures to reduce credit risks. The 14 urban projects are all within single metropolitan areas or urban centers throughout individual states. These urban projects have traditionally focussed on site and service projects and community upgrading schemes. The more recent projects have emphasized components intended to improve urban management and resource mobilization capabilities. The most recent generation of projects also include innovations in land management and delivery.

The British Government program includes financial assistance for slum upgrading and community development projects in several cities in central and eastern India, with a total current commitment of $50 million grant finance. It also includes training programs that will support activities derived from a recently completed Training Needs Assessment Study for Housing in India. The Netherlands Government provides training assistance and research funding to India through its Institute for Housing Studies (IHS) in support of the Human Settlement Management Institute. The Netherlands is also financing programs for the development of remote sensing and interpretation center at Dehra Dun and Hyderabad and sewage treatment work in a number of cities in Uttar Pradesh as part of its environmental improvement program. The German Government, through KfW, is financing a program of loans to HUDCO and offered a line of credit to GRUH, through HDFC, for on-lending to rural EWS households.

The Overseas Economic Cooperation Fund (OECF) of Japan, has recently committed assistance of around $20 million to NHB for expanding availability of housing finance to urban households. The decision by the OECF was mainly based on USAID's long term commitment to housing finance system development along with its ongoing NHB monitoring activities. The International Finance Corporation (IFC) has recently committed assistance of $100 million to HDFC which seeks to provide HDFC, access to the international capital market. The proceeds can be used by HDFC in furtherance of its objectives. $40 million out of total $100 million has been disbursed by IFC as direct assistance to HDFC the balance amount of $60 million will be syndicated by IFC with various international commercial banks under IFC umbrella.

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Current Issues in Domestic Resource Mobilization

Funds Mobilization by NHB

The need for NHB to raise resources must be viewed in the context of its lending commitments. In effect, NHB has open-end commitments to refinance all loans that meet the criteria it has set forth. This includes refinancing related to the Home Loan Account (HLA) Scheme which will begin to mature in 1994. To date, NHB has not made any systematic estimate of the size of these commitments. This needs to be done. NHB's commitments are likely to exceed the volume of low-cost funds it will be able to attain from "favored sources" (allocated by government bodies) or through government guarantees and capital gains bonds.

NHB has, therefore, begun exploring options for obtaining funds from the market, albeit at a very difficult time while market interest rates move upward. For example, it is considering establishing a closed-end mutual fund; creating a pension fund aimed at the self-employed; and selling mortgage-backed securities in the capital market. None of these ideas has yet been converted to a firm plan. A sound strategy is required.

One problem is that all of the schemes described above will entail higher interest rates than NHB now pays. If NHB reserves its low-cost funds for low-income loans, it may not be able to refinance larger loans with market-rate funds and retain the current refinancing interest rates. In the final analysis, the need to mobilize domestic resources may cause NHB to reconsider raising its refinancing rates and, therefore, mortgage interest rates on housing loans. Annex C-7 provides a more detailed description of NHB's plans to raise funds in the market.

HFCs and Mobilization of Resources

The HFCs in India as a group have raised resources in six forms: deposits, term loans, capital market issues, NHB refinancing, external (international) sources, and equity. Table A-1 provides a breakdown of these liabilities.

In discussing the capacity of and potential for HFCs to mobilize resources it is necessary to make some distinctions among HFCs. First, HDFC must be considered separately: it has been in business over 10 years, has solid connections in corporate and financial sectors, has a well-deserved reputation for excellent management quality has housing loans outstanding of Rs. 17.3 billion ($665 million), all factors that engender confidence. HDFC is the only HFC that has issued bonds to date or that has borrowed from international sources.

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TABLE A-1

COMPOSITION OF LIABILITIES OF RECOGNIZED HFCS, 1990-91
(PERCENT DISTRIBUTION)

TYPE OF LIABILITY	SHARE INCLUDING HDFC	SHARE EXCLUDING HDFC
Deposits	38.0	28.7
Bonds	8.5	0.0
Term Loans	25.3	48.6
NHB Refinancing	4.1	17.9
External Sources	24.1	4.8

Source: NHB Records

Secondly, it is necessary to distinguish the HFC subsidiaries of the large public sector commercial banks and insurance companies, institutions with huge bases for mobilizing savings. These HFC subsidiaries have access to resources and enjoy the prestige of association with the parent company. Thus, although the IE concluded that the review sample of HFCs have performed well in raising funds, that conclusion must be qualified for HFCs overall. Some of the NHB-recognized HFCs have obtained almost all of their funds through NHB refinancing. Those that obtain a large portion of their liabilities from deposits obtain a high percentage from organizational (vs. household) deposits. Table A-2 indicates the deposit share of total liabilities of recognized HFCs.

TABLE A-2

SHARE OF DEPOSITS IN TOTAL LIABILITIES
OF RECOGNIZED HFCS, 1990-1991

HFC	DEPOSIT SHARE OF TOTAL LIABILITIES
CANFIN	61.6%
DEWAN	9.5
GRUH	13.5
HDFC	40.8
IHFD	3.9
LIC	0.0
PHFC	0.0
SAYA/SHF	N.A.
S.B.I.	0.0

Source : NHB Records

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For the bulk of new HFCs, there are two potential alternatives sources of domestic market funds: term loans and capital market issues. However, because of discounting, service fees and redemption fees, the effective cost of any bond issue in the capital markets in mid-1991 is probably above the rates at which an HFC could lend even if it is perceived as a good credit risk.

The same factors apply to term loans, which typically have a maturity of at least one year. Outside of HDFC, most HFCs with this source of funds are associated with large, public sector institutions. LIC's HFC subsidiary, for instance, derives almost all of its liabilities from its parent. Joint sector HFCs, too, often have access to below-market rates from their affiliates.

HDFC has concluded that household savings will become a major source of its liabilities in the future. This may not be an option for other HFCs, at least in the short run. The issue of lack of public trust applies particularly to the private HFCs: joint sector HFCs are able to allay this mistrust by their affiliation with a public sector company. Thus, private HFCs will have to build up their reputation, such as HDFC has done. Of major significance is the endorsement of soundness and reliability that "recognition" by NHB could convey if it is properly marketed.

Unfortunately, a number of regulatory barriers work against HFC mobilization of deposits, particularly household savings. First are the NHB regulations of deposit interest rates. HFCs are limited to paying a maximum interest rate of 14 percent on deposits plus a maximum commission of 2 percent to agents who secure deposits. Of more importance, beginning in 1989, HFCs lost the ability to take deposits from individuals for a period less than 24 months (it had previously been six months). Although this regulation does not apply to corporate and foundation deposits, it presents a major obstacle to attracting household savings, which represent the largest potential for HFCs.

The action taken by the RBI to restrict the deposit term by HFCs was, at least partially, to protect the commercial banking system from competition.[1] The action badly undercut NHB's mobilization strategy for attracting household savings to the housing finance system. NHB has worked quietly behind the scenes, but without effect, to have the deposit term for HFCs shortened.

Commercial banks pay 10 percent for two-year deposits, while HFCs can offer up to 14 percent. HFCs are now offering interest rates of 12.5 to 14 percent and pay commissions to agents. However, these higher interest rates are offset by restrictions on HFC advertising for funds and the collection of tax on interest income at source for HFCs but not for commercial banks.

Contractual Savings: The Home Loan Account (HLA) Scheme

As structured, the HLA scheme represents a major liability for NHB rather than a source of

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[1] The argument was also made that it would bring the term structure of HFC liabilities more in line with that of their assets.

funds. Unless account volume grows sufficiently rapidly, depositors whose accounts mature are promised by NHB a loan equal to a multiple of their deposit account. Thus, maturing HLAs generate a need for additional funds sources for NHB.

HLA enables depositors to demonstrate their ability to make regular payments over a sustained period and qualify for a loan. However, HLA participation has been far short of expectations. One reason may be that the interest rate on savings lags far behind the current rate of housing price appreciation, so that savers often cannot afford a house when the account matures

Secondary Mortgage Market

A secondary mortgage market represents a potential source of domestic market-oriented funds. NHB is, in fact, a secondary financing facility itself, since it refinances against a block of "eligible" mortgage loans. However, it does not purchase these loans nor do the loans specifically represent the collateral against the refinancing. The NHB refinances against the general creditworthiness of NHB-recognized HFCs.

HDFC has spent several years structuring a mortgage-backed security (see Annex C-8 for a brief description), but is unlikely to issue it while market interest rates are so high. An additional problem associated with secondary mortgage market instruments is the difficulty of foreclosing on the underlying mortgage if the loan becomes delinquent. NHB has introduced new legislation to improve the foreclosure process. A third difficulty in developing a secndary mortgage market is that the mortgage instrument is not yet standardized.

Annex J

Potential Models for a Group-Guarantee Housing Loan Program

A number of non-governmental organizations (NGOs) have evidenced the capacity to provide housing finance to their low-income members. These include Self Employed Women's Association (SEWA) of Ahmedabad; Annapurna Mahila Mandal of Bombay and Vashi (Annapurna); Punervaas of Delhi; Working Women's Forum (WWF) of Bombay; Ainashi Lingam Education Trust Institutions (AETI) in Coimbatore; the Bihar milk producers cooperative; Society for Promotion of Area Resource Centers (SPARC) in Bombay; and Rayala Seema Sewa Samittee in Tirupati. Interest in emulating these types of organizations has sprung up in a number of other cities.

These organizations currently provide short-term loans to informal-sector entrepreneurs. In many of these loan programs, default rates have been quite low, some even on the order of two-to-five percent. The high repayment rates are achieved through use of innovative lending techniques, such as group-guaranteed loans, use of scheduled, incrementally-increasing loans, and so on. Many of these techniques have been used in other countries with similar success.*

Most NGOs that are associated with low-income households focus on upgrading skills and income and providing human services. However, several established NGOs have evidenced an interest in adding housing lending to their integrated range of services. SEWA has already made some housing-related loans. Annapurna has legally established a housing finance cooperative, has purchased a plot of land that would house 10 households, and members have begun saving for the downpayment of the construction and housing loans. Punervaas is affiliated with the Delhi Co-operative Housing Finance Society, has obtained limited amounts of concessional financing from the Oriental Bank of Commerce, and is attempting to obtain HFC financing for its slum upgradation projects. Punervaas housing loans are insured by a GIC group policy against death, fire, destruction, etc.

Housing is recognized as a potentially valuable productive input for expanding a low-income, informal-sector household's income generating

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* See examples of group lending schemes and cooperative financial institutions listed in The World Bank, World Development Report 1989, Oxford University Press, 1989, pp. 116-21.

capacity. Permanent, electrified housing enables parents to work longer hours, both away from and within the home, and contributes, through improved sanitary conditions, to better health and increased productivity. In turn, higher productivity and higher and more stable income enables homeowners to repay housing loans more promptly.

NGOs that establish community-based financial institutions (such as housing finance cooperatives) would negotiate with HFCs interested in collaborating with them. Loans would be made to individual cooperative members on the basis of individual credit underwriting and appraisal criteria. Ownership of the land is in the name of the cooperative; rights of tenure and ownership of the house is accorded to the household's primary cooperative member and/or spouse. Home purchases and sales are permissible, subject to the purchaser meeting maximum income and other eligibility requirements of the cooperative and obtaining approval for membership. Loan repayment is guaranteed by the mortgage or other collateral; the group guarantee and loan collection mechanism provided by the cooperative; and the potentially highly effective, non-judicial procedures in regard to delinquency and default for loans to cooperative members (e.g., under the Delhi Cooperative Societies Act 1972).

ANNEX ...

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

NAME OF COUNTRY

PROJECT NO.386 -HG-003A

ANSWER YES/NO PUT PP PAGE REFERENCES AND/OR EXPLANATIONS WHERE APPROPRIATE

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project meet the following criteria.

(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable; — Yes

(2) is intended to assist in marshalling resources for low-cost housing; — Yes

(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and, — Yes

(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low cost shelter programs and policies. — Yes

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of ~~$1,718,000,000~~? $2,558,000,000 — No

Will the guaranty be issued prior to September 30, 1991? — No

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Section 222(b)

Will the proposed guaranty result in activities which emphasize:

(1) projects providing improved home sites to poor families on which to build shelter and related services; or	No
(2) projects comprised of expandable core shelter units on serviced sites; or	No
(3) slum upgrading projects designed to conserve and improve existing shelter; or	Yes
(4) shelter projects for low-income people designed for demonstration or institution building; or	Yes
(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?	No

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?	N/A

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?	Yes

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor, as prescribed by the Administrator, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?	N/A

Section 223(j)

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country? Yes

(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements? Yes

(3) Is the project designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be for housing suitable for families below the median urban income for housing in urban areas, in the host country? Yes

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed $25 million in any fiscal year? No

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed $15 million? No

Section 238(c)

Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued? Yes

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

(a) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year? Yes

(2) Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist? No

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PROJECT PAPER SUPPLEMENT FOR
THE HOUSING FINANCE SYSTEM PROGRAM EXPANSION - (386-HG-003A)
AND A NEW DEVELOPMENT ASSISTANCE GRANT PROGRAM -(386-0526)

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. Negative Certification (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No

b. Positive Certification (FAA Sec. 481(h)): (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?	Yes
(2) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?	The certification was made in March 1991.

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c. Government Policy (1986 Anti-Drug Abuse Ac. Sec. 2013(b)): (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec. 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? — No

2. Indebtedness to U.S. Citizens (FAA Sec. 620(c)): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies; (b) the debt is not denied or contested by such government; or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? — No

3. Seizure of U.S. Property (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

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4. Communist Countries (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545: Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restriction on assistance to Communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

No;

No;

N/A

5. Mob Action (FAA Sec. 620(j)): Has the country permitted or failed to take adequate measures to prevent damage or destruction by mob action of U.S. property?

No

6. OPIC Investment Guaranty (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

No

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No

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8. Loan Default (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1991 Appropriations Act appropriates funds?

(a) No

(b) No

9. Military Equipment (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrato at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

N/A

10. Diplomatic Relations with U.S. (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

11. U.N. Obligations FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

India is in arrears; however, this has been taken into account by the Administrator at time of approval of Agency OYB.

12. International Terrorism

a. Sanctuary and Support (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise supports international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

(a) No

(b) No

b. Airport Security (ISDCA of 1985 Sec. 552(b)): Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. Discrimination (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

14. Nuclear Technology (FAA Secs. 669, 670)): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any

To our knowledge, India has not delivered or received such equipment, materials or technology nor transferred a nuclear device. There is no official USG determination that India has detonated a nuclear explosive device and therefore is subject to the prohibitions of FAA Sections 669 and 670

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material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Section 620E permits a special waiver of Section 669 for Pakistan.)

15. Algiers Meeting (ISDCA of 1981 Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on September 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

India was represented at the meeting and did not dissociate itself from the communique. However, this was taken into account by the Administrator at time of approval of Agency OYB.

16. Military Coup (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No

17. Refugee Cooperation (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

18. Exploitation of Children (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

B. <u>COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")</u>

1. <u>Human Rights Violations (FAA Sec. 116)</u>: Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — No

2. <u>Abortions (FY 1991 Appropriations Act Sec. 535)</u>: Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — No

C. <u>COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")</u>

1. <u>Human Rights Violations (FAA Sec. 502B)</u>: Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? — N/A

5C(2) ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP-TO-DATE? Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry agriculture, and commerce; and (f) strengthen free labor unions

(a) The purpose of the Development Assistance (DA) Program is to assist the development of a dynamic private housing finance sector in India including enhancement of the sector's capability through use of US based professional services and funds from U.S. investors for housing loans. A fairly developed Indian housing finance system will increase international trade related to housing and allied areas; (b) project activities are aimed at the Indian private sector; (c) model lending programs for the poor will aim at the use of these institutions after a feasibility study; (d) program activities should increase the number and strength of private housing finance companies, thereby reducing potential for monopoly; (e) assistance will be provided for improving efficiency and effectiveness of housing finance sector thus making housing finance loans to households including low-income commercially viable; and (f) no assistance is being provided for this purpose.

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2. U.S. Private Trade and Investment (FAA Sec. 610(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Assistance under the project will foster linkages between U.S. and Indian Institutions and businesses specially in the private sector related to training, technical assistance and housing finance.

3. Congressional Notification

a. General Requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

A Congressional Notification for the DA funds will be completed in the FY 92.

b. Notice of New Account Obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash Transfers and Nonproject Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of economic policy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obliga tion in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a), (b) - Such information is included in the Project Paper Supplement and Program Agreement.

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5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

No such action is required

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for for water or waterrelated land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has the Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

No capital assistance will be provided under this project for any construction activities. The housing guarantee funds will be borrowed by National Housing Bank directly from US investors to be utilized for refinancing housing loans made available by housing finance companies. Thus, no direct USAID assistance is involved for any construction.

. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic

See response to para 1 in this Part A.

practices; (e) improve technical efficiency of, industry, agriculture and commerce; and (f) strengthen free labor unions.

10. U.S. Private Trade (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

See response to para 2 in this Part A.

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

A major portion of the DA funds will be utilized to finance dollar costs of training in US and hiring US/foreign based TA Even though AID grant funds will finance some of the local currency components, a major portion of local currency expenditures will be incurred by Government of India for in-country expenses.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

c. Separate Account (FY 1991 Appropriations Act Sec. 575): If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

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(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the U.S. Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. <u>Trade Restrictions</u>

a. <u>Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a))</u>: If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

b. <u>Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c))</u>: Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807", which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? N/A

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

14. PVO Assistance

N/A

a. Auditing and Registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

b. Funding Sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision.)

The aggregate amount of DA funds being provided is less than $25 million; therefore, this requirement is inapplicable.

16. Metric System (Omnibus Trade Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procure-

To the extent practicable, metric measurements will be used in all procurements, grants and other activities under the Project. No bulk purchases are contemplated. All commodity procurements will use metric measurements, to extent practicable and AID will also use such measurements throughout the Project.

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ments, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric and are components, sub-assemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements length, area, volume, capacity, mass and weight), through the implementation stage?

17. Women in Development (FY 1991 Appropriations Act, Title II under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Although HG-003A activities are not aimed specifically at women in development, special design provisions have been made to ensure maximum possible benefit to women clients for housing finance. Specifically, the model lending programs will be designed in such a way as to benefit low-income population of a target area including women.

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

Other multilateral donors providing assistance for housing finance is limited; however, the focus of such assistance is generally limited to a particular state or enterprise or is undertaken through government entities. Given AID's interest in private housing finance companies, our objectives could not be achieved through regional or multilateral organizations.

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or pro-

No

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gram which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?	No
20. <u>Cooperatives (FAA Sec. 111)</u>: Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?	Housing related cooperative lenders will be evaluated as one of the possible mechanisms to cater to low income households.
21. <u>U.S.-Owned Foreign Currencies</u>	
a. <u>Use of Currencies (FAA Secs.612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509)</u>: Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	See response to para 11.a of this Part A.
b. <u>Release of Currencies (FAA Sec. 612(d))</u>: Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
22. <u>Procurement</u>	
a. <u>Small Business (FAA Sec. 602(a))</u>: Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Wherever feasible, procurement opportunities will be advertised publicly, including in AID publications aimed at small businesses.
b. <u>U.S. Procurement (FAA Sec. 604(a))</u>: Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?	Yes; except as permitted by A.I.D.'s Buy America policy, procurement will be from the U.S. unless a waiver is executed.
c. <u>Marine Insurance (FAA Sec. 604(d))</u>: If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Yes; however, there is no evidence that India discriminates against U.S. marine insurance companies.

d. <u>Non-U.S. Agricultural Procurement (FAA Sec. 604(e))</u>: If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	No agricultural commodity or product is expected to be procured.
e. <u>Construction or Engineering Services (FAA Sec. 604(g))</u>: Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	To the extent engineering services are procured the nationality will be from U.S.
f. <u>Cargo Preference Shipping (FAA Sec. 603)</u>: Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	No
g. <u>Technical Assistance (FAA Sec. 621(a))</u>: If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes; Yes

h. U.S. Air Carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

i. Termination for Convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes, such a provision will be included in all AID direct contracts.

j. Consulting Services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes; such a provision will be included in the procurement contract.

k. Metric Conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, sub-assemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric [illegible] of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Metric measurements are used to the maximum extent practicable under the USAID/India assistance program. No bulk purchases are contemplated under the project. Where measurements are included in project design documentation, such measurements are stated in metric units unless impracticable.

1. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

23. Construction

a. Capital Project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

This housing related DA program is not a capital project. It will definitely finance US based professional services but related to only housing finance.

b. Construction Contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A

c. Large Projects, Congressional Approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

N/A

24. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A

25. Communist Assistance (FAA Sec. 620(h)): Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the ..unistbloc countries?

Yes

26. Narcotics

a. Cash Reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

Yes; All assistance under the project must meet agreed upon criteria.

b. Assistance to Narcotics Traffickers (FAA Section 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?	Yes, to the extent such knowledge exists.
27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	Yes
28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes
29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?	Yes
30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing to provide for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes
31. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?	Yes
32. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?	Yes

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33. <u>Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506)</u>: Will arrangements preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?	Yes
34. <u>Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510)</u>: Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?	Yes
35. <u>Repression of Population (FY 1991 Appropriations Act Sec. 511)</u>: Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	Yes
36. <u>Publicity or Propaganda (FY 1991 Appropriations Act Sec. 516)</u>: Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?	No
37. <u>Marine Insurance (FY 1991 Appropriations Act Sec. 563)</u>: Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?	Yes
38. <u>Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569)</u>: Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?	No

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B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. <u>Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment)</u>: If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

2. <u>Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund")</u>: Will DA funds be used for tied aid credits?

No

3. <u>Appropriate Technology (FAA Sec. 107)</u>: Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small business, and small incomes of the poor)?

Even though the DA funds will not finance directly appropriate technology schemes, the indirect beneficiaries of the project receiving housing finance i.e. the below median income group, are expected to utilize appropriate technology for cost saving.

4. <u>Indigenous Needs and Resources (FAA Sec. 281(b))</u>: Describe extent to which the activity recognizes the particular needs, desires and capacities of people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental processes essential to self-government.

The key objectives of the DA project is to assist Indian private sector housing finance companies to develop skills and mechanism for domestic resource generation and through market oriented strategies effect participation of low-income households in the formal housing finance system.

5. <u>Economic Development (FAA Sec. 101(a))</u>: Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

The DA project will strengthen the demonstration models of viable and self sustaining housing finance companies and assist in the development of effective and profitable methods of lending to low-income/informal sector households.

6. <u>Special Development Emphasis (FAA Secs. 102(b), 113, 281(a))</u>: Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

(a) The DA project which will complement the HG element will facilitate the supply of market oriented housing loans to low-income households living in urban areas including small towns. The US tech. assistance will be used to promote program sustainability; (b) the program will focus on private housing finance system development including strategies to develop supportive govt. policies. It will explore the possibility of benefits reaching to selected cooperatives; (c) assistance will address the need to increase domestic private sector sources of funds for housing and thus supports the self help efforts being made by National Housing Bank, the implementing Indian agency; (d) assistance will encourage participation of female beneficiaries to gain access to housing finance. Since the program has a special focus on low-income groups, women from this group are expected to respond favorably to the formal housing finance schemes, as it would mean better standard of living for the entire household; and (e) since the purpose of the project is specifically to enhance India's housing finance system development capabilities, regional cooperation is not appropriate at this time.

7. Recipient Country Contribution FAA Sec. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes; NHB, the implementing entity for the project and the private sector entities who will receive assistance under the project will contribute at least 25% to the DA project.

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

The DA program will increase the institutional capabilities of private housing finance companies, non-governmental organizations and nodal public sector bank, viz. NHB and the supply of market oriented housing loans to low-income groups. Thus, through housing finance, the program will promote development.

9. Abortions (FAA Section 104(f); FY 1991 Appropriations Act, Title II under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilizaton?

No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	N/A
f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No
g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?	No
10. <u>Contract Awards (FAA Sec. 601(e))</u>: Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
11. <u>Disadvantaged Enterprise (FY 1991 Appropriations Act Sec. 567)</u>: What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	A specific portion of project funds have not been set aside for disadvantaged enterprises. However, the Mission will ensure that any contract in excess of $500,000 which is financed under the project includes a requirement for 10% of the value of the contract to be subcontracted to disadvantaged enterprises unless AID regulations provide otherwise.
12. <u>Biological Diversity (FAA Sec. 119(g))</u>: Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a longterm agreement in which the reci-	Some of the Project's activities will indirectly result in reducing environmental damage caused due to unplanned housing development. However, no activities are specifically targeted to the issue of bio-diversity.

pient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

13. <u>Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) and (g))</u>:

a. <u>A.I.D. Regulation 16</u>: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes; although the Project is entitled to a categorical exclusion under 22 CFR 216.2 (c)(2)(x), a requirement is included in the DA Grant Agreement to ensure that as far as relevant environmental factors are considered in providing assistance under the project.

b. <u>Conservation</u>: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and

N/A

other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity.

c. Forest Degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegra-

(1) No

(2) No

(3) No

(4) No

(5) No

(6) No

ded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. Sustainable Forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. Environmental Impact Statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

See response to para 13(a) in this Part (B)

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to

N/A

be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family. planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. <u>Debt-for-Nature Exchange (FAA Sec. 463)</u>: If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conser vation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing and watershed management.

N/A

17. <u>Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515)</u>: If deob/reob authority is sought to be exercised in the provision of DA assis-

Yes.

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tance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

18. Loans

a. Repayment Capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. — N/A

b. Long-range Plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? — N/A

c. Interest Rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — N/A

d. Exports to United States (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan or has the requirement to enter into such an agreement been waived by the President because of a national security interest? — N/A

19. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained — See response to para 6 in this part B.

basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural Poor and Small Farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research of local conditions shall be made.	*See* response to para 8 of this Part B.
b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.	N/A
c. Food Security: Describe extent to which activity increases	N/A

national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and children, using paramedicals and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

Some assistance will be provided indirectly or directly to private voluntary organizations to promote the feasibility of model lending programs for the low-income groups.

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;	N/A.
b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	The DA program will promote Indo-US collaboration related to professional services for developing a self-sustaining housing finance system.
c. research into, and evaluation of, economic development processes and techniques;	Assistance will be used for pilot research studies and model programs to demonstrate profitable methods of housing finance lending to different households including low-income households.
d. reconstruction after natural or manmade disaster and programs of disaster preparedness;	N/A
e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;	N/A
f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.	Assistance will indirectly promote planned, environmentally and hygienically safe housing schemes for the urban poor thus leading to their economic and social development.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. <u>Economic and Political Stability (FAA Sec. 531(a))</u>: Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	N/A
2. <u>Military Purposes (FAA Sec. 531(e))</u>: Will this assistance be used for military or paramilitary purposes?	N/A
3. <u>Commodity Grants/Separate Accounts (FAA Sec. 609)</u>: If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see 575(a)(5).)	N/A
4. <u>Generation and Use of Local Currencies (FAA Sec. 531(d))</u>: Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirement of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)	N/A
5. **<u>Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575 (b))</u>**: If assistance is in the form of a cash transfer:	N/A
a. <u>Separate Account</u>: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?	N/A

b. <u>Local Currencies</u>: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? N/A

c. <u>U.S. Government Use of Local Currencies</u>: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. Government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? N/A

d. <u>Congressional Notice</u>: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance? N/A

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ACTION: AID-2 INFO: AMB DCM POL ECON SCI FAS FCS (8)

VZCZCNE0312 31-AUG-91 TOR: 06:08
PP RUEHNE CN: 64213
DE RUEHC #9027 2430524 CHRG: AID
ZNR UUUUU ZZH DIST: AID
P 310521Z AUG 91 ADD: .
FM SECSTATE WASHDC
TO RUEHNE/AMEMBASSY NEW DELHI PRIORITY 3514 GRANT 386-HG-003 A
INFO RUEHBK/AMEMBASSY BANGKOK PRIORITY 6586
BT
UNCLAS STATE 289027 09/03/1991 13:00

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AIDAC ACTION:

E.O. 12356: N/A
TAGS: TDE-3
SUBJECT: INDIA HOUSING FINANCE SYSTEM PROGRAM (386-HG-003); APPROVAL TO AUTHORIZE AMENDMENT

INFO

REF A) NEW DELHI 17208 B) NEW DELHI 27060 C) NEW DELHI 13108 D) STATE 133977

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PDPS
CHRON

1. REFTELS REPRESENT APRE REVIEW PROCESS FOR NEW DELHI PROPOSED AMENDMENT TO HG-003 AND DOCUMENT THE COLLABORATIVE EXAMINATION AND RESOLUTION OF A RANGE OF ISSUES REGARDING CONTINUATION OF MISSION'S HOUSING PROGRAM.

2. BASED ON THIS RECORD, AA/APRE HEREBY DELEGATES TO MISSION DIRECTOR THE AUTHORITY TO APPROVE AMENDMENT TO HG-003 IN THE AMOUNT OF DOLS 50 MILLION. THE MISSION DIRECTOR IS ADVISED THAT LETTERS OF ADVICE SENT TO THE GOVERNMENT OF INDIA, BY WHICH THE GUARANTEE COMMITMENTS WILL BE MADE, ARE LIMITED BY THE FISCAL YEAR AVAILABILITY OF FUNDS AND STATUTORY DOLLAR LIMITATIONS. THE LETTERS OF ADVICE WILL BE SIGNED BY THE DIRECTOR OF APRE/H OR HIS DESIGNEE AFTER FUNDS CONTROL APPROVAL BY AID/W/FM AND BUREAU PROGRAM OFFICE. IN ADDITION, MISSION DIRECTOR MAY AUTHORIZE DA COMPONENT AT LEVEL OF DOLS 3.5 MILLION.

3. AS MISSION MAY KNOW, APRE IS INVOLVED IN FOCUS AND CONCENTRATION EXERCISE AT THIS TIME WHICH MAY AFFECT FUTURE PROGRAM DEVELOPMENT IN THE HOUSING SECTOR. THEREFORE, BUREAU WISHES TO ADVISE MISSION THAT APPROVAL FOR THIS ACTION IS BASED ON RATIONALE THAT IT IS AN AMENDMENT OF AN EXISTING ACTIVITY RATHER THAN INITIATION OF A NEW PROGRAM, IRRESPECTIVE OF EXTANT DEMAND.

4. MISSION IS REMINDED THAT AUTHORIZATION REQUIRES IEE APPROVAL BY BUREAU ENVIRONMENTAL COORDINATOR. SUGGEST THAT YOU SUBMIT IEE IMMEDIATELY TO MOLLY KUX, APRE/DR/TR, TO AVOID HG AUTHORIZATION DELAYS.

5. PLEASE PROVIDE APRE WITH COPIES OF APPROVED DOCUMENTS FOR OFFICIAL FILES.
EAGLEBURGER
BT

118

ANNEX O

2205 1

UNCLASSIFIED
AID 09/10/91
D:WGBOLLINGER
PDPS/PPE:NNAGPAL:SS WGB
PDPS:MCGUPTA PDPS:JO'ROURKE PDPS:TMAHONEY TDE:CBILLAND
AID NN

AMEMBASSY NEW DELHI MCG
SECSTATE WASHDC
INFO AMEMBASSY, BANGKOK JOR

AID/W FOR JEREMY HAGGER, APRE/HOUSING TMM
BANGKOK FOR RHUDO (DRAFT)
CB
AIDAC (DRAFT)
DB
E.O. 12356: N/A (DRAFT)
SUBJECT: INDIA HOUSING FINANCE SYSTEM PROGRAM
- EXPANSION (HG-003A) - RISK ASSESSMENT

REFERENCES: A) STATE 163977 B) NEW DELHI 13108
- C) STATE 216558

1. THE FOLLOWING RESPONDS TO REFTEL A, PARA 4 REQUEST FOR RISK ASSESSMENT.

SUMMARY

INDIA HAS EXPERIENCED PERSISTENT AND DETERIORATING DEFICITS IN EXTERNAL TRADE AND THE OVERALL BALANCE OF PAYMENTS (BOP) DURING THE LATTER HALF OF EIGHTIES. THIS DIFFICULT BOP SITUATION CULMINATED IN A SEVERE FOREIGN EXCHANGE CRISIS IN EARLY 1991. IN RESPONSE TO THE CRISIS, THE GOVERNMENT OF INDIA (GOI) TOOK DECISIVE ACTION TO AMELIORATE THE IMMEDIATE LIQUIDITY CRISIS AND HAS INDICATED A WILLINGNESS TO PURSUE A LONGER TERM STABILIZATION PROGRAM. THE DECISIVE EMERGENCY MEASURES SUGGEST THAT INDIA WILL MAKE ALL EFFORTS TO REMAIN

ECON:DBURNETT

Annex O-2

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CURRENT ON ITS EXTERNAL OBLIGATIONS. THE SUBSTANTIAL EXTERNAL ASSISTANCE OFFERED BY THE IMF AND WORLD BANK MAY HELP IMPROVE INDIA'S CREDIT RATING IN THE SHORT RUN, AND THE RECENTLY (JULY 1991) ANNOUNCED TRADE, INDUSTRIAL AND FOREIGN INVESTMENT POLICY REFORMS, IF IMPLEMENTED, WILL HAVE A POSITIVE EFFECT ON THE BOP SITUATION IN THE MEDIUM TERM.
END SUMMARY
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2. BACKGROUND: FOREIGN EXCHANGE LIQUIDITY POSITION
- -----------

SUCCESSIVE DEFICITS IN THE BALANCE OF PAYMENTS HAVE GREATLY WEAKENED INDIA'S EXTERNAL LIQUIDITY POSITION. INDIA'S EXPORTS, WHICH WITNESSED ROBUST GROWTH OF 19.5 (NINETEEN POINT FIVE) PERCENT PER YEAR (IN DOLLAR TERMS) BETWEEN 1987-90, SLOWED CONSIDERABLY IN 1990-91 (ONLY 9.1 PERCENT) PRIMARILY BECAUSE OF POOR PERFORMANCE OF GEMS AND JEWELERY ALTHOUGH OTHER IMPORTANT EXPORT SECTORS (ENGINEERING AND CHEMICALS) ALSO SLOWED. THE SLOWDOWN IN EXPORTS WAS ACCOMPANIED BY GULF WAR OIL PRICE INCREASES WHICH ADDED DOLS. 1.05 BILLION TO INDIA'S ANNUAL IMPORT BILL. THIS WAS FURTHER EXACERBATED BY A DECLINE IN THE DOMESTIC OUTPUT OF CRUDE OIL - FROM 54.5 MMT TO 32.8 MMT - DUE TO DISTURBANCES IN ASSAM. AS A RESULT, INDIA'S TOTAL OIL IMPORT BILL INCREASED BY DOLS. 1.96 BILLION, OR FIFTY TWO (52) PERCENT ABOVE THE PREVIOUS YEAR. THE FOREIGN EXCHANGE CRUNCH WAS ALSO EXACERBATED BY THE ESTIMATED LOSS OF DOLS. 870 MILLION IN REMITTANCES FROM INDIAN WORKERS DISPLACED FROM THE PERSIAN GULF. (INDIA'S CURRENT ACCOUNT DEFICIT REACHED AN ALL TIME HIGH OF DOLS. 9.9 BILLION OR 3.5 PERCENT OF GDP IN 1990-91, UP FROM DOLS. 8.3 BILLION IN 1989-90 OR 3.1 PERCENT OF GDP.)

3. AGAINST THIS BACKDROP, INDIA RELIED HEAVILY ON EXTERNAL BORROWINGS WHICH INCREASED TO DOLS. 70 BILLION IN 1990-91 FROM DOLS. 63 BILLION IN 1989-90. WITH DECLINING CONCESSIONARY AID FLOWS AND GROWING DEBT BURDEN, DEBT SERVICING WAS INCREASINGLY FINANCED FROM THE ALREADY DWINDLING FOREIGN EXCHANGE RESERVES.

- IN MARCH OF 1991 THESE RESERVES WERE EQUIVALENT TO DOLS. 2.3 BILLION, OR ONLY FOUR WEEKS OF IMPORTS. TWO MONTHS LATER, IN MAY 1991, RESERVES DIPPED FURTHER - TO AN ALL TIME LOW OF DOLS. 1.2 BILLION.

4. IN JANUARY, 1991 THE IMF PROVIDED DOLS. 1.8 BILLION IN FINANCING TO HELP PAY FOR ESSENTIAL OIL IMPORTS AND TO AVOID DEFAULT. DESPITE THIS LOAN, INDIA'S FOREIGN EXCHANGE POSITION DETERIORATED FURTHER, AND ITS CREDIT WORTHINESS DECLINED TO A POINT WHERE INTERNATIONAL BANKS BEGAN TO CUT OFF CREDIT. MAJOR INTERNATIONAL CREDIT RATING AGENCIES DOWNGRADED INDIA TWICE IN 1991. MOODY'S AND STANDARD AND POOR DOWNGRADED INDIA FROM THE INVESTMENT GRADE TO THE SPECULATIVE GRADE. EARLIER THIS YEAR, MOODY'S LOWERED INDIA'S RATING FROM BAA 3 TO BA 2 FOR LONG TERM DEBT AND TO 'NOT PRIME' FROM 'PRIME 3' FOR SHORT TERM DEBT. STANDARD AND POOR HAD LOWERED INDIA'S LONG TERM DEBT RATING FROM BBB TO BB - THE HIGHEST SPECULATIVE GRADE.

5. REFORM AGENDA AND PROSPECTS

WITH THE SLOWDOWN IN EXPORTS, AN ESCALATING IMPORT BILL, PRECARIOUSLY LOW FOREIGN EXCHANGE RESERVES, INCREASED SHORT-TERM EXTERNAL BORROWINGS AND TWO YEARS OF POLITICAL INSTABILITY (GREATLY EXACERBATED BY THE MAY ASSASSINATION OF RAJIV GANDHI), THE CRISIS REQUIRED BOLD GOI ACTION TO RESTORE INTERNATIONAL CONFIDENCE. THE NEW GOVERNMENT THAT ASSUMED OFFICE IN JUNE 1991 QUICKLY DEMONSTRATED ITS RESOLVE TO AVOID DEFAULT BY AIR FREIGHTING ALMOST 47 TONS OF OFFICIAL GOLD RESERVES TO THE BANK OF ENGLAND AS COLLATERAL. THE GOVERNMENT ALSO DEVALUED THE RUPEE BY ALMOST 23 PERCENT AGAINST THE DOLLAR IN JULY 1991. (THIS BROUGHT THE TOTAL DEPRECIATION AGAINST THE U.S DOLLAR SINCE THE BEGINNING OF THE YEAR TO APPROXIMATELY 43 PERCENT.)

6. DEVALUATION WAS FOLLOWED BY A PACKAGE OF SWEEPING INDUSTRIAL AND TRADE REFORMS INCLUDING AN AUSTERE GOI DEFICIT-REDUCING BUDGET, BOLD STEPS TOWARD THE ABOLITION OF INDUSTRIAL LICENSING AND REDUCING RESTRICTIONS ON BOTH DOMESTIC AND FOREIGN INVESTMENT, THE REMOVAL OF EXPORT SUBSIDIES, THE INTRODUCTION OF TRADEABLE EXIM SCRIPS, AND AMENDMENT OF THE STRINGENT FOREIGN EXCHANGE

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REGULATION ACT (FERA) TO ALLOW FOR FOREIGN EQUITY INVESTMENT UP TO 51 PERCENT FOR 34 SPECIFIC INDUSTRIES. THESE GOI MEASURES ARE INTENDED TO STIMULATE GREATER FOREIGN INVESTMENT IN INDIA AND INTEGRATE THE INDIAN ECONOMY WITH THE INTERNATIONAL ECONOMY. NOTWITHSTANDING BOLD POLICY INITIATIVES AND INDIAN EXPECTATIONS, FOREIGN BUSINESSES ARE SKEPTICAL OF SMOOTH IMPLEMENTATION OF NEW POLICIES PRIMARILY BECAUSE OF UNHELPFUL ATTITUDE OF GOVERNMENT BUREAUCRACY PARTICULARLY AT LOWER LEVELS.

7. CURRENTLY FOREIGN DIRECT INVESTMENT LEVELS IN INDIA ARE SMALL - DOLLARS 350 MILLION IN 1989-90 - A MINISCULE AMOUNT FOR AN ECONOMY OF THE SIZE OF DOL. 280 BILLION. ALTHOUGH THERE IS UNLIKELY TO BE A SUBSTANTIAL INCREASE IN INVESTMENT IN THE NEAR TERM, AND MUCH DEPENDS ON GOI IMPLEMENTATION OF THE NEW INVESTMENT CODE, MEDIUM AND LONG TERM PROSPECTS ARE FAVORABLE. BOTH OFFICIAL AND UNOFFICIAL INDIAN SOURCES ESTIMATE THAT FOREIGN DIRECT INVESTMENT WILL RISE SHARPLY IN THE NEXT THREE TO FIVE YEARS.

8. ANY ASSESSMENT OF INDIA'S 'COUNTRY RISK' OR 'CREDIT RISK' MUST TAKE INTO CONSIDERATION THE RECENT POLICY REFORMS INSTITUTED BY THE GOVERNMENT. ALTHOUGH IT IS EXPECTED THAT THE MEDIUM TERM IMPACT OF THESE REFORMS WILL BE FAVORABLE, IN THE NEAR TERM INDIA WILL REQUIRE EXTERNAL ASSISTANCE TO ADDRESS ITS IMMEDIATE LIQUIDITY PROBLEM. BASED ON THE REFORM MEASURES ALREADY TAKEN AND INDIA'S ANNOUNCED INTENTIONS, THE IMF AND THE WORLD BANK HAVE EXPRESSED THEIR INTENT TO PROVIDE SUBSTANTIAL CREDIT. THE FIRST TRANCHE OF ALMOST DOL 2 BILLION IS EXPECTED TO BE MADE AVAILABLE BY SEPTEMBER 1991. IT MAY, HOWEVER, BE NOTED THAT INDIA'S FOREIGN EXCHANGE LIQUIDITY POSITION CONTINUES TO BE EXTREMELY PRECARIOUS, AND EVENTUALLY COULD JEOPARDIZE THE ENTIRE REFORM PROGRAM. FOREIGN EXCHANGE FINANCING IS A WEEK-TO-WEEK SITUATION, WITH THE GOI STRUGGLING TO MEET A DOLS. 400 MILLION GAP EACH MONTH ON ITS CURRENT AND CAPITAL ACCOUNTS. WITHOUT CONFIDENCE OF THE INTERNATIONAL BANKING COMMUNITY, AND WITH FEW FOREIGN LOANS, THE GOI MAY HAVE TO MAINTAIN STRICT IMPORT CURBS.

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9. CREDIT RATING

OFFICIAL DONORS LIKE THE WORLD BANK HAVE REITERATED THE NEED TO PROVIDE EXTERNAL FINANCIAL ASSISTANCE TO SUPPORT THE GOI'S ADJUSTMENT PROGRAM. DONOR ASSISTANCE FORTHCOMING WILL NOT ONLY HELP INDIA MEET ITS IMMEDIATE COMMITMENTS AND RESTORE LIQUIDITY, BUT IT WILL HAVE A SIGNIFICANT BEARING ON HOW OTHER CREDITORS VIEW INDIA.

10. STANDARD AND POOR CONSIDERS THE FOLLOWING FACTORS WHEN JUDGING INDIA'S CURRENT CREDIT WORTHINESS; (A) THE 1991 GOI BUDGET; (B) EVIDENCE OF SUBSTANTIAL OFFICIAL ASSISTANCE AND RESTORATION OF LIQUIDITY, AND (C) OTHER ELEMENTS OF THE NEAR TERM STABILIZATION PROGRAM. THE GOI'S RECENTLY PRESENTED 1991-92 BUDGET AND THE ANNOUNCED POLICY REFORMS DEMONSTRATE THE GOI'S INTENT TO PURSUE A VIABLE STABILIZATION AND RESTRUCTURING PROGRAM.

11. WHEN VIEWED IN TERMS OF THE FOLLOWING TWO ACCEPTED INDICATORS, INDIA DOES NOT APPEAR TO BE 'SEVERELY INDEBTED';

- A) EXTERNAL DEBT/GNP: THE CRITICAL VALUE FOR THIS RATIO IS 50 PERCENT. THE VALUE FOR INDIA IN 1989-90 IS ESTIMATED TO BE 24.1 PERCENT, MUCH BELOW THE CRITICAL VALUE. HOWEVER, THE VALUE OF THIS CRITICAL RATIO IS EXPECTED TO INCREASE FURTHER IN 1990-91 AND 1991-92, PRIMARILY DUE TO SHARP DEPRECIATION OF THE INDIAN RUPEE. IT MUST BE NOTED THAT DESPITE THE ADVERSE BALANCE OF PAYMENTS POSITION AND POLITICAL PROBLEMS, INDIA'S ECONOMY (GDP) CONTINUED TO GROW AT FIVE (5) PERCENT RATE PER ANNUM IN 1990-91 (VERY HIGH BY INTERNATIONAL STANDARDS). THE DOMESTIC RATE OF GROWTH, HOWEVER, DOES NOT RECEIVE MUCH WEIGHT IN INDIA'S CREDIT RATING.

- B) DEBT SERVICE RATIO: THIS RATIO WHICH IS DEFINED AS A PROPORTION OF GROSS CURRENT RECEIPTS, WAS 27.4 PERCENT IN 1989-90 AND 28.2 IN 1990-91 - BELOW THE CRITICAL VALUE OF 30. THE FUTURE TREND AS PROJECTED BY THE WORLD BANK SUGGESTS A STEADY IMPROVEMENT IN THIS RATIO IN THE NEXT THREE YEARS.

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12. CONCLUSION

INDIA'S BOP POSITION AND FOREIGN EXCHANGE CRUNCH ARE CAUSE FOR CONCERN, BUT PROJECTIONS FOR FUTURE TRENDS MUST TAKE INTO CONSIDERATION THE RECENT GOI POLICY REFORMS. BASED ON GOI IMPLEMENTATION OF THE REFORMS TO DATE AND THE ANNOUNCED ADDITIONAL MEASURES WE CONCLUDE THAT:

- INDIA WILL CONTINUE TO SERVICE ITS EXTERNAL DEBT

- INDIA'S INTERNATIONAL CREDIT RATING WILL IMPROVE IN THE NEAR FUTURE.

- THE CURRENT ACCOUNT DEFICIT OF THE BALANCE OF PAYMENTS WILL IMPROVE WITHIN THE NEXT THREE TO FIVE YEARS.

CLARK##

S VARADACHARY
JOINT SECRETARY(TC)

Government of India
Ministry of Finance
Department of Economic Affairs

D.O.No.2(40)-AID/88

25.9.1991

2068
09/30/91
ACTION:
TDE
INFO:
D
DD
PDPS
CO
CHRON
RF-2

Dear Mr Bollinger,

Please refer to my D.O.letter of 23rd September, 1991 communicating our formal clearance for the Housing Finance System Programme Expansion to the tune of US $ 50 million in Guarantee Funds and upto US $ 3.5 million as Development Assistance Grant.

I have had the matter reexamined. In view of USAID's agreement with National Housing Bank to increase the assistance towards the Development Assistance, we have no objection to the Development Assistance Grant upto US $ 5 million for the purpose.

with best wishes,

Yours sincerely,

(S VARADACHARY)

Mr Walter G Bollinger
Director
USAID
New Delhi

120

ACTION: AID-2 INFO: AMB DCM POL ECON SCI FAS (7)

VZCZCNE0533 25-SEP-91 TOR: 02:20
PP R"EHNE CN: 07659
DE RUEHC #7567 2680210 CHRG: AID
ZNR UUUUU ZZH DIST: AID
P 250210Z SEP 91 ADD:
FM SECSTATE WASHDC
TO R"EHNE/AMEMBASSY NEW DELHI PRIORITY 9425
INFO R"EHBK/AMEMBASSY BANGKOK PRIORITY 7738
BT
UNCLAS STATE 317567

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: DELEGATION OF AUTHORITY HG-003A-INDIA; LOAN NUMBER HG-011

1. THE OFFICE OF HOUSING AND URBAN PROGRAMS REQUESTS THE DIRECTOR OR THE DEPUTY DIRECTOR OF USAID/INDIA OR THE U.S. AMBASSADOR TO A"THORIZE AND ISS"E A LOAN G"ARANTY COMMITMENT, IN THE NAME AND ON BEHALF OF THE UNITED STATES OF AMERICA ACTING THROUGH THE AGENCY OF INTERNATIONAL DEVELOPMENT (A.I.D.), FOR ".S. DOLLARS 5.4 MILLION UNDER THE AMENDED ".S. DOLLARS 50 MILLION HO"SING G"ARANTY PROGRAM (386-HG-003A; LOAN NO. HG-011) FOR HOUSING FINANCE SYSTEM DEVELOPMENT APPROVED IN SEPTEMBER 1991. FM/LM HAS VERIFIED THE AVAILABILITY OF EXISTING G"ARANTY A"THORITY FOR THIS AUTHORIZATION.

2. THE DIRECTOR OR DEP"TY DIRECTOR OF "SAID/INDIA OR THE AMBASSADOR IS REQUESTED TO SIGN: (A) AN AUTHORIZATION AND (B) A LETTER OF ADVICE, BOTH IN THE FORM THAT HAVE BEEN CLEARED BY GC/APRE AND THE REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICE FOR ASIA, TO COMMIT U.S. DOLLARS 5.4 MILLION OF HOUSING LOAN G"ARANTIES TO THE NATIONAL HO"SING BANK (NHB), A SUBSIDIARY OF THE RESERVE BANK OF INDIA. THIS WILL ENABLE THE NHB, IN CONJ"NCTION WITH "SAID/ INDIA

AND APRE/H, UPON FULFILLMENT OF ANY APPLICABLE CONDITIONS PRECEDENT, TO PROCEED WITH THE BORROWING OF F"NDS FROM A U.S. INVESTOR.

3. FOLLOWING EXEC"TION OF THE A"THORIZATION AND DELIVERY OF THE LETTER OF ADVICE, PLEASE NOTIFY RHUDO/ASIA AND APRE/H BY CABLE AND SEND ONE ORIGINAL SIGNED COPY OF BOTH THE AUTHORIZATION AND THE LETTER OF ADVICE TO FM/LM AND SEND COPIES TO RHUDO/ASIA AND APRE/H. BAKER EAGLEBURGER
BT
#7567

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121

ACTION: AID-2 INFO: AMB DCM POL ECON SCI FAS (7)

VZCZCNE0128 26-SEP-91 TOR: 02:37
PP RUEHNE CN: 08245
DE R"EHC #9160 2690231 CHRG: AID
ZNR UUUUU ZZH DIST: AID
P 260231Z SEP 91 ADD:
FM SECSTATE WASHDC
TO RUEHNE/AMEMBASSY NEW DEHLI PRIORITY 9473 HG-003A
INFO R"EHBK/AMEMBASSY BANGKOK PRIORITY 7783
BT
UNCLAS STATE 319160

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: DELEGATION OF AUTHORITY HG-003A INDIA

REF: STATE 317567

1. THE LOAN NUMBER CITED IN THE REFTEL FOR THE DELEGATION OF AUTHORITY HG-003A IS NOT CORRECT. THE LOAN NUMBER FOR THE HG-003A AUTHORIZATION OF DOLLARS 5.4 MILLION SHOULD BE HG012. EAGLEB"RGER
BT
#9160

NNNN

09/26/91
16:00
ACTION:

TDE-2

INFO:

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DD

PDPS

CO

CHRON

122