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Final Report
Indo-US Housing Finance Expansion Program

Abt Associates Inc.
Management Support Services Contractor

November 20, 1996

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FINAL REPORT: INDO-US HOUSING FINANCE EXPANSION PROGRAM

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I. INTRODUCTION

Since October 1, 1992 Abt Associates Inc. has managed a four-year support services contract to promote the goals of RHUDO/USAID's housing finance system expansion program. In September 1996, as we close our project office in Delhi, we assess what we accomplished, where we fell short, and why. This is submitted to meet the contract requirement for a final report.

Attached to this report are the quarterly reports for the program. These and the annual evaluations conducted by USAID consultants R. Lintz and M. Lee in 1994 and 1995, contain the record of technical assistance and training activities delivered. We will here offer a first-hand account and evaluation of the program from the contractor's perspective, and draw on the details as needed to illustrate the main themes of our experience.

In Section I on housing finance industry development, we review the program's efforts to develop management and technical skills in NHB and housing finance companies; to create a lasting, institutionalized training program; to increase the financial resources available for housing loans; and to build a larger network of housing finance companies. This section presents our experience in strengthening NHB regulation and supervision as well as HFC risk management skills.

In Section II we review the program's work on making housing finance available to households below the median income. The program's evolution from a focus on HFC-NGO linkage to microfinance and community-based financial institutions is described. Recommendations for USAID's continuing work on community-based shelter finance are given.

In the final section, we review the administrative and managerial aspects of the program: the MSS concept itself, the Annual Work Plan contract, and how these devices actually translated into action or inaction on program goals. Program evaluators and expert consultants have not reviewed the administrative side of the contract, i.e., the process of planning, designing, and executing activities in accordance with contract rules and the Grant Agreement with the Government of India. While these topics are not as intellectually interesting as housing policy reforms or community-based finance systems, they are important. A majority of the contractor's time is devoted to program management and the balance on housing finance *per se*. We hope that our management experience will be helpful to USAID as it designs future programs.

II. HOUSING FINANCE INDUSTRY DEVELOPMENT

During the first two years of the program, we concentrated strongly on developing the housing finance companies and NHB's support for them. Later on, we developed many more activities oriented to NGOs, CBFIs, and the informal sector. In this section we will review

and evaluate three categories of technical assistance and training we provided to the housing finance industry: risk management; general management; and support for industry expansion.

A. Developing General Management Capabilities in the Industry

1. Training

It is important to note that many senior executives in this small industry are "deputed," i.e. on temporary assignment from the institution's parent bank or insurance company. Some of these deputed executives are approaching retirement, further reducing their interest in creatively addressing the tough challenges their companies face. These men's careers developed in a tightly controlled industry where management did not need to be especially dynamic or adaptable. In 1994-1996, the second-largest HFC had a series of Managing Directors whose deputations lasted less than six months each. Sometimes the parent organizations view housing finance as a low-challenge sector, suitable for those with less ability.

In a nutshell, India's housing finance industry needs to be professionalized, stimulated, and upgraded. Recognizing this, USAID earmarked fully 36 percent of contract resources for training.

Our industry training fell into four categories:

- training courses and study tours abroad;
- custom-designed workshops and courses in India;
- catalog courses in India;
- training programs designed and conducted by NHB, but funded by Abt.

In this section, we will briefly review how we delivered this training and comment on lessons learned, considering four dimensions: 1) audience; 2) western and Indian faculty; 3) style, i.e., participative vs. lecture; and 4) technical vs. managerial topics.

a. Audience: NHB-Recognized Companies

Until the second half of the fourth year of the program, NHB invited only representatives of NHB-recognized housing finance companies to participate in program training. "Recognized" means "approved to receive NHB financing." The number of such companies varied from 18 to the present 21. Many of these companies achieved recognition based on their public sector parent's name, at a time in the late eighties when the public sector banks were all creating housing finance companies, and only some were making a genuine commitment to the business. Consequently, only five or six of the NHB-recognized firms had significant lending business. Of those, HDFC and LIC had almost 3/4 of the market. The other recognized firms were virtually dormant, and to all appearances planned to remain that way--yet they were invited and usually attended. Their relative lack of engagement in housing finance made their

participation more or less irrelevant to the goals of the program.

Outside the program's purview, newly-forming, private-sector firms were taking housing finance very seriously. With their eyes on the future, these firms would have provided eager participants for the training we had to offer. However, not being NHB-recognized, they had no access to program training until the April 1996 Applied Housing Finance Course. The instructors of that course, who had spent two weeks teaching the recognized HFC group in 1995, found the non-recognized company officials to be markedly sharper and more interested in the material.

We discussed this policy with NHB a number of times, as it went directly against one of our strategic goals, to expand the number of housing finance institutions. The Bank expressed anxiety about extending invitations, or even issuing correspondence, to non-recognized companies. NHB was concerned that companies could use letters or training invitations to lead the public to think they were somehow endorsed by the Bank. The new management team that took over in early 1996 saw things differently, but by that time we were winding up.

b. Senior vs. Mid-Level

The word "*senior*" is heavily used in Indian business and government circles. There is a strong tendency to defer to experience. The habit of receiving deference can lead to lack of practice with difficult problems for the senior man, particularly if the seniority was gained in a highly regulated financial sector where management challenges were few. Consequently, we noticed a considerable difference between training senior housing finance executives and training mid-level people. The senior group, particularly those on deputation who had less experience with housing finance, was frequently harder to reach with new material. Discussions tended to be less focussed, as participants felt at liberty to steer the topic in their own direction. Mid-level officials were more flexible and ready to learn. However, the high-profile training we offered, with "star" teachers coming from the US, tended to attract these senior people. Training resources were particularly unproductive when directed to the senior executive of a dormant HFC.

c. Indian and Western Teachers

HFC's in their evaluations asked us to "Indianize" training courses, and we did. This increased training relevance and stretched training money. For example, seventeen participants attended the first Applied Housing Finance Course in India for a fraction of the cost of sending fewer people to the Fels International Housing Finance program. By supplementing the core American faculty with daily lectures by Indian housing practitioners, we tried to present state-of-the-art housing finance in an Indian context. Although the students did not get the benefit of hearing about other countries' housing finance systems as in the Fels program, our main goal was to focus on professionalizing practices in India.

Our secondary market workshop was another successful "Indianization." We offered expert presentations not only from Fannie Mae, but from Citibank India, which had completed several asset-backed securitizations; from an Indian attorney who had researched securitization for IDBI, and from CRISIL, the leading credit rating agency.

In our studies and workshops on Capital Adequacy; NHB Equity Guidelines; MIS for Regulation/Supervision; Mortgage Underwriting Guidelines; Institutionalization of CBFIs; and Financial Management, we were able to blend Indian and western elements by employing teams of Indian and foreign consultants to do the work.

We also made extensive use of India's fine network of business schools and other training institutes by steadily funding HFC mid-level executives to attend catalog courses, in particular those offered at HDFC's Lonavla Centre for Housing Finance.

d. Training Style: Participatory vs. Lecture

We tried several teaching styles. Many workshops were simply lectures accompanied by overhead slides. Others like the Secondary Market Workshop, Regulation/Supervision MIS Workshop, and the CBFIs Hyderabad Workshop included "action planning" exercises. We found that these need to be tightly structured; the exercise on business planning for Hyderabad CBFIs was probably the most successful of these, due to the use of a specially prepared, step-by-step workbook.

The computerized financial management simulation game "Bank President" was a big success in both of the courses where we used it. During five to ten 1 1/2 hour sessions, teams of 4-5 participants competed with one another to optimize financial returns while coping with changing economic conditions and competitors' strategies. (Perhaps NHB, which received the software, could develop an Indian version tailored for HFCs.)

e. Topics: Technical vs. Human Resources and Organization Development

The great majority of our custom-designed training courses were on technical housing finance issues. We relied on Indian catalog courses to provide more general management training to HFCs.

There were some exceptions. Mr. V. S. Mahesh, Buckingham University faculty and former Taj Hotels human resources chief, taught three sessions on organization development, human resources and motivation. In retrospect, it would have been wise to program more management training into our work plans. Our training agenda presumed that we were working with basically well-managed organizations needing technical input. This really was not the case for most HFCs, or for the NHB itself.

The workshop "Succeeding in Housing Finance in a Changing Business Environment" was developed to address the industry's conservative management style. Taught by Dr. James Christian, the workshop was designed to stimulate top managers' thinking about strengths, weaknesses, opportunities and threats confronting their companies in the liberalizing environment. *Housing finance* has a bright future, but housing finance *institutions* need to be looking over their shoulders for competitive threats from banks and other financial institutions, some of which may not yet exist yet in the country. This workshop was a first step in shaking the executives out of complacency.

We designed another workshop session to address the need for NHB to change the culture of

its regulatory and supervisory operation from bureaucratic rule-enforcement to a supervisory, collegial approach. Learning the supervisory role is new and important for Indian financial regulators, and the attitudinal aspect of the work was as new to NHB as the technical dimensions, on which we had already provided intensive training. In the event, the workshop deviated widely from the Scope of Work, as NHB frankly failed to rise to the occasion. To Mahesh's dismay, no senior NHB executives attended the session, despite having committed to do so. Organization development work cannot go far without top-level investment. The second problem was the Bank's choice of participants from a wide variety of departments, eliminating the planned focus on the supervisory function. Mahesh made the best of the situation, and spent two days discussing the transformation of a bureaucratic culture to a service orientation.

NHB middle-managers responded well, even passionately. In fact, after the workshop, the rumblings from mid-level staff were so strong that NHB's somewhat alarmed executive director and senior staff requested a special meeting with Abt and Mahesh to find out what had transpired during the workshop. After calming the situation, Mahesh and we again tried to interest NHB management in OD training, this time in the form of a "visioning" workshop for top NHB managers. For those of us who had worked closely with the Bank, this seemed an excellent idea. However, we weren't surprised when it did not materialize. NHB's general reticence about collaborating with our program on technical matters would be compounded for such a soul-searching exercise; moreover, they were still without a chief executive.

We recommend that USAID and NHB include management and organization development in any future technical assistance for the industry. This could include training in human resources development and strategic planning. If the employment of temporary "deputed" senior management continues to impede the industry, some technical assistance or training could be addressed to the issue. Perhaps executives of HFC parent banks could be enlisted for such an exercise.

2. Developing Institutional Training Capacity

The program was intended not only to sponsor discrete workshops on technical issues, but also to develop institutionalized housing finance training capacity for the industry which would outlast our temporary work. We probably had some impact in this regard, but oddly enough, progress on institutionalizing training occurred without our knowledge or direct involvement. The sequence went as follows.

During the first half of the program, NHB's training offerings consisted of "Orientation Programs" for housing finance companies. The format was simple; NHB officials would speak in sequence about their responsibilities to 15 or 20 HFC employees. As the title suggested, the theme was quite general and was intended to acquaint the companies with NHB's vision of the housing situation in the country and its programs for addressing the need. HFCs reported that they continued to send staff to the sessions out of concern for offending the apex institution, but felt they received little value.

These orientation programs were offered three or four times per year, and were funded by our program though conducted autonomously by the Bank. Sometimes NHB would substitute a

course on "Project Appraisal," which explained the regulations of the subsidized Land Development and Shelter Program (LDSP).

This training regime was outdated, and was not synchronized with the trainings we were then offering on risk management, regulation, secondary market, etc. A program-funded master plan for NHB training, developed during the first four months of the program by Ms. Marja Hoek-Smit of Fels, was apparently gathering dust. NHB had bought land for a major training center, but seemed preoccupied with the buildings, not the training itself. We were not able to get NHB agreement for any follow-up activities to implement Hoek-Smit's plan.

In February 1995, we learned from an HFC that NHB had begun offering a new set of eleven workshops, including topics such as Savings Mobilization; Legal Issues in Housing Finance; Management Development; Risk Management; MIS for Regulation and Supervision, as well as three traditional orientation programs. It was a welcome development, although we regretted not having had the opportunity to collaborate in it --and not having been informed, given its status as a major goal of our program. We subsequently inquired of the Bank whether they would be interested in using program resources for curriculum development, etc. Nothing came of the proposal.

We are told by NHB that creation of a training institute is now a high priority for the Bank, and its detailed structure, funding, etc. are being planned in detail. We are fairly sure that the stonewalling of the program on this subject has been caused by internal maneuvering within the Bank. Our NHB program liaisons had not been informing the people in charge of training about our proposals, and had simply been rejecting them. That situation has now changed. There may well be scope for USAID to revisit the possibility of assisting the Bank with its training role.

C. Trade Association Development

The program's goal statement, the "logical framework," or "logframe," provided for support to develop an HFC trade association. HFCs began forming one in 1993, and officially requested program support. However, NHB actively opposed formation of an independent trade association, as did HDFC for different reasons. Abt organized a workshop to be led by the chief executive of a leading US housing finance trade group, but it was cancelled at the last minute because of this opposition. Slowly, USAID and Abt adapted to the fact that the program would not be able to make progress on this objective, despite the counterpart's initial agreement to including it in the program goal statement.

The obvious interpretation of NHB's resistance was that the Bank did not want interference or pressure from an organized industry group. NHB did offer to "sponsor" a trade association under its own aegis, but this was a non-starter with the HFCs. We believe the Bank's position was essentially a symptom of its institutional weakness at the time.

D. Increasing Resources for Market-Oriented Housing Finance

1. Refinance Program

NHB's primary activity since its 1987 formation had been the provision of refinance to housing finance companies, using funds it received from public sector sources at administratively set interest rates (i.e., subsidized funds). Our first endeavor on the subject of resources for the system was a research study to 1) assess the demand and supply for refinance as the system liberalized; and 2) explore how NHB could raise market-rate resources.

As with other research activities conducted during the first part of the program, not much seemed to come of the study (by D. Diamond). Comments from the bank came six months after submission of the report, and were not particularly constructive.

After much NHB discussion about selection of consultants, the second half of this research was completed by UTI Institute for Capital Markets. UTI generated some very positive discussion with its detailed presentation about NHB's options for floating its first market-rate bond. The audience was a group of about one dozen NHB staff members. We proposed to follow up the UTI work with assistance in structuring the bond issue, but the bank preferred to develop the bond on its own. Within a year, the bank placed the bonds -- a milestone for the institution, and one the Program certainly contributed to.

At about this time we suggested a comprehensive review of NHB's financial support for the sector. Our view was that the refinance program, having originated in the directed credit era, needed to be reviewed from top to bottom -- especially since the program was NHB's core activity. Our attempt to put this activity on the list for Year Three was not successful, but for Year Four we got approval for a Scope of Work including a comprehensive review while addressing the NHB's request for transparent refinance guidelines. Dr. Handorf submitted his comprehensive recommendations for the future of the refinance program in June 1996.

Also in Year Four, NHB asked for guidelines on its program of equity investments in housing finance companies. This "program" had not been particularly structured or organized; investments were ad hoc. Again the bank substantially broadened its request after some good discussion on the subject. This study has generated some very useful discussion among NHB executives, going beyond the initial questions of fairness and accountability to basic issues of the purposes for NHB investment, e.g., maximizing return or promoting social objectives.

2. Secondary Market

Development of a secondary mortgage market for India has elicited strong interest from NHB and HFCs. Although it is possible to overplay the importance of a secondary market, and it is true that many housing finance systems function well without one, the option to sell loans would substantially improve HFCs' operating flexibility, risk management, and resource mobilization. Secondary market development incorporates many issues such as mortgage insurance, standard documentation, etc., which are important for primary market development, too. Therefore, we took advantage of the strong HFC and NHB interest and supported secondary market development by proposing several activities.

The secondary market study tour to the US in June 1994, following a lively March workshop on the same topic, generated good momentum. NHB produced a report on its vision for a major role in India's secondary mortgage market in May 1995, based on deliberations of its Secondary Market Core Group. Abt consultants prepared Standard Underwriting Guidelines and researched mortgage insurance as adjuncts to a possible mortgage-backed security program. Then in 1996, Abt consultants Amin, Guttentag and Starke sparked another creative round of talks among NHB, HFC executives, CRISIL, and merchant bankers. These were some of the most dynamic working sessions we experienced during the whole program.

On the other hand, it is true that we never came very close to executing the much-discussed "pilot instrument" which would actually ground all of the discussions in the reality of a test transaction. While we were discussing the issues at length, Citibank India issued a number of asset-backed securities. Although market conditions (high market rates and lower-coupon mortgages in portfolio) might have made it impossible to issue a pilot mortgage security in 1996, our technical assistance did not quite achieve enough focus to say that for sure. We were approaching that point in 1996, but then the Bank chose to move ahead on its own on the subject.

At one point in late 1994, Abt had completed a Request for Proposal process and was ready to subcontract with an Indian merchant banking firm for coordination of a pilot mortgage-backed security over 6-12 months. This was dropped as part of USAID's re-focus on low-income housing issues. However, if it had gone forward, we now doubt whether it would have been a productive exercise. The process of "dealmaking," with its many decision points and requirement for timely action, was probably not suited for a bilateral TA program with its built-in delays and bureaucratic procedures. The same can be said about the prospect of running a pilot low-income lending program. Perhaps it has worked well elsewhere, but in this operating environment, pilot programs may be too ambitious, and might better be left to individual companies or CBFIs to develop on their own, with support but not central coordination from the bilateral program.

3. Increasing HFC Share of Household Savings

The program's goal statement included increasing expansion of household savings as part of the HFC industry's resource base. (As of March 31, 1993, household deposits constituted just seven percent of HFC resources.) Abt retained an Indian market research firm to design a study to examine households' preferences for deposit products. The idea was to 1) guide HFCs in their product development and 2) to guide NHB toward those regulatory changes which would have maximum impact on our goal. Although a subcontract was negotiated to actually conduct the study (at a cost of \$56,000), AID and NHB decided to drop it as attention shifted to low-income shelter needs in early 1995. We did not re-visit the subject of household savings.

Household deposits had risen slightly as percentage of total resources by March 1995; individual companies such as HDFC reported sharp increases in household deposits as percentage of incremental new resources during the program years.

D. System Innovations: Mortgage Insurance, Deposit Insurance for HFCs, Foreclosure Law Reform

Mortgage insurance and deposit insurance were the subjects of research studies during the fourth year of the program; both are long-term industry-strengthening programs for the NHB to consider. Our consultants were positive about prospects for both, although Dr. Diamond was careful to note that any deposit insurance program must be linked with stronger NHB regulation and supervision.

Prospects for reforming the virtually unusable foreclosure law were analyzed in a 1989 USAID-funded study (Madway), but so far the system has not produced any movement on the topic to help the housing finance system (commercial banks have made some headway). During our program, we were aware only of inconclusive maneuvering between the NHB, the Ministry of Finance, and the Law Ministry about a foreclosure reform package.

E. Outreach and Support for New Housing Finance Companies

The project's initial strategy called for aggressive outreach and support to expand the number and scope of housing finance companies, including specific measures like studying the operations of the 300+ small, "registered" housing finance companies and then targeting assistance to the most viable ones. This must be judged a very important goal of the program, given that only Rs. 1764 cores (US \$588 million) in loans were sanctioned in the fiscal year ending 1992 in a country of more than 900 million people--and almost three-fourths of those loans came from just two housing finance companies.

We were aware of, and visited, several well-capitalized new housing finance companies. We proposed that the NHB should invite them to our workshops, as well as sponsor an outreach workshop specifically targeted to such up-and-coming firms. For 3 1/2 years, these proposals met with the same response from NHB: fear that any communication, and certainly active support, for non-NHB recognized companies could cause the HFC to claim NHB recognition or endorsement, and thus mislead the depositing public. As with the trade association strategy, the NHB's actions on this topic were opposite to what had been envisioned in the program design. Ironically, most of the recognized firms were of negligible size. The bank's position meant that the new firms would have to "bootstrap" their own way into the circle of NHB recognized firms. The problem was compounded by the fact that NHB refinance came to be less and less desirable as an incentive for the new companies, because of the scarcity of funds, the market interest rate, spread limits (though these were easing), and the perception that the NHB was difficult to work with.

For us, the bank's policy meant that efforts to expand the number of housing finance institutions would have to be indirect. We reasoned that by intensively training the officials working in the recognized HFCs, at least we could create a group of housing finance professionals in the country, and presumably that talent pool would be tapped by new companies starting up. In fact, this did happen, and a number of officials we had gotten to know from the workshops for recognized companies later joined or started new HFCs (which appeared to be more creative and dynamic organizations than the recognized firms they were

leaving).

In addition to training a core group of housing finance professionals, our efforts to expand the number of market-oriented housing finance institutions concentrated on indirect tactics to enhance the attractiveness of the sector for new companies. Interest rate deregulation; savings instrument liberalization; and internationally accepted capital norms and accounting standards were all accomplished by NHB during the program, with assistance from Abt and its consultants--and, it should be noted, following RBI precedent in every case as well. Secondary market, standard underwriting guidelines, regulation/supervision enhancement, deposit insurance, mortgage insurance, and updating NHB financial support programs all have the potential for indirectly expanding the number of market-oriented housing finance institutions, on the theory that if you build a housing finance system, investors will come.

Actually, the indirect approach may be the best one. Instead of promoting one institutional form, it may be wiser to work on building resource flows conducive to housing finance and to train competent housing finance professionals. The lasting institutional form for Indian housing finance may turn out not to be specialized companies. As has happened in developed countries, more comprehensive financial intermediaries such as banks could well supplant specialized firms.

The fact remains that at the end of the four-year program, we have not seen (let alone caused) significant growth in housing companies, branches, or mortgage loan volume. With fresh leadership at the NHB, continuing deregulation of the financial sector led by RBI and the Ministry of Finance, and the vigorous entrepreneurial talent found in many parts of the financial sector, this is bound to change.

F. Managing Risk in the System

Financial risk management in the formal sector housing finance industry was the primary focus of training and technical assistance in the first two years of the program. Interest rate risk in particular was viewed as a threat as the Indian financial system liberalized. From the NHB side, the focus on risk meant strengthening NHB's regulatory and supervisory activities. Abt saw risk management assistance as an urgent priority because we felt that the entire HFC industry, new and small as it was, would be badly damaged by the failure of even one institution. All of the other items on our development agenda had to be protected by sound risk management and effective NHB regulation.

1. Regulation and Supervision Activities

USAID's support of regulatory and supervisory development actually began in 1988 shortly after NHB's formation with a report by K. Wilson, "The National Housing Bank: Regulatory Options and Assessment Factors." Also predating the Abt contract, Dr. James Croft visited India in 1990 and prepared the report, "Options for Licensing, Regulation, Supervision and Closure of Housing Finance Companies in India." During the first twenty months of our program, we continued this support with four activities directly addressed to NHB's regulatory and supervisory function:

- James Croft's June 1993 report, which called for a substantial increase in regulatory and supervisory staff, along with an overhaul of the entire NHB regulatory function. At that time he reviewed NHB's actions taken on the 1990 recommendations, and noted that "NHB has had little opportunity to implement [them]. Other pressing issues appear to have diverted attention and resources from making the type of progress in regulation and supervision which was envisioned [in 1990]."
- Price-Waterhouse's recommendations for revamping the NHB's methods for collecting supervisory data from HFC's. These were developed in collaboration with Croft. P-W also conducted a 1994 Workshop on MIS system development for housing finance companies.
- The March 1994 "Executive Workshop" on regulation and supervision, attended by RBI, the Department of Company Affairs, selected HFCs, and NHB. It was facilitated by Croft on his third USAID-sponsored visit to India.
- Dr. William Handorf and Ms. Elaine Weis conducted a one-week training program for sixteen NHB staff members on HFC regulation and supervision.

In addition, Dr. Handorf's 1996 research on NHB's equity and refinance support for the industry included recommendations on how the bank should link its financial programs to HFC regulation and supervision. He also pointed out that the bank itself needs to implement coordinated financial risk management of its own business.

a. Evaluation: Regulation and Supervision Activities

- Due to the absence of a good, collaborative relationship, it was difficult to know what impact we were having on regulatory and supervisory policies. For example, NHB comments on Croft's June 1993 recommendations came only in November. The single page of comments consisted mainly of "corrections" of a trivial nature. By the time communications had improved in 1996, we had shifted emphasis to low-income shelter finance programs.

Consultant Croft's experience points up the difficulties we had. NHB executives told us they particularly admired Croft. However, they did not take him into their confidence. During his third visit, NHB declined to share a key regulatory proposal which was to go to its Board the following week. This was a regrettable illustration of the flawed partnership between USAID/Abt and the Indian counterpart that existed during most of the first half of the program.

- The mid-level NHB staff members who attended the week-long regulatory training were well-qualified and motivated to learn. They expressed a desire for leadership.
- We wanted to do more than make recommendations to improve regulation. We tried to facilitate action. Our two workshops in which participants were to actually develop plans for their organizations were admittedly ambitious, and only partially successful. The HFC session on risk-management MIS (which would link to NHB's regulation/supervision MIS) was to produce draft MIS plans which would be reviewed by senior HFC managers on return of the participants. The senior managers themselves attended the first day of the three-day session, but their comprehension of the issues, as well as their interest in the matter, seemed limited. This left the

middle managers without the necessary incentive to develop a useful product during their sessions. Nevertheless, the workshop did convey useful information on how companies could develop MIS systems to monitor financial and credit risks better.

The Executive Workshop on Regulation and Supervision was to develop a specific action plan for strengthening NHB's regulatory function. NHB was to develop the agenda for the small session, which would be attended by RBI, DCA, and key HFC executives. On the day before the session began, the Bank produced a brief, off-the-point agenda. Abt and Dr. Croft hurriedly assembled a new one to salvage the event. Croft had to assume the familiar role of "expert/teacher" because the Bank was not prepared to take a leadership role and run the meeting as the Scope of Work had envisioned. Although discussions were good, it was not the "Indianized" working session that was needed to advance the regulatory agenda. By this time, Dr. Croft's advice had been available to the Bank for four years, and it was past time for the counterpart to go beyond the role of "student." Moreover, the need for regulatory overhaul was growing steadily as the financial sector opened and many new housing finance companies were forming.

- One clear result of our work on regulatory/supervisory issues was the issuance of NHB's new "Call Report" format to the HFCs in May 1994. The new report requested information that would enable NHB to judge interest rate risk exposure and evaluate loan delinquencies according to international norms. While HFCs reported there were some confusing aspects of the new forms (which might have been improved if Abt had been invited to collaborate in developing them), Croft and Price-Waterhouse had made some impact.

- An HFC which was recently scrutinized for credit rating by a private rating agency said the agency's thoroughness and its examiners' expertise far surpassed the rigor of NHB's inspection process. Handorf's 1996 studies on NHB finance programs confirm that NHB still has a long way to go in shaping up its regulatory and supervisory function.

b. Lessons for Future Technical Assistance Design

- Don't get too far ahead of the counterpart. Perhaps we should have let Croft remain in the US until NHB designed an entire agenda for the "Executive Workshop" and demonstrated they were ready to lead it.

- On the other hand, *do* look for opportunities to lead the counterpart. For example, NHB requested us to supply new "transparent" guidelines for their equity and refinance programs. We saw an opportunity to expand the scope considerably to a comprehensive analysis of both programs, including an analysis of their risk management implications. NHB's new management team agreed (January 96) and the resulting work by Handorf and A. F. Ferguson addresses strategic issues that the Bank had perhaps not conceptualized.

- Continuity is valuable when selecting consultants. Although NHB did not make full use of it, Croft formed a genuine working relationship with NHB. His recommendations are still being used by the Bank.

- Build relationships up and down the line in the counterpart organization. Our week-long training session with the mid-level staff gave us insight into the organization which we had missed

by being limited to two "official program liaisons." We learned that NHB had a group of smart, knowledgeable examiners who were eager to rise to the challenges of the liberalized era. The leadership gap was confirmed as a key problem.

- Identify critical themes, and persevere. While the results have been slow in coming, we knew the regulation/supervision issue was critical, and by pushing it from many directions, we did raise NHB's awareness of the subject.

- Use "outsider" status to catalyze discussion among institutions that normally don't communicate freely. The give-and-take among RBI, DCA, HFCs, and the Bank at the Executive Workshop would not have happened without the program's instigation.

D. Improving HFC Risk Management

The focus on NHB regulation and supervision was complemented by a strong focus on HFC management of financial risk, particularly interest rate risk. With some exceptions, HFCs have so far done well in controlling credit (repayment) risk by using conservative loan underwriting criteria. However, the industry is just beginning to get experience with a devaluation cycle in housing values, which will put the system to a test. USAID brought Dr. Santomero to India a few months before Abt arrived, to meet with HFC leaders and prepare the report, *Risk Management in Times of Financial Liberalization*. He returned 14 months later to teach a workshop on risk management for NHB and HFC chief executives. Subsequently, Dr. Diamond reported on the status quo of HFC risk management to serve as the background for two May 1995 HFC sessions on "Applied Risk Management," again taught by Santomero. Risk management was a key theme in our two Applied Housing Finance courses, and in the HFC workshop on Capital Adequacy. Risk management MIS was researched by Price-Waterhouse and training was presented to HFCs as described above.

Although we have provided intensive training to the HFCs on risk management, financial risks remain high in the system today. In 1995, a Credit Lyonnais Securities analysis of the industry (not funded by the program) noted that "for a number of [housing finance] companies, non-performing asset levels are high, spreads are low, asset-liability mismatches are common, costs are high and returns are low." Our 1996 risk analysis of HFC deposits, performed by CRISIL, noted the need for HFCs "to significantly improve risk management techniques as financial markets become increasingly volatile."

Writing for Abt in July 1996, Handorf noted, "Selected housing finance companies have yet to develop risk management systems that allow management to identify, measure, monitor and control exposure to risk. Importantly, selected HFCs have mismatched the repricing and maturity schedules of assets and liabilities; hence are potentially exposed to interest rate and liquidity problems." (NHB Refinance Report, p. 1)

Abt consultant Bartell sounded a similar cautionary note in a 1996 article, noting that the Indian housing finance scene bears some similarities to the US thrift industry in the early 1980s.

E. Overview: Risk Management Activities

The need for sophisticated risk management in the housing finance industry is more critical now than it was when Dr. James Croft wrote his first report on the subject six years ago, before financial sector liberalization. It remains true that USAID's investment in the sector as a whole is vulnerable to a loss of public confidence in housing finance companies. Such a loss of confidence would impede AID's current efforts to develop community-based finance and link CBFIs to the formal sector. Moreover, so long as HFC's are in a high-risk situation with their existing business, they will understandably hold back from new opportunities in unsalaried and low-income markets.

We recommend that wherever there is a reasonable opportunity for results, USAID should continue to work with NHB and HFCs on regulation, supervision, and risk management. Training could be complemented with development of urgently needed tools, including interest-rate risk simulation software; variable rate loans; a secondary mortgage market; re-designed and fully-funded NHB refinance; and short-term NHB liquidity advances. Deposit insurance and mortgage insurance facilities would provide structural enhancements -- not substitutes -- for HFC and NHB risk management. An aggressive NHB program to increase the number of recognized companies with access to NHB financing would give the companies greater financial flexibility, while subjecting them to full NHB supervision.

III. EXPANDING HOUSING FINANCE TO LOWER-INCOME HOUSEHOLDS

A. Evolution of Program Strategy

A central goal of our work was to expand the benefits of the emerging market-oriented housing finance system to households below the median income. The project paper and goal statement proposed helping HFCs and NHB to reach informal sector and low-income markets with alternative underwriting criteria; NGO intermediaries; and a loan guaranty fund. This approach was based in part on the success HDFC had using NGOs (three-fourths of them located in Tamil Nadu and Kerala) to locate qualified borrowers in its KFW-funded, subsidized loan program. By December 1992, HDFC had delivered almost Rs. 11 crores through this program, financing 22,191 simple dwellings of about 300 sq. ft.

The agenda was to identify willing and qualified HFC/NGO partners; assist them with development of alternative underwriting guidelines, loan guarantees, or other tools; and then to test the whole model by means of "pilot projects."

1. Using HFC's As The Vehicle

Given the small number of significant HFC's, their fledgling status, the unenforceable foreclosure laws, and the fact that even five percent of India's market is a very large number, we were not surprised when our consultants reported that HFC's were lending almost entirely to salaried

people, the great majority of them earning more than the median income as well.

We were aware of a conflict. We had just begun to make badly needed improvements in housing finance companies' risk management systems. At the same time, we were trying to bring them into pilot programs which not only would lend to non-salaried people, but also to lower-income non-salaried people. Our market-orientation, a basic feature of the goal statement, required that this be done not with donor money, but with the HFC's own market-sourced funds. In other words, we were looking for a business expansion program in which the low-income, informal sector market would be profitably served by HFCs. The HFC would receive technical help on underwriting standards, use NGOs for marketing, and possibly employ a small-scale loan guaranty program for especially high-risk cases. The project paper spoke of using NHB funds (or NHB-borrowed Housing Guaranty funds, which amounts to the same thing) to capitalize such guaranties.

In short, the strategy outlined in the project goal statement was a very tall order. We knew from our 18 months of work with HFCs that many of them were struggling to deal with liberalization and develop their basic businesses accordingly; they were not in a frame of mind for risky experiments with low-income markets, and we could hardly fail to understand why not. Moreover, delays and an apparently low (or negative) NHB interest level in the low-income outreach goal of the program made for very slow progress in sorting out the matter. After a preliminary field survey of NGOs in the early months of the program, we were caught in lengthy procedural snarls. By the time research to produce candidate NGOs for the pilot low-income lending/informal sector loan projects was finally completed in March 1994, we and our consultants had begun to develop a new strategy for NHB and USAID to consider.

2. Evolution of NGOs re: "Linkage Programs"

Our NGO research (by NIUA and Dr. Meera Mehta) showed that the financially-oriented organizations which had some experience in HFC linkage programs were not very keen on continuing with the same model. NGOs such as Palmyrah Workers Development Society in Kerala, a participant in the HDFC program funded by KFW, told us that linkage programs in which NGOs pre-qualified HFC borrowers 1) were distracting them from their core mission, and transforming them into a "branch" of housing finance companies; 2) were not paying enough in spread or fees to cover the NGO's costs; and 3) did not provide enough autonomy to the NGO, which perceived itself as merely being an agent of the formal sector. The same research was teaching us just how pervasive is the informal savings and credit sector in India.

The gap created by the formal sector's unwillingness and inability to deal with the credit needs of unsalaried lower-income households had created a huge gap in the market. The demand was being met at least to some extent, and at high cost, by community-based, informal savings and credit activity, supported by NGO technical assistance in some cases.

3. CBFI Strategy Develops

In early 1994, we began to explore how to build upon this impressive level of community-based savings and credit activity. International models like BRI Indonesia, BancoSol, and Grameen demonstrated that institutionalization of informal, community based finance can become very large

and more or less self-sustaining. We reasoned that if community-based savings and credit is economically viable, as its scale indicates that it is, then lessons in risk management, pricing, and marketing could be gleaned from it, and eventually transferred to the formal sector. In the process, successful financial NGOs and their constituents could eventually become *sources* of market information and financial expertise for the other finance organizations --they would be empowered to be partners of formal institutions, not clients.

It also struck us that in a program designed to promote market-oriented housing finance, we had found in informal finance an alternative, decidedly market-driven sector. Money-lenders, ROSCAs, chit funds and thrift cooperatives thrived strictly on their economic merits. By contrast, the NGO/HFC linkage model had been used exclusively with donor funds and operated mostly outside a market context.

4. In Search of CBFIs

From February 1995 through June 1996, Abt and USAID conducted five NGO workshops and made many field visits to try get this strategy off the ground. This long process of communication taught us as much about our strategy as it taught the NGO's about community-based finance. While our initial assessment of the broad scope and potential growth of informal savings and credit activity was confirmed in these meetings, we also found a basic problem: almost none of the NGO's had begun to think about scaling up informal savings and credit for the kind of impact demonstrated in the international models. We had continued to think in terms of "pilot projects," but as we got to know the territory better, that approach began to seem premature. Some of the lessons:

- Organizations tended to fall into one of three categories: 1) "classic NGOs," serving the poor with donor funds who were seeking more and cheaper funds, as well as techniques to leverage the funds more effectively; 2) "financial NGOs" who were supporting informal savings and credit as one of a variety of development activities; and 3) "CBFIs," at varying degrees of institutionalization, but primarily focussed on savings and credit as their core strategy for development.
- Many of those in the "financial NGO" group were interested in institutionalizing and expanding their savings and credit activities so that larger loans, for longer terms, could be made to more people. Building this interest into tangible development was our challenge.
- There were several obstacles. First, some of the financial NGOs (like BCC Baroda) saw the value of institutionalizing and expanding their savings and credit work, but on balance considered the process a "necessary evil." Why? Savings and credit was a powerful organizing and outreach tool. Some of the groups felt that splitting savings and credit from their other development activities (health, education, etc.), while necessary for institutionalizing financial functions, would deprive them of valuable synergy.
- Strategic thinking did not seem to be a well-developed part of the NGO management culture. While we found the managers to be resourceful, articulate, and sophisticated (actually a stronger group than the HFC executives), they were accustomed to following the opportunities presented by the changing agendas and grant programs of their donors. For such NGOs, to chart

their own path to a market-oriented community finance institution meant a big shift in management style, from aid-seeker and administrator to entrepreneur.

- We discovered a set of people, an informal "network," already actively pursuing microfinance development in India. They knew one another, and had worked together in the same organizations. They shared a belief that reliance on subsidies in low-income credit, or on donor funds, was not the way of the future. Their understanding of informal savings and credit led them to the conviction that poor people could pay sufficiently high rates of interest to fund viable financial institutions targeted to their own needs.

5. In Search of GOI Support

Abt and USAID needed support in the form of Indian leadership. A large gap had opened between our program and our counterpart on the subject of low-income housing finance. We had moved beyond the NHB in our thinking and we had always been far more interested in developing low-income financial strategies than NHB. In May 1995, after the Hyderabad workshop and numerous meetings around the country with CBFIs, financial NGOs, and some of the leaders mentioned above, Abt pointed out this widening gap:

"Because of the difficulties experienced in enlisting NHB support for the low-income goal, we have taken advantage of the fact that we [Abt New Delhi staff] can work without specific Requests for Services from USAID/NHB. We have visited several forming CBFIs and offered support, as a temporary method while consensus is developed bilaterally.

"Technical assistance is valued by the groups. However, since we are not free-lance consultants, but contractors to agencies of the US and GOI, naturally groups look to us for essential financial support in addition to TA. While a strategic consensus between USAID and NHB is still in the formative stage, we have to defer the question of funding. This gives the impression that the Program is ambivalent about CBFIs, and our ability to help the groups in an ongoing relationship is undermined. It also appears to us that USAID's long term relationship with CBFIs would be strengthened by beginning from a base of consensus with NHB...it is critical that we arouse NHB's interest somehow, if only on a very modest scale. 'Working around' the NHB is useful only as a short-term measure. Consensus on program tactics, including financial support, can provide the foundation for long term development of CBFIs."

We would have to wait for this support to finally develop at NHB. Key staff changes at the Bank at the end of 1995 made it possible to engage the Bank for the first time in a constructive dialog about how CBFIs could play a role in low-income shelter finance. One year after the Hyderabad workshop, Friends of World Women's Banking organized a three-day "Workshop on Women and Shelter Finance" with thirteen NGOs and four financial institutions. Chaired by the eminent Ms. Ela Bhatt, SEWA's founder, and attended by the USAID Mission Director as well as an NHB delegate who stayed on for a day of familiarization meetings with SEWA Bank, the session signalled that the CBFI strategy had at last gained credibility with our Indian counterpart. This trend continued throughout 1996 and was confirmed at a September 1996 meeting with ten financial NGOs and CBFIs, where an NHB representative floated a proposal for NHB equity support for start-up community based finance institutions.

B. Evaluation and Recommendations for Continuing Work with CBFIs

1. Select a Core Group of CBFIs and Aspiring Financial NGOs

In our workshops on CBFi Institutionalization, Legal Issues for CBFIs, and CBFi Financial Management, we found that many of the participants were not fully "tuned in" to the topics under discussion. There seemed to be three problems:

- a) Some of the participants were from "classic NGOs" or "financial NGOs" which were not actively considering whether to set up a CBFi.
- b) Some participants were too junior in their organizations to address strategic issues such as the impact of institutionalization or alternative forms of registration.
- c) In the case of the financial management workshop, both the Indian and the expatriate instructor reported having great difficulty in engaging the participants about the subject matter. Although most were the financial officers of their NGO, they were starting from an elementary level. We cancelled our rental of Lotus-equipped computers after assessing the situation on the first morning.

The dynamics of a training session are affected by the presence of participants not fully able to participate. Discussions tend to get sidetracked, and the core agenda gets lost as trainers attempt to accommodate widely disparate views.

Another problem with training sessions is that it takes strong management focus to decide how much is actually being accomplished. Whether the training is on target or not, still the participants travel, the workshop takes place, and superficially "an activity has been delivered." Unless the sponsor really delves into the workshop evaluations or, preferably, sends a senior program representative to each session, it is difficult to know how effective a particular training "activity" is in contributing to the program goals.

To make CBFi training more productive, USAID could identify specific people in specific organizations to receive a series of trainings. The goal would be to develop a group of microfinance professionals over the course of the one-year training program. The organizations would be selected based on their commitment to developing strong, market-based, CBFIs. The individuals within the organizations would be identified by the CBFIs, but the process of doing so would give the whole training program focus and definition in their eyes. Otherwise, CBFIs may continue to send representatives who are not really in a position to benefit from the training.

2. Design the Training for Desired Outcomes

Selection of particular organizations for partnership presupposes shared goals between NHB, USAID and the organizations receiving training. Training events should be tied specifically to the shared goals. Trainers should understand how their particular event fits into the sequence. Evaluations of workshops should be given more emphasis. Evaluation reports should be required of each trainer, and should be distributed within two weeks of the close of the session.

3. Demonstrate that the Program is Evolving

Since 1993, this Program has been in contact with financial NGOs, interviewing them, reporting on them, and conducting several workshops. At this stage, now that counterpart support is in place, it would seem important to take the process to the next level. Familiarization sessions on basic concepts should give way to trainings with a tight focus. If the selection of groups and individuals recommended above is undertaken, then this evolution to specific, results-oriented training will take place more naturally.

4. Institute Cost-Sharing

These problems can be compounded by paying all the expenses for the CBFIs and financial NGOs. In the spirit of the CBFI concept itself, some kind of cost-sharing is strongly recommended so that the organizations have a vested interest in the relevance of what is provided. This might simply mean having participant organizations cover their own travel and/or lodging expenses, while USAID provides the training itself.

5. Support the Grameen Bank Replicators (INDNET)

To criticize the Grameen Bank model is popular among some development professionals. The usual critique is that Grameen is not a financially viable operation -- it relies on soft money. Grameen Trust representative David Gibbons says a 1996 World Bank study refutes that contention, but whatever the reality may be, in India the Grameen replicators bring one major asset to the CBFI project: a clear sense of purpose and a ready-made implementation strategy. Having settled those big questions, these groups are in a position to concentrate on the issues of optimum legal structure, forming a mutual network, raising funds, managing risk of larger, longer loans, and so forth. We recommend that the program continue its active support of this set of CBFIs, and encourage idea-sharing between Grameen replicators and other models.

6. Comprehensive Research is Needed on Legal Options for CBFI Registration

Our efforts (two workshops and a research paper) to research legal options for CBFI registration with Mr. V. Nagarajan were a beginning, but a clearly written, comprehensive research paper is badly needed. It may be difficult to find someone with the technical competence, communication skills, and the interest in this unusual business specialty. Nevertheless, this is a critical subject. We do not think the financial NGOs are needlessly dwelling on technicalities. Because it sets some basic parameters, a viable legal form is a prerequisite for detailed business planning. Confusion on this matter has likely slowed the evolution of Indian CBFIs.

7. Develop a Financial Component of CBFI Support

In September 1996, after nine months of good collaboration between USAID and NHB on microfinance, the time may be right for the NHB, which after all is a *bank*, to develop a financial package for CBFIs. The amount need not be large. Some possible structures:

- Study and modify as needed the NABARD program model which pairs self-help savings and credit groups with commercial banks, using NABARD loans.

- Establish a funding vehicle to provide seed capital to start-up CBFIs. This was actually proposed by HUDCO, with NHB involvement included, in 1995. Equity funding for select CBFIs would complement NHB's recently expanded program of equity support for conventional housing finance company.

- Use NHB funds (whether borrowed through HG or not) to guarantee loans. For example, SEWA Bank is interested in making 5-year loans, but is uncomfortable assuming the extra risk involved in going from a 3-year to a 5-year term on loans to slum-dwellers. (Flood cycles and family health problems or other mishaps are more likely to come into the picture for these longer term loans.) The NHB might insure SEWA Bank for a percentage of losses on 5-year term loans. The program should not simply absorb an unknown risk: there should be an attempt to understand the new risk, to quantify it, and to price the loans accordingly. The guarantee program would enable SEWA to undertake the experiment on a risk-sharing basis. (See Roger Blood's report on mortgage insurance, for other ideas on structuring an experimental loan guarantee program.)

- For several years NHB has been offering subsidized money (10% rate to HFCs) for small loans of up to Rs. 25,000. There have been very few takers, in part because the small size is of little interest to HFC customers, but also because NHB has restricted the lender's earning to only 2%. Eliminating this ceiling would enable lenders to cover their transaction costs and would put these funds to use. Moreover, lifting the ceiling would be an important NHB leadership move, demonstrating an understanding of the realities of serving the low-income, small-loan customer in the market environment.

8. Study the PWDS Case

- We found no clearer example of a CBFi housing finance pilot-project in the country than Palmyrah Workers Development Society's. PWDS is nearing the end of a 5-year process to develop a free-standing financial institution based on its years of microenterprise finance and KFW-assisted housing finance. HDFC was instrumental in developing the plan. A thorough case study should be prepared to describe how this evolved, and where it stands today. The case study would be instructive for several reasons: lessons learned by HDFC and PWDS about the KFW linkage model; organizational options considered by the parties during CBFi planning; strategic implications for PWDS; costs and benefits to HDFC; understanding why the process has taken five years; and extracting lessons for banks, HFCs, and financial NGOs interested in serving the low-income shelter market.

9. Involve the Housing Finance Companies

Our consultants on mortgage insurance and standard underwriting guidelines report that housing finance companies are presently trying to eliminate virtually all credit risk when they underwrite loans. The shorthand for this practice is "underwriting to zero risk." They may feel obliged to do this because their ability to foreclose is severely constrained. However, this extremely conservative business strategy is a symptom of a non-competitive industry. Innovations in loan pricing, loan guarantee schemes, and new underwriting techniques could certainly be developed to "push the envelope," and they will be in time.

Our market expansion activities focussed on interesting the HFCs in the below-median income

market. While this should be the ultimate objective for a development program, it is probably not practical to try to take a company presently serving salaried customers, at the upper end of the income scale, into the market of very-low income, unsalaried borrowers, in one go. Incremental steps are needed to assist HFCs to underwrite loans to non-salaried people who may be at 120 to 150 percent of the median income. *Non-salaried people of modest means presently have almost no access to housing finance in India.* It is a huge market, estimated at over 80 percent of India's households. Reaching this market is a difficult business challenge. Until the HFCs develop some profitable experience in managing *any* new credit risk, they are not likely to have an appetite for these risks in wholly unfamiliar and even less-understood markets: below-median income borrowers and slum-dwellers without land tenure.

Increasing HFC marketing of loans for home improvement ("upgradation") is worth a try. The credit risk on these small, shorter-term loans should be easier for HFCs to analyze and price than home purchase loans. The HFC may be more willing to start up an experimental program for non-salaried homeowners wishing to upgrade than a home purchase program for the same group. Intermediate-term home improvement loans would also improve the HFCs' interest rate risk position.

The program should focus on CBFIs for progress on increasing access to finance for the below-median income market, while simultaneously encouraging traditional HFCs to expand incrementally their current "zero-risk" underwriting.

10. Help GRUH's Housing Foundation Learn from Accomplished Models

GRUH could probably use some strategic advice on organizing its new housing foundation. The Grameen Trust, ACCION International, and even US models like Enterprise Foundation, the Fannie Mae Foundation, and Local Initiatives Support Corporation have established themselves as catalysts and funders for housing finance and development innovations. There are proven techniques for this work, and perhaps USAID could help GRUH come up the learning curve quickly.

GRUH's new housing foundation, HDFC's special department for managing the KFW program as well as its self-funded Housing Reserve, and even LIC's staff managing experiments with the vegetable vendors' board in Mumbai could be actively engaged in the program along with CBFIs themselves.

IV. PROGRAM MANAGEMENT

A. The Management Support Services Contract (MSS)

Structuring a program in the Management Support Services contract form, i.e., a multi-year contract with expatriate advisor, full-time local national staff, and independent office, has far-

reaching consequences. The MSS framework carries a heavy commitment of fixed costs. Full time professional and support staff salaries; residence and office leases; expatriate moving, travel, and education allowances; and purchased equipment for office and household, all make the MSS arrangement expensive. Nor can all of this be easily dissolved if the program should go off-course or stop yielding returns in proportion to the resources invested.

The MSS structure requires a commitment to intensive program management by USAID in order to leverage the fixed costs into substantial results. "Intensive management" means ensuring that one way or another, constructive work by the MSS staff continues even if goals have to be reset, or counterpart agreements re-negotiated. Of course, any USAID program is at risk of going awry, given the complex nature of bilateral development work. However, when a program managed directly by USAID staff runs into difficulties, it is somewhat easier to divert those management resources to productive work. With MSS contract staff, occupying separate offices, and using resources neatly contained in an independent contract, AID managers can lose sight of serious problems unless a steady focus is maintained on the project.

The intensive USAID management focus is also dictated by the contractor's dependence on cooperation and action from parties not in any way controllable by or accountable to the contractor. The people in this passive position are the only ones spending all of their time on the project. The MSS structure gives those with the most at stake the least ability to shape events. Without strong USAID backing, morale problems develop in the MSS staff.

Another aspect of the MSS contract structure is that AID career staff and project-based MSS staff may have different time-horizons and perspectives on their work. The MSS staff have a strong project-orientation. They have only the project period in which to accomplish anything. A six-month delay in receiving counterpart comments on a report, to name just one example, is a real setback from the perspective of those whose full-time job is to manage a tightly structured four-year effort with ambitious policy goals. USAID staff have a career-orientation, in which the project is one of a series, and "you win some, you lose some." If a long time and activity delays are required to bring the counterpart around, that may be accepted more easily as the nature of the development business by career staff than by project staff. This is a management issue which we recommend AID be aware of in future MSS contracts.

Although most of the potential pitfalls became real ones in the present contract, it is not hard to see how the same structure could be very effective if the environment were different. Ideally, the MSS contractor can accomplish program goals efficiently and creatively with a streamlined mini-organization, unconditioned by bureaucratic routines, and staffed by hand-picked professionals whose whole mission is to have the program succeed. The same inertia that makes it hard to dissolve a troubled MSS program can be viewed as a powerful commitment on the part of the principals to accomplish program goals.

In summary, the decision to commit to the fixed costs of an MSS contract seems to be a gamble, and the factors that determine whether the gamble is a wise one, notably, cooperation of the counterpart organization, may not be controllable by USAID any more than by the MSS contractor. Our experience does suggest some measures to improve the odds for success.

1. Consultant Selection Responsibilities of MSS Contractor

One of the main problems in Year One was difficulty in getting NHB to agree on beginning work on the low-income goal of the program. They focussed their objections on the issue of which consultant would do the work. (The same issue topic also stalled the second part of the Resource Study eventually done by UTI.) While they might have been using this only as a pretext for stalling, it is more likely that they actually believed they were exercising their right to select consultants. Only after months of delay over this subject did we (Abt & USAID) grasp that one of the contractor's few areas of "autonomy" was in the matter of selection of consultants. This autonomy stems from USAID procurement policy, i.e., from the contract side of the agency which is in many ways a world apart from the program side. We had mistakenly been trying to negotiate with NHB about the choice of consultants.

Had all parties clearly understood this aspect of the MSS contract, the delay could have been shortened. Consultant selection remained a problematic issue throughout the contract. The point is that by not fully grasping USAID's procurement policy, USAID program staff and Abt provided an unnecessary leverage point which NHB used to delay progress. Obviously a program has deeper troubles if the MSS must consistently push ahead with consultants not preferred by the counterpart (or by USAID for that matter). The ideal is not for the contractor to act unilaterally in selecting consultants, but to consider USAID and counterpart preferences, consider them on the merits, and then to select consultants independently.

2. "Annual Work Plan" Contract

The MSS contract's Scope of Work set out three general goals for the program:

- Increase market-oriented housing finance institutions
- Increase the flow of market-rate funds to the housing finance sector
- Increase access to housing finance for households below the median income.

Each year's activities were to be decided by NHB and USAID, with Abt input. A simple list of the activities, the Implementation Plan, would be approved by both parties, and then Abt would develop detailed budgets in an Annual Work Plan submitted to USAID for approval. Afterwards, Abt would draft Scopes of Work for each activity, each of which required approval by USAID and NHB. Approved Scopes of Work became "Requests for Services," work orders for the MSS contractor.

Flexibility for AID and NHB to add or subtract activities during the year was also provided. This enabled the program to change activities at any time in response to circumstances, within broad parameters which also were flexible in the final analysis. This arrangement keeps the MSS contractor under tight control on what is to be done, though once approval is given, the how of executing the activity is left pretty much to Abt.

The weakness of the Annual Work Plan contract was that continuous decision-making by AID and NHB was required in order for activities to take place at all. This made the system quite

subject to delays. Abt spent a lot of time creating Scopes of Work and Work Plans that were never used, at times making the process of running the Work Plan Contract, not supporting expansion of housing finance, seem like the main task.

B. Phases of the Program: Resistance, Re-assessment, Re-structuring, Collaboration

In March 1992, NHB and USAID signed an Implementation Plan to implement this four-year program. In the following month, NHB got caught up in a nationwide securities scam, one outcome of which was arbitration proceedings to determine which organizations should bear certain disputed costs arising from the scam. These arbitration hearings involving the Bank are still underway, and the huge sum in question exceeds the Bank's net worth.

The trauma this affair created for the NHB was compounded and extended by the fact that after the Chairman/Managing Director resigned, the government did not see fit to name a new one for fifty-two months -- a period which neatly overlapped our entire technical assistance program. NHB is unusual among Indian organizations in that the Chairman/MD is the only Bank officer who serves on the Board of Directors. For the first eight months of our program the number two position of executive director was also unfilled. While the Bank eventually had the benefit of executive directors, the ED does not sit on the Board and so the organization was still far from normalcy. Being a public sector organization, the absence of a top executive made the second-tier officials with whom we dealt reluctant to take action, let alone creative, bold, action. The absence of a top boss also made it possible for bureaucratic intrigues to flourish and raise havoc with our program agenda.

In short, it is most unfortunate that throughout the four-year program, the National Housing Bank had no Chairman, and that for more than three years, did not even have an Executive Director actively promoting our program goals. The long-term development of housing finance could hardly be expected to flourish without an institutional champion, and the institution itself needed strong leadership to assume the role. Given these circumstances, it is no surprise that our interactions with NHB, and our constant pursuit of sign-offs from the Bank, were quite frustrating.

Relations with the counterpart during the program can be broken up into four parts:

- 1) Resistance and Confusion
- 2) Tentative Action (May 94 -- October 94)
- 2) AID-Initiated Restructuring (November 94--January 96)
- 3) Collaboration (February -- September 96)

1. Phase One: Resistance and Confusion (October 1992--April 1994)

One might think that the start-up period of a multi-year program would be harmonious, given that program goals have been freshly agreed upon. Because of the turmoil at the NHB, there was no "honeymoon" period. The first eighteen-month phase was marked by a number of sharp

disagreements between USAID and NHB over the issue of low-income housing finance activities, i.e., what should be done, who should do it, etc. Program support for a trade association was another policy area on which the two parties had opposing views. Several study tours and one visit of a senior US housing executive were cancelled by the NHB at the last minute. Comments from the NHB on consultant reports were very slow in coming, and Abt felt little sense of collaborative effort or shared goals.

For example, Abt was unable, despite repeated written requests, to be placed on NHB's mailing list to receive the routine circulars and directions NHB issued to housing finance companies. As consultants, this struck us as extremely odd, and we began to realize that our work with the Bank was not going to resemble a professional consulting relationship. (Of course, NHB had no meaningful financial investment in our presence, setting the stage for a distorted relationship.) It seemed that we were viewed more as representatives of a foreign government than as professional advisors.

There was confusion about the proper role of Abt in the program's overall scheme. Our perception was that the MSS was viewed by the Bank as a kind of secretariat restricted to signing consultant contracts, organizing tours and workshops, and delivering research to NHB. Having been selected for our expertise in housing, naturally we had different expectations. Moreover, Abt saw itself in the beginning as a potential hub of information and support for the entire HFC industry, not just for NHB.

A key feature of the first three years was NHB's policy of restricting Abt to contacts with only two individuals at the bank. We were warned that for Abt to contact others at the institution "could be misinterpreted." We should have enlisted AID's help in challenging this misguided policy, because it turned out to be the root of some serious problems--as we realized near the end of the program when a kind of *glasnost* was instituted.

2. Phase Two: Re-assessment (May 94-October 94)

USAID also became quite frustrated. A 1993 program evaluation by a USAID consultant supported AID's and Abt's view that the program was seriously off-track. As a direct result of the evaluation, which NHB flatly rejected, AID program staff initiated a "reassessment" of the entire program, conducted over several months at a high level by the USAID Mission Director and the Acting Chairman of the NHB. During this formal series of meetings, USAID and NHB agreed anew on program goals, strategies, and even on contentious operational issues such as the responsibilities for consultant hiring and report dissemination.

Following the reassessment, the situation improved. Signatures on Requests for Services allowed activities to proceed, and there a sense of "fresh start."

Planning for Year Three began. By October 1994, nineteen new activities had been agreed upon. Although some serious setbacks and delays continued to occur, working relations had improved between NHB, USAID, and Abt. Four activities on low-income housing and community-based finance were included in the new Implementation Plan, and a workshop on low-income pilot projects was finally scheduled with top-level attendance from GOI officials, as well as NGO and HFC representatives.

3. Restructuring (November 94 -- January 96)

In November 1994, USAID began yet another new, comprehensive look at the program's priorities. From February 1995 through December 1995, a long series of meetings took place between the NHB and USAID to evaluate the Work Plan and decide on future activities. AID's theme in taking this new look was that traditional housing finance development, "making bankers better bankers," had received more than its share of attention, and that it was necessary to put much more time and energy into low-income shelter finance issues.

From Abt's point of view, this AID-initiated restructuring of the program, coming only a few months after the AID-initiated reassessment and subsequent agreement on an extensive new Work Plan, was untimely. During much of the 13-month restructuring period, Abt Delhi staff was underutilized, and eventually demoralized. Abt's contact with NHB stopped from February 1995 until late in the year, as discussions on restructuring were conducted at the bilateral level in another effort to put the program on a productive course. We felt we were passive players, committed full-time to a churning process that was not producing results. In fact, during this phase, at times there was little work of any kind to do.

In December 1995, high-level personnel changes at the bank had a major impact on the program. A new Executive Director and a new General Manager, the former with a strong interest in women's issues and rural credit, took charge. Both men had an action-orientation. AID's strong desire to shift program emphasis to low-income shelter finance was finally meeting with a receptive audience with NHB top management, just when USAID was at the end of its patience and talking seriously of identifying new counterpart organizations. In developing the Year Four Work Plan, an unprecedented and refreshing in-depth exchange of views took place among NHB, Abt, and USAID.

4. Collaboration (January 96 -- September 96)

This spirit of collaboration with the NHB continued throughout the balance of the program, resulting in an unprecedented pace of research and training activities, many of them addressing the shelter finance needs of lower-income families and CBFi development.

During this last phase, and actually beginning during 1995 when the program was being restructured, a basic shift took place in USAID's priorities. Although Abt continued to carry out Requests for Services for formal-sector housing finance system activities, in practice NHB was the only party taking an active role (i.e., briefing consultants, attending workshops) Examples: secondary market, mortgage insurance, deposit insurance, capital adequacy, variable rate mortgages. AID's focus had shifted strongly to the low-income shelter finance activities.

5. Summary: Phases of the Program

Generating forward motion on program goals was difficult, and at times even wasteful, until the final nine months of the program. We hope that winding up the contract during this welcome time of progress and cooperation does not diminish the importance of learning from the difficulties and

sidetracks experienced for most of the program.

Several root causes for the problems can be listed. The main one was the weakened, leaderless condition of the counterpart organization due to the financial scam. This put its very existence in question, and left the Bank without a chairman for the entire duration of the program. This extremely unfavorable situation was compounded by management practices at NHB which limited program contact and signing authority to only two NHB individuals until 1996, when the new team took charge. Thirdly, because the Work Plan structure provided for many decision points requiring NHB sign-off, it was easy for NHB to block and stall. The structure had admirable flexibility to facilitate good-faith program changes, but it had no tools for preventing NHB backtracking on agreed goals (trade association support; training institutionalization; low-income outreach).

Finally, there was USAID's desire to restructure the program so as not to slight the key low-income outreach goal. While justified by the program's goal statement and by the counterpart's obstructionism, this shift did come at a high cost by putting MSS resources on hold during a lengthy work-out process.

Now at the end of Abt's portion of the program, it appears that NHB itself might take some important steps toward increasing low-income, rural Indians' housing finance needs. The new chairman and managing director, Mr. P. P. Vora, will begin his duties in October 1996. If he continues the Bank's nascent initiatives on low-income housing finance, it will be interesting to see whether USAID's longstanding interest in developing the traditional housing finance sector will revive.

Appendix

Quarterly Reports

USAID/NHB Housing Finance Expansion Program

Abt Associates Inc., USA

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New Delhi - 110 057

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Fax: 91-11-687-6004
E-mail : CGI242

May 19, 1993

To : Mr. N.B. Bhattacharjee
Mr. Charles Billand
USAID - TDE, New Delhi

From : Richard Genz, Program Manager
Abt Associates Inc., New Delhi



Sub : **Status Report: Housing Finance Expansion Program
Through April 30, 1993**

This report summarizes the status of the Housing Finance Expansion Program from program inception in November 1992 through April 1993. Person-months and expenditure are reported through March 31, 1993. In the future, reports will be presented shortly after the end of each calendar quarter.

The following topics are addressed :

- I. Significant Events During the Period.
- II. Problems and Opportunities.
- III. Tasks to be Accomplished by the End of the Current Quarter.
- IV. Person-months Used and Remaining as of 3/31/93.
- V. Funds Used and Funds Remaining as of 3/31/93.

I. Events During the Period

A. Site Office Set-Up

From November to mid-March, office space was shared with a local consulting firm. To provide better project management and more efficient support services, it was determined that independent office space should be located. In the meantime, the program has been based in the offices of another USAID institutional contractor.

In mid-April, a four-year lease was signed for a project office at B-2/13 Vasant Vihar. Temporary furniture was installed in early May, and occupancy is expected as soon as a telephone line can be provided with the Embassy's assistance.

Project supplies including automobile, computers, photocopiers, fax, furniture, a/c units, telephone system, UPS system were procured beginning in March and continuing throughout the period.

B. Support Staff Recruitment

Approximately thirteen interviews were conducted for the positions of Administrative Officer and Secretary. A candidate for Administrative Officer has been selected.

Recruitment for a secretary is continuing.

C. Long-Term Program Manager Arrives

The Program Manager arrived in New Delhi in late February and began work on March 1, 1993. A residence has been leased in Shanti Niketan.

D. Local Bank Account

An account was opened for the project at the Bank of America's Delhi branch. A factor in the costing of the project was the assumption that a significant portion of expenditures would be made from the local account, reducing indirect costs.

Approval was secured from USAID Washington to fund the necessary advances to make this account functional.

E. NHB Training Plan and Institutional Development (Activity A.1)

Marja C. Hoek-Smit visited India in January 1993 to research the NHB's needs for training and its resources for meeting them. A final report, NHB Training and Research Plan, was prepared by Marja C. Hoek-Smith and furnished to the NHB and USAID.

F. NHB Resource Mobilization Plan (Activity A.2)

Dr. Douglas Diamond completed his draft report, NHB's Refinance Programs in a Deregulating Financial Sector, and it has been submitted to USAID and NHB for comment.

As a complement to the Diamond Report, a Scope of Work has been drafted to analyze how NHB can gain access to the capital markets. A senior Indian consultant will be retained for the study. The draft scope of work has been forwarded to USAID and NHB.

G. HFC's Reporting to NHB: Management Information System Plan

Price Waterhouse was selected as the Indian consultant. Work on the study began in early May after the consultant received briefings on the Scope of Work from NHB, USAID, and Abt. The goal of the study is to prepare a practical concept plan for a management information system to support effective regulation and supervision of housing finance companies by NHB.

Dr. James Croft is the American consultant for this activity. Dr. Croft met with Price Waterhouse consultants during his April 1993 visit to India. His report will define the content and frequency of the specific measures to be generated by the management information system.

NHB met with Price Waterhouse consultants to clarify the Scope of Work as regards the special focus of this study in contrast to that of an earlier Price Waterhouse study on the overall MIS needs of the housing finance companies.

H. Evaluation of HFC Baseline Financial Profile (Activity B.1)

Work is underway by JPS Associates, and is proceeding according to plan.

I. Identification of NGOs and Pilot Project for Determining Their Potential in Housing Finance for Low Income Households (Activity B.2)

The Scope of Work has been approved by USAID. Discussions with NHB are underway.

J. Analysis of NHB Regulatory and Supervisory Activities (Activity B.5)

Dr. James Croft spent 10 days in India during April to research on how the NHB could improve and expand its regulation and supervision of housing finance companies, in light of India's rapidly changing financial environment and the growth of the housing finance sector.

K. Training Program on Housing Finance at Fels Center of Government, University of Pennsylvania (Activity D.3)

Eight participants travelled to Philadelphia in April to attend the three-week Fels program.

L. Study Tour on Housing Finance Systems in Selected Southeast Asian Countries

Letters seeking input on structuring the study tour have been sent to members of the Coalition of Asian Housing Finance Institutions in Thailand and the Philippines.

The study tour is scheduled for early July 1993.

II. Problems and Opportunities

NHB Chairman and Executive Director Appointments

When these two key positions are filled, the Program will have a unique opportunity to support NHB's new management in developing NHB's strategy as India's apex housing institution.

Advisory Board

As noted in the Implementation Plan, Abt wishes to explore forming an Advisory Board to solicit ideas on program priorities and development of annual implementation plans. The Advisory Board could consist of members of the housing finance community, NGOs, the real sector, and others with an interest in expanding India's housing finance system. Formation of the Advisory Board will be considered in detail sometime after the new top management of NHB has been appointed.

NGO Study

begin
Because NGOs are critical in advancing low-income lending, one of the three strategic objectives of the finance expansion program, it is important that work on this activity ~~begin~~ promptly. Abt will seek to understand and address the concerns of both USAID and NHB on the draft Scope of Work.

Because of delays in beginning Activity B.2, identifying suitable NGOs and HFCs for Pilot Low-Income Programs, Activity B.6, the Workshop on Low Income/Informal Sector Lending may also need to be delayed.

Workshop and Study on Savings Mobilization

A Scope of Work is to be drafted during June 1993. The Activity may be delayed until later in the year.

Set-Up of Administrative Systems

It is important that an Administrative Officer begin soon to assist the Program Manager in establishing administrative systems and ensure effective contract management.

Begin "Networking" Process to Establish Program as a Resource

As the office set-up and administrative systems take shape, the Program Manager and Senior Advisor will go into the field to meet with NHB Bombay Office staff, HFCs, NGOs, and other organizations. The long-term objective is to establish the Housing Expansion Program as a resource and a clearinghouse for assistance and information about resource mobilization, institutional expansion, and low-income lending practices.

III. Objectives for Quarter Ending June 30, 1993

A. Program Activities

1. Begin NGO Study
2. Draft Scope of Work and begin Savings Mobilization Workshop Planning.
3. Complete HFC Baseline Financial Profiles.
4. Begin Capital Markets Section-Resource Mobilization Study.
5. Complete Regulation and Supervision Study.
6. Complete MIS Study.
7. Revise Orientation Program and Plan July Session.
8. Plan Secondary Market Study Tour.
9. Asia Study Tour (tentative - may occur in Third Quarter).

B. Program Management

1. Hire Administrative Officer and Secretary.
2. Move to New Office and Connect Adequate Telephone Lines.
3. Complete Procurement of Non-Expendable Supplies.
4. Prepare Personnel Policy.
5. Develop Inventory of Project Supplies and Equipment.
6. Establish Electronic Mail Connection with Abt Home Office.

IV. Person-Months Delivered From Inception Through 3/31/93

See Attachment A.

IV. Fiscal Report Expenditures vs. Budget Amounts

See Attachment B.

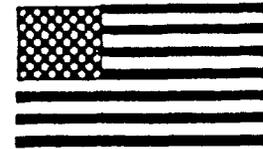
c.c. Sally Merrill
David Deal

PERSON-MONTHS DELIVERED

CONTRACT INCEPTION THROUGH 31 MARCH 1993

	In-Country	Short-term/ TDY	Home Office	Total
Person-Months Delivered	5.09	2.73	5.86	13.68
Contract Total*	192.00	18.00	17.00	227.00
Percent Delivered	3%	15%	34%	6%

* From Abt Technical Proposal



Indo-USAID
Housing Finance Expansion Program
Abt Associates Inc., USA

Management Support Services Contractor

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July 30, 1993

To : Mr. N. B. Bhattacharjee
Mr. Charles Billand
USAID

From : Richard Genz, Abt Associates, New Delhi

Subject: Status Report: Housing Finance Expansion Program
Through June 30, 1993

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending June 30, 1993.

The following topics are addressed:

- I. Significant events during the period.
- II. Problems and opportunities.
- III. Tasks to be accomplished by the end of the current quarter.

I. Events During the Period

A. Executive Director Appointed at NHB

Mr. Athvale began his duties as NHB Executive Director in June. A briefing by USAID/Abt on the goals and current status of the Housing Finance Expansion Program is scheduled for July 2.

B. Site Office Opens for Business

On June 7, the project officially moved to B 2/13 Vasant Vihar, 2nd Floor. By the end of the quarter, four telephone lines were operational, although long distance service and electronic mail authorization from the telephone company were still pending.

C. Support Staff Hired

Mr. Sundar Raman, formerly of Indian Shaving Products, a subsidiary of the Gillette Company, USA, joined the project on June 1 as Administrative Officer.

Ms. Sandra D'souza, formerly of Thomas Cook Ltd., will join the project as Secretary on July 14.

D. Program Staff Meets NHB/Bombay, HFC Executives, NGO Re: 1994 Work Plan

Messrs. Genz and Prabhakar visited home offices of CanFin, Vysya, Dewan, LIC, and HDFC, as well as NHB Bombay staff, to discuss the current status of the program and its direction in 1994. They also met with staff of SPARC in Bombay regarding the NGO identification activity which will begin soon. The Delhi regional offices of CanFin and HDFC were also visited.

E. Project Accounting System Established

Our new Administrative Officer, Sundar Raman, has computerized all accounts of the site office to permit quick reporting.

F. NHB Resource Mobilization Plan (Activity A.2)

A Request for Services was signed to initiate an analysis of how NHB can gain access to the capital markets. A senior Indian consultant must now be selected for the study, and NHB has taken responsibility for developing a short list of candidates for the task.

G. HFC's Reporting to NHB: Management Information System Plan (Activity A.3)

This is a tightly focused MIS study which will examine how to collect the information needed for effective regulation and supervision. Price Waterhouse delivered a detailed work plan and conducted interviews with NHB Bombay office staff in June. The goal of the study is to prepare a practical concept plan for a management information system to support effective regulation and supervision of housing finance companies by NHB.

Dr. James Croft completed his draft report on MIS Monitoring Requirements, which analyzes what specific information the MIS system should generate.

H. Evaluation of HFC Baseline Financial Profile (Activity B.1)

JPS Associates submitted a preliminary draft report in June. Abt staff provided detailed comments and a second draft is expected shortly.

This study will provide a baseline for measuring progress on key project goals over the four and one-half year period March 1992 through September 1996.

I. Identification of NGOs and Pilot Projects for Determining Their Potential in Housing Finance for Low Income Households (Activity B.2)

A Request for Services was signed in June, but a decision on which consultants to use for the work is still being negotiated between NHB and USAID.

J. Analysis of NHB Regulatory and Supervisory Activities (Activity B.5)

Dr. James Croft delivered his draft report, "Analysis of NHB Regulatory and Supervisory Activities and Associated Monitoring Requirements" on June 16. The report was forwarded to NHB and USAID for comment.

K. Orientation Program on Housing Finance for Junior/Middle Level HFC Managers (Activity C.1)

This program was first offered in April, and it is scheduled to be repeated in August 1993.

L. Study Tour on Housing Finance Systems in Selected Southeast Asian Countries

A Request for Services has been signed for a tour of Thailand and Korea. The tour is scheduled to occur in late July-early August. Mr. Prabhakar will organize and lead the tour.

M. Secondary Market Study Tour

A Request for Services was signed and the Tour is planned to occur during the first half of August.

The NHB/HFC group will be joined by an independently funded group organized by CRISL. This will provide a broader base of informed Indian professionals who can continue to work together on establishing a secondary market in India.

N. Workshop on Risk Management (Activity B.4)

A Request for Services was issued, and the activity is tentatively scheduled for September 16 and 17, 1993. Dr. Anthony Santomero of the Fels Center will conduct a one-day general session, followed by an optional second day focussing on detailed techniques of risk management illustrated by case studies.

O. Workshop on NHB Supervisory Requirements

Discussions between Abt and Dr. James Croft regarding the format of this workshop have begun. The activity is tentatively scheduled for October 1993 so that it does not conflict with the Risk Management Workshop, which will involve many of the same participants.

II. Problems and Opportunities

Identification of NGOs

Abt has proposed a resolution to the issue of consultant selection so that this activity can begin.

Forming Trade Association Requests Support

Mr. Y. S. Hegde, Managing Director of CanFin Homes Ltd., wrote to Abt to request support for an Association of Housing Finance Institutions which is now forming. The request has been forwarded to USAID.

III. Objectives for Quarter Ending September 30

Program Activities

Select consultant and begin NGO Study.

Conduct Savings Mobilization Study Design Workshop.

Complete HFC Baseline Financial Profiles.

Select consultant and begin Capital Markets Section-Resource Mobilization Study.

Complete MIS Study.

Secondary Market Study Tour.

Asia Study Tour.

Conduct Risk Management Workshop

Program Management

Establish Project Filing System.

Complete Procurement of Non-Expendable Supplies and Office Set-Up.

Work with Office Landlord to Correct Wiring and Roof Problems.

Prepare Personnel Policy.

Develop Inventory of Project Supplies and Equipment.

Establish Electronic Mail Connection with Abt Home Office.

IV. Person-Months Delivered From Inception Through 3/31/93
(Separate Report to Follow.)

V. Fiscal Report: Expenditures vs. Budget Amounts Through
4/30/93 (Separate Report to follow)

cc: Sally Merrill
David Deal



Indo-USAID



Housing Finance Expansion Program

Abt Associates Inc., USA

Management Support Services Contractor

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October 18, 1993

To : Mr. Charles Billand
Mr. N. B. Bhattacharjee
USAID, New Delhi

From: Richard Genz, Abt Associates, New Delhi

Sub : Status Report: Housing Finance Expansion Program
Through September 30, 1993

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending September 30, 1993.

The following topics are addressed:

- I. Significant events during the period.
- II. Problems and opportunities.
- III. Tasks to be accomplished by the end of the current quarter.
- IV. Fiscal Report.

I. Events During the Period

A. Risk Management Workshop

Forty-five senior executives from NHB and housing finance companies attended a successful workshop on the principles of Risk Management in Bangalore. The workshop was conducted by Dr. Anthony Santomero, Deputy Dean of the Wharton School at the University of Pennsylvania, on September 15 and 16. Attendance was close to 100 percent at all sessions. Fifty-six percent of the participants rated the content of the workshop as "critically important" to their organizations, and the balance scored it "very useful."

B. 1994 Annual Work Plan Takes Shape

Abt staff, led by Project Director Dr. Sally Merrill, met with USAID and NHB to develop a draft Work Plan for the year beginning October 1, 1993. An overview of the final Plan will be presented in the next quarterly report; however, as the plan takes shape, it is clear that HFC training, risk management, and regulation/supervision will be important themes.

C. Lower-Income Borrowers To Receive Program Attention

The first step has been taken towards developing pilot programs to test ways of delivering housing finance to lower-income borrowers. Dr. Meera Mehta and the National Institute of Urban Affairs have contracted to investigate non-governmental organizations and housing finance companies suitable for demonstration projects.

D. NHB Offers Training in Appraisal Techniques

On September 7-9, NHB presented a training program for junior and middle-level professionals from housing finance companies in New Delhi. The program addressed the technical and financial appraisal of projects to be financed under NHB's Land Development and Shelter Program.

E. US Secondary Market, Asia Study Tours Postponed

At NHB's request, two study tours were deferred for implementation under the 1994 Work Plan.

F. NHB Resource Mobilization Plan

NHB completed its comments on the March 1993 draft report on NHB's refinance program. They have been submitted to the author, Dr. Douglas Diamond.

ICICI was selected by NHB to conduct the capital markets portion of this activity. ICICI's consulting company, ISEC, submitted a proposal in August for the study. Negotiations are continuing with ISEC to arrive at an acceptable proposal.

G. HFC Baseline Study Completed

JPS Associates submitted its final report evaluating the status of the housing finance industry as of March, 1992. The report provides a benchmark against which future evolution of the industry can be measured.

H. Management Information System for Regulation and Supervision

Following two separate presentations to Abt Associates and NHB executives, including Executive Director Athavale, Price Waterhouse completed its preliminary draft report.

I. Savings Study Design Process Begins

Dr. Sally Merrill conducted interviews during her September stay in Delhi to develop objectives and design a methodology for the market research study on household savings mobilization (to be conducted under a separate Request for Services).

J. ABTNEWDELHI Goes On-Line; Inventory of Non-Expendables Completed

The project office is now using low-cost, efficient electronic mail service for communication with US consultants and Abt's home office in Cambridge, Massachusetts. Our MCI E-mail number is 609-7570.

Administrative Officer Sundar Raman has completed and computerized an inventory of all non-expendable supplies purchased by the project to date.

II. Problems and Opportunities

A. High-Priority Issue: Regulation and Supervision

At the Risk Management Workshop and subsequent meetings with NHB top managers, it has become clear that NHB's regulation and supervision of the industry will develop rapidly over the next year. Program resources will be targeted to address this critical issue.

B. Risk Management, Foundation of Housing Finance

The Bangalore conference on Risk Management was in effect a summit meeting of the industry's leaders, and the topic was absolutely in tune with their immediate concerns. In a deregulated environment, management of risk is in essence the management of profitability. The overwhelming response to the workshop dictates more training, specifically geared for the Indian financial sector. Planning is underway.

C. Resource Mobilization: Capital Markets Study

Start-up of this important activity has been delayed. A new approach may be necessary if an agreement is not struck with ICICI very shortly.

D. Industry Group Holds Successful First Meeting

Virtually all housing finance companies met in Hyderabad on August 18 and agreed to move ahead with plans to formalize an industry association. The next meeting is scheduled for November 5. This provides an opportunity for the Program to progress on another front, as support for an industry association is part of the Project Grant Agreement.

E. Program Evaluation To Be Conducted

USAID has retained U.S. consultant Randy Lintz to evaluate progress made on program goals to date. He will conduct the evaluation in India from October 27 through November 10, 1993.

III. Objectives for Quarter Ending December 31, 1993

A. Program Activities

1. Finalize 1993-94 Work Plan.
2. Complete NGO/HFC Identification Study.
3. Select consultant and begin Capital Markets Section of Resource Mobilization Study.
4. Complete MIS Study.
5. Asia Study Tour.
6. Identify Indian market research consultants for assistance with Savings Study design.
7. Publish newsletter for distribution to HFCs re: program events and general news/comment on housing finance.
8. Hold open house at project office for NHB, USAID, HFC's.
9. Publish and distribute project reports.

IV. Fiscal Report: Expenditures vs. Budget Amounts Through 30 September 1993

See Attachment A.

cc: Sally Merrill, Abt Associates
David Deal, Abt Associates
M.R. Prabhakar
Sundar Raman

Indo-USAID Housing Finance Expansion Program

Contract No. 386-0528-00-C-2295-00

Voucher No. Invoice-3 Rupee

Sheet No. :

FISCAL REPORT

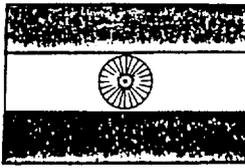
(Revised on 18th October 1993)

Period 28th August through 1st October, 1993

	<u>4 Year Contract</u>	<u>Annual Work</u>	<u>Current</u>	<u>Adjustments (#)</u>	<u>Inception</u>
	<u>Budget Amount</u>	<u>Plan Year-1</u>		<u>Invoice-1 Rupee</u>	<u>To-Date (*)</u>
	<u>(Figures in U.S.Dollars)</u>				
I SALARIES					
A DIRECT LABOR	106,761.00		1,471.60	0.00	46,275.44
B SITE LABOR	404,845.00		352.00	0.00	46,903.54
C CONSULTANTS	101,693.00		224.00	0.00	22,001.69
TOTAL SALARIES	613,299.00	190,940.00	2,047.60	0.00	117,180.66
II FRINGE BENEFITS	204,642.00	53,559.00	0.00	0.00	34,218.81
III ALLOWANCES	138,867.00	73,839.00	58.88	(6,743.33)	114,317.95
IV TRAINING	1,430,702.00	387,801.00	7,361.57	0.00	9,661.83
V TRAVEL (FARES)	130,802.00	89,766.00	0.00	0.00	47,594.90
VI PER DIEM	133,048.00	82,099.00	0.00	0.00	15,472.19
VII TRANSPORT	17,460.00	38,178.00	122.15	0.00	5,735.64
VIII NON-EXPENDABLE SUPPLIES	30,000.00	40,000.00	1,085.23	6,471.22	48,457.20
IX EXPENDABLE SUPPLIES	720.00	1,380.00	292.60	10.56	839.24
X TRANSPORT - N/A	0.00	0.00	0.00	0.00	0.00
XI OTHER DIRECT COSTS	60,190.00	44,201.00	569.52	281.55	21,085.70
XII SUBCONTRACTS	596,936.00	116,749.00	8,501.12	0.00	39,795.09
XIII TOTAL DIRECT COSTS	3,359,666.00	1,117,912.00	20,058.67	0.00	454,357.22
XIV INDIRECT COSTS	427,082.00	121,960.00	0.00	0	97,582.82
XV TOTAL COSTS	3,783,748.00	1,239,872.00	20,058.67	0	551,940.04
XVI FIXED FEE	206,251.00	41,547.00	0.00	0	24,359.79
XVII TOTAL ACTUAL COST PLUS FIXED FEE	3,989,999.00	1,281,419.00	20,058.67	0	576,299.83

(#) These adjustments are, subsequent to the discussions with the USAID Controllers' department team, to book the expenses under the respective line items

(*) Based on Invoices as submitted; Invoices for July, August & September U.S.Costs have not yet been submitted.



Indo-US Housing Finance Expansion Program

Abt Associates Inc., USA
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April 11, 1994

To: N. Bhattacharjee
Charles Billand
Earl Kessler
USAID, New Delhi

From: Richard Genz, Abt Associates, New Delhi *RG*

Subject: **Status Report: Housing Finance Expansion Program
October 1, 1993 through March 31, 1994**

This report summarizes the status of the Housing Finance Expansion Program for the two quarters ending March 31, 1994.

The following topics are addressed:

- I. Significant events during the period.
- II. Problems and opportunities.
- III. Tasks to be accomplished by the end of the current quarter.

I. Events during the Period

A. **MIS Implementation Workshop**

In February, a workshop on implementing MIS systems for regulation and supervision of risks in the HFC's and in the housing finance system as a whole was conducted in Calcutta. On Day One, senior executives of HFC's and NHB heard a description of risk measurements and broad types of management information systems. Before returning to their offices, these executives were invited to leave their "teams" with a mandate to design an MIS system appropriate for their organization.

Status Report

October 1, 1993 - March 31, 1994

Page 2

During the next two days, the workshop shifted to an interactive, small-group mode. Participants developed detailed implementation plans for their organizations' risk management information systems.

The workshop was conducted by Price Waterhouse in Calcutta.

B. Secondary Market Core Group Activities

A Core Group was organized by NHB to explore issues relating to establishment of a secondary mortgage market in India. The Group held its first meeting on December 24. Sub-groups met for working sessions before the full group's second meeting on February 11. The Core Group provided comments and direction to shape the agenda of the Workshop on Development of a Secondary Mortgage Market.

C. Secondary Mortgage Market Workshop Results in Decision to Attempt a Pilot Security

Thirty-eight participants from a diverse group of organizations met in Bombay on March 2 and 3 to develop an Action Plan for exploring the potential of a Secondary Mortgage Market. US consultant Ms. H. Beth Marcus, Managing Director of International Financial Services at Fannie Mae, was a featured speaker. Excellent presentations from Indian experts made for a balanced, comprehensive treatment of the subject.

Mr. V. G. Athavale of NHB brought the final session to a focus by suggesting that a pilot mortgage security be attempted. Four housing finance companies agreed to take part in the effort. Abt is presently working with NHB to organize the many tasks that will be required.

D. Croft Regulation Workshop

An executive workshop to develop a new regulatory regime for the housing finance sector brought the sector's multiple regulators face-to-face for two days of policy discussions on March 23 and 24 in New Delhi. Senior regulatory officials from the Department of Company Affairs, the Reserve Bank of India, and the NHB were joined by executives of five housing finance companies.

After the workshop, NHB's Board accepted management's plan to strengthen NHB regulation and supervision.

The expert facilitator was Dr. D. James Croft.

E. Savings Study Design

In the long run, housing finance companies will need to increase their share of household deposits to meet rising demand for mortgage loans. MARG, a financial market research firm, completed a draft design for a market research study which will explore what new products, services, or changed government policies would be most likely to bring new savings from households into HFCs.

F. Catalog Course Training

An ambitious schedule of training in India is underway. NHB has identified ninety HFC managers and thirty NHB staff for some twenty-five courses to be offered in India through September 1994. The courses include both specialized housing finance and general management offerings. Given that the list of names was finalized in late March, it is expected that this activity will continue into next year's Work Plan.

G. Asia Study Tour

A group of 13 representatives of NHB, RBI, and HFC's visited housing finance institutions in Thailand and Korea during January 1994, led by Mr M. R. Prabhakar of Abt Associates. The Korea Housing Bank and the Government Housing Bank of Thailand hosted the group.

At a pre-tour briefing, each participant joined one of four teams studying particular aspects of each country's system: Sophistication of Financial Markets; Resources for Mortgage Finance; Supervision and Regulation; and Lending, Recovery, and Foreclosure.

A briefing organized on these four topics was presented to USAID upon the group's return from the ten-day tour.

H. Expanding Housing Finance Access for Lower-Income Households

Dr. Meera Mehta and the National Institute of Urban Affairs completed draft reports titled: "Downmarketing Housing Finance through Community Based Financial Systems." Their theme is that housing finance companies should explore commercial partnerships with financial institutions specializing in below-median income market segments.

Up to now, the HFC's which have approached these markets have used NGO's to identify qualified borrowers. The reports suggest a new approach: expansion of HFC markets on a commercial basis through partnerships with community-based financial institutions. These financial institutions may be competent to make loan decisions because of their familiarity with this market segment. Success in serving lower income households on a commercial basis can ensure broad-scale duplication. A problem with the NGO approach, noted by the NGOs themselves, is limited capacity to deliver qualified borrowers to mainstream HFC lenders.

I. Capital Markets Study Complete

The NHB received a detailed briefing on its options for raising resources in the capital markets from the UTI Institute of Capital Markets on March 29. The presentation was based on interviews with HFC's, capital market participants, and over 900 households representing possible investors in NHB securities. The study formalizing the presentation is expected by mid-April.

J. MIS Study Finalized

The Price Waterhouse study, *Management Information System for NHB Regulation and Supervision*, was finalized incorporating the comments of NHB. The report builds on the work of D. James Croft to detail the kinds of information NHB should collect to ensure that housing finance companies are operating on sound business lines.

K. Diamond Visit Prepares Ground for Applied Risk Management Workshop

Dr. Douglas Diamond, on his third Abt/USAID-sponsored trip to study Indian housing finance, prepared a detailed briefing paper and case studies for Dr. Anthony Santomero to use during the Applied Risk Management Workshop, scheduled for the week of May 23 in Bangalore. His paper was based on balance sheet analysis and interviews with nine housing finance companies.

L. NHB Orientation Program--Bhubaneshwar

On December 20-22, NHB conducted an Orientation Program for new entrants to the housing finance sector. The program was held in Bhubaneshwar.

M. Year Two Annual Work Plan Approved

Based on the NHB's approved Implementation Plan, the 1993-1994 Work Plan has been approved by USAID. Household savings mobilization, secondary mortgage market development, risk management, regulation and supervision, access for low-income borrowers, and a great deal of HFC/NHB training are highlights of the Plan. Requests for Services have been executed by NHB and USAID for each of the fifteen activities.

N. USAID/NHB Program Reassessment

USAID and NHB have been working on updating their mutual goals for the remainder of the Housing Finance Expansion Program. The reassessment, underway for the past six weeks, has occurred at the top levels of both organizations, and promises to facilitate execution of activities for the balance of the project period.

O. USAID Controller's Office Completes Financial Review of Project

Two reviewers from USAID visited Abt's offices for two days to review project accounts. In December they issued a report finding all systems OK.

P. *Housing Finance News*

Abt's first newsletter highlighting housing finance program developments was published and distributed to about 100 colleagues and friends of the program in January.

Q. Open House

Abt Associates was pleased to formally inaugurate its offices with a reception and open house October 29.

II. Problems and Opportunities

A. Pilot Mortgage Security

The Secondary Mortgage Market Workshop identified a large number of questions to be analyzed in developing a pilot mortgage security. This will require careful planning and continuous coordination. A Scope of Work, including a critical path of sequenced tasks, is being drafted.

B. Program Reassessment a Basis for 94-95 Work Plan

Coming in the second half of Year Two, the USAID/NHB program reassessment will provide a detailed framework for developing next year's Work Plan and Requests for Services.

C. Capital Market Security for NIIB

The study by the UTI Institute of Capital Markets indicates there is good scope for NHB to raise resources in the capital markets. Further technical assistance may be appropriate to design an instrument which matches NHB's specific situation.

D. Housing Finance Access for Low Income Families

During the next two quarters, activity will increase on this key program objective as the Pilot Program Design Workshop is conducted.

E. Commercial Banks May Count Home Mortgages up to Two Lakhs as Priority Sector Lending

This RBI rule change could make home mortgage lending an inviting business for commercial banks, which in turn could expand the industry. However, banks would require training in the business. At present, the Program is not working with commercial banks at all. That policy may require review by NHB and USAID.

F. Continued Focus Required on Regulation and Supervision

The dialogue between RBI, NHB, and the Department of Company Affairs which occurred at the Executive Workshop on Regulation and Supervision should be cultivated. In addition, some initiatives proposed by DCA require follow-up in the near future (restriction of the use of the term "Housing Finance Company;" statutory delegation of DCA regulatory authority to RBI or NHB). Although the contents of NHB's new Board-approved plan for strengthening regulation and supervision are confidential, it is understood that NHB will be moving ahead resolutely. Specific targets for continued technical support from the Program could be identified.

G. Slow Response on Training

Some reluctance on the part of HFC's to name participants for the Fels Program and for catalog courses was observed. The cause needs to be understood. Abt intends to survey companies on their training needs, as recommended by the USAID program evaluation.

H. MIS Plan Implementation

Implementation of the HFC and NHB plans for risk management information systems is expected to progress quickly during the next three to six months.

III. Objectives for Second Quarter 1994

NHB Regulatory and Supervisory Staff Training to be conducted week of May 16.

Applied Risk Management Workshop to be conducted week of May 23.

US Secondary Market Tour, approximately June 12 to 24.

Schedule Low Income Pilot Program Design Workshop; August 1994 appears likely.

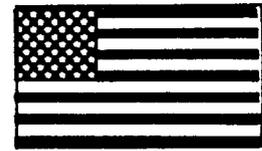
Scopes of Work to be drafted for tasks developed in NHB/USAID program reassessment.

Savings Study design to be finalized and subcontractor to be selected to conduct the study.

Conduct HFC training needs survey.

cc: Sally Merrill, Abt Associates

RP



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August 3, 1994

To: Charles Billand
N. B. Bhattacharjee
Earl Kessler
USAID, New Delhi

From: Richard Genz, Abt Associates, New Delhi

Subject: Quarterly Report: Housing Finance Expansion Program April 1 through June 30, 1994

This report summarises the status of the Housing Finance Expansion Program for the quarter ending June 30, 1994.

The following topics are addressed:

- I. Significant events during the period.
- II. Problems and opportunities.
- III. Tasks to be accomplished by the end of the current quarter.

I. Events during the Period

A. Planning Continues on Lower-Income Lending Programs

Consultant Meera Mehta, working with me and Harry Garnett, is traveling to organize teams of potential partners who could design and deliver pilot low income lending programs. The planning efforts are concentrating on community-based financial institutions such as Urban Cooperative Banks and Thrift Cooperative Societies. People from these institutions will be invited to make presentations at the Low-Income Pilot Project Design Workshop.

B. HFC's Go to School

Catalog course training activity continued, as participants attended three HDFC-sponsored courses. Five participants attended the two-week course, Housing Finance

Management and Managerial Effectiveness, in Colombo. Fourteen attended Credit Appraisal and Loan Recovery, a one-week course at the Center for Housing Finance in Lonavla. In February, three attended Winning Customer Loyalty at the Frontline, also at Lonavla. These formal courses are a good way for HDFC's expertise to be transferred to the rest of the industry.

C. Risk Management Briefing for USAID

Douglas Diamond briefed the USAID mission regarding his visit to eight housing finance companies, focusing on the state of risk management practices in the industry.

D. Two Risk Management Workshops Held

Anthony Santomero conducted a workshop on Applied Risk Management in Bangalore. Two sessions were held to permit more hands-on application of the material. The sessions were attended by a total of 27 participants from 16 housing finance companies.

E. Regulators and Supervisors Get Intensive Training

The Program's most extensive custom-designed training course to date, a full five-day course on HFC Regulation and Supervision, was conducted by Ms. Elaine Weis and Dr. William Handorf. Ms. Weis was formerly the Utah Banking Commissioner, and Dr. Handorf is Professor of Finance at George Washington University, and a Director of the Federal Home Loan Bank System. The training was conducted at the Centre for Housing Finance in Lonavla. The course was also the first conducted exclusively for NHB staff. Sixteen people attended, many of whom are to become HFC examiners and supervisors.

F. US Secondary Market Tour Yields Results for India

Thirteen participants toured US Secondary Mortgage Market institutions for two weeks in June. Participants came from a diverse group of organizations, selected to form a nucleus which can now act on the knowledge gained.

Organizations represented included the Ministry of Finance, UTI, LIC (Investment Department), J.M. Financial & Investment Consultancy Services Ltd., SBI Capital Markets, CRISL, as well as NHB and HFC executives.

After two days of background lectures by Wharton School Finance Professor Jack Guttentag, the group visited Fannie Mae, Freddie Mac, the Mortgage Bankers Association, Associated Credit Bureaus, Inc., GE Mortgage Insurance Co., and Ginnie Mae. In New York, the group met with several investment banking firms active in mortgage securitisation, as well as with credit rating agencies.

Upon returning, Mr. S. P. Ghosh called a meeting in Bombay at which participants

presented their draft reports applying information gained during the tour to specific issues in the Indian environment. At the meeting, UTI and LIC investment managers expressed a strong desire for new high-quality debt instruments such as mortgage-backed securities. The group's final report is expected in August. The group reviewed and expressed strong support for the Program's draft work plan for coordinating development of a pilot mortgage security.

G. Fels Course

Eight participants attended the annual three-week training course on housing finance at the Fels Centre, University of Pennsylvania, USA.

H. What New Training are HFC's Looking For?

Abt surveyed nineteen housing finance companies on their training needs and received eight companies responses. Training in the following areas was most desired:

- Risk Management
- Loan Processing
- Legal Aspects of Mortgage Finance
- Recovery Techniques

The second group of topics cited includes:

- Construction Finance
- Evaluating Self-Employed Borrowers
- Human Resources Development
- Loan and Deposit Marketing

Mr. Deepak Satwalekar of HDFC commented that such technical training in core competencies should be integrated with broadly focussed training in "behavioral skills," strategic planning, organizational development, and "entrepreneurial skills."

Survey results will shape the Program's training offerings in the 1995 Work Plan.

I. GAO Looks at Housing Guaranty Program

An audit team from the US GAO reviewed India's Housing Guaranty loan program during late June-early July. The team interviewed USAID, NHB, and Abt, and met with housing finance company executives in Bombay, Bangalore, and Ahmedabad. The team expressed a strong interest in the program's progress on its low-income lending goals.

II. Problems and Opportunities

A. A number of respected companies are entering the housing finance business with new

companies. They include DCM, Videocon, Ambuja Cement, and ITC. This presents an opportunity to expand the base of companies involved with the Program. It may be advisable to begin contacts now, and possibly to conduct an introductory workshop for these firms.

B. HDFC's deposits increased by 42 percent during the year ending March 31, 1994, according to its annual report. It should be possible for other companies to diversify their own resource base as well. The program's market research into household deposit mobilization is intended to facilitate the process.

C. The Secondary Mortgage Market tour has increased enthusiasm for exploring secondary market opportunities among mortgage originators and investors. They may find some new partners. The group was encouraged by the keen interest in the country shown by several New York investment banking firms. GE Mortgage Insurance also expressed interest in visiting India to explore business opportunities.

III. Objectives for Fourth Quarter

Prepare 1995 Implementation Plan, Annual Work Plan, Scopes of Work, and Requests for Services.

Begin Secondary Market Pilot Instrument activity; possibly Loan Portfolio Audit activity as well.

Prepare Newsletter.

Publish all Program reports in uniform format.

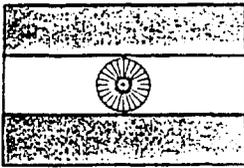
Prepare Program Brochure providing overview of goals and activities.

Send an estimated 30 participants to catalog courses.

Plan Low Income Lending Pilot Project Design Workshop to be held October 5 & 6 in Hyderabad.

Finalize savings study design and select subcontractor to conduct the study.

cc: Sally Merrill, Abt Associates



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October 11, 1994

To: N. Bhattacharjee
Lindsay Elmendorf ✓
Earl Kessler
USAID, New Delhi

From: Richard Genz, Abt Associates, New Delhi

Subject: **Quarterly Report: Housing Finance Expansion Program July 1 through
September 30, 1994**

This report summarises the status of the Housing Finance Expansion Program for the quarter ending September 30, 1994.

The following topics are addressed:

- I. Significant events during the period.
- II. Problems and opportunities.
- III. Objectives for the fourth quarter.
- IV. Spending and LOE to date.
- I. Events during the Period
 - A. **1994-95 Implementation Plan in Final Stages of Review**

During July and August, Abt, USAID, and NHB met several times to develop the Implementation Plan for 1994-95. USAID and NHB agreed on the basic list on August 22, 1994 and slight revisions were made on September 16, 1994. The proposed Implementation Plan contains a total of 31 activities.

Upon final approval by NHB, the work plan will be developed, including a time-line which identifies activities for 1994-95 execution along with those to be deferred until 1995-96. The proposed plan includes eight training workshops and one two-week training course, all to be conducted in India; two overseas training courses; 12 research studies; and two pilot projects.

The pilot projects -- development of a pilot mortgage security instrument and low income housing finance -- mark a transition for the program from research and training to "action research".

B. Savings Study

Negotiation is nearly complete for subcontract award on Activity 94.A.1, *Market Research Study on Household Savings Mobilization for Housing Finance Companies*. The activity will entail more than 8,000 interviews to generate statistically valid information to support savings product development, deposit marketing, and related regulatory reform.

C. Commercial Banks are Focus of Two Proposed Activities

For the first time, the Program will directly address the vast potential of commercial banks to expand housing finance. A feasibility study to assess the pros and cons of mortgage lending from a bank's view point is proposed. The second proposed activity will be to collaborate with the National Institute of Bank Management to design a one-week training program in the fundamentals of mortgage lending.

D. Proposals Received for Coordination of Pilot Mortgage Security Development

In September, Abt issued a Request For Proposal to five Indian merchant banking firms seeking a coordinator for the development of a pilot mortgage security. Four firms attended the bidders' conference at Bombay on September 22, 1994. These four firms have submitted proposals.

E. US Secondary Mortgage Market Study Tour Group Convenes in Bombay

On July 19, 1994, NHB called the participants of the US Secondary Mortgage Market tour together for a meeting to discuss next steps. The group is preparing a report on lessons learned during the June tour. At the Bombay meeting, the group reviewed Abt's proposed Action Plan for Pilot Mortgage Security Development, and suggested revisions. The group's enthusiasm for the pilot security project has grown following exposure to the US institutions. Large investors present at the meeting said they badly need instruments like mortgage-backed securities for income-oriented mutual funds.

F. Twenty-eight Participants Attend Catalog Courses in Management and Finance

During the quarter, the program sponsored participants in the following courses:

Institution	Course Title	Dates	No. of Persons
HDFC	Leadership Skills	Aug. 4-6	7
XLRI	Creativity, Problem Solving & Decision Making	Aug. 22-26	7
IIM, Ahm.	Advanced Financial Management	Sep. 5-10	8
ASCI, Hyd.	Management Audit	Sep. 12-17	6
Total for July-Sep. Quarter			28

G. Downmarketing Housing Finance Workshop To Be Re-scheduled

Throughout the quarter, logistical arrangements and field visits to prospective NGO/community financial institutions were carried out in preparation for the scheduled October 3 & 4 Workshop. Unfortunately, the workshop was postponed at 4:00 pm on September 30 as concerns about the plague caused a number of participants to fax Abt with requests for postponement, and the Embassy Medical Unit advised against bringing participants to Delhi from Gujarat state. The workshop will soon be re-scheduled.

Despite the postponement, the intense focus on the project has yielded tangible progress towards development of pilot programs. The following steps already taken will support future workshops and technical assistance for would-be community-based financial institutions.

- Site visits to the following groups - SEWA (Ahmedabad); FTCA (Hyderabad); Pragathi Credit and Thrift Society (Hyderabad); RTCA (Hyderabad); GRUH Housing Finance (Ahmedabad); Sharan (NGO/Community Financial Institution - New Delhi); Nagarjuna Fertilizers and Chemicals Employee Credit Union (Hyderabad); SPARC (NGO/Financial Institution - Bombay); Urban Development Cooperative Bank (Bombay); World Women's Banking (Madras). These visits were in addition to the field research conducted by NIUA and Dr. Meera Mehta in early 1994.
- Abt identified a professional facilitator and chartered accountant to serve as resources for the workshop.

- In addition, Mr. Robert Schall (President, Self-Help Ventures Fund, Durham NC, USA) and Mr. Harry Garnett (Abt Associates Inc., Cambridge, USA) prepared papers on the theme of Community Development Banking.
- Mr. Rajah Chelliah, Advisor to the Government of India; Mr. R. V. Gupta, NHB Chairman & Additional Secretary Banking, Ministry of Finance had agreed to inaugurate the conference.
- Mr. K. K. Bhatnagar (Chairman-HUDCO) and Mr. Deepak Satwalekar (Managing Director-HDFC) had confirmed their attendance.

H. Briefings Conducted for USAID-Washington Staff

On August 10, 1994 Ms. Sally Shelton, Assistant Administrator, Global Bureau-USAID, visited Abt's New Delhi office along with Mr. S. P. Ghosh and USAID personnel for a briefing on progress to date.

On September 19, 1994 Dr. Dirk W. Dijkerman, Director, Office of Strategic & Economic Analysis/USAID, Washington and Mr. Sidney A. Chernenkoff, Director, South Asian Affairs/USAID, Washington, visited Abt for a similar briefing.

In both meetings, our visitors were especially interested in the Program's benefits to low-income people.

I. All Reports Printed

All program research reports are now available in a uniform printed format.

J. Program Brochure Completed

Samples of the new brochure are being mailed to NHB and USAID.

II. Problems and Opportunities

- A. Postponement of the Downmarketing Workshop was especially unfortunate because the program has much to accomplish on its low-income goal. Focus on low-income lending must continue.
- B. Coming at the midpoint in the four-year contract, preparation of the new Work Plan will be an opportunity to forecast levels of effort and funds useage through the end of the contract term. A contract extension will be proposed if needed.
- C. Preparation of the 1995 Work Plan and arrangement of needed consultants has been delayed. As of the end of the Quarter, the Implementation Plan had still not been approved.

- D. The very long list of activities on the proposed Implementation Plan dictates careful scheduling. Completion of the entire list will probably take two full years.
- E. Pilot programs (secondary market, low-income lending) will require more intensive management than studies, training, and workshops.
- F. We all need to move faster. For example, consider the secondary market pilot instrument. It was agreed upon in principle on March 3, 1994. A Request For Services was executed a full six months later, at the end of August. This does not bode well for the execution of the pilot instrument itself, which will require a great many timely decisions for success.
- G. The second tranche of HG borrowing (out of a total of four) is yet to occur.
- H. The Year One program evaluation cited a need to leverage HG funds more effectively. Proposed studies on mortgage insurance, deposit insurance, and credit enhancement in this year's Implementation Plan will address some possible new uses for HG. Mr. Michael Lee, the consultant who will prepare this year's Evaluation, will also contribute to HG re-design.

III. Objectives for Fourth Quarter

Complete 1995 Annual Work Plan.

Prepare Scopes of Work/Requests for Services for near-term activities.

Continue working with Community-based financial institutions, and re-schedule Downmarketing Workshop.

Begin Savings Study.

Begin Secondary Market Pilot Instrument activity, Portfolio Loan Audit, and Prepayment Speed study.

Compile latest statistics on HFC resources and deposits from 1993-94 data.

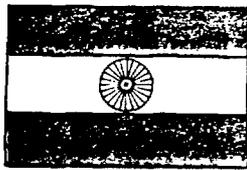
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IV. Spending and LOE To Date

	Four-Year Contract Total	Cumulative Total Used, Sept. '94	Percent Used
Budget	\$3,989,999	\$1,622,610*	40.7%
Level of Effort (Months)	323.5	128*	39.7%

* Estimated

cc: Sally Merrill, Abt Associates



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January 6, 1995

To: Lindsay Elmendorf, RHUDO, USAID
From: Richard Genz, Abt Associates, New Delhi *Richard Genz*
Subject: **Status Report: Housing Finance Expansion Program
October 1 through December 31, 1994**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending December 31, 1994.

The following topics are addressed:

- I. Significant events during the period.
- II. Problems and opportunities.
- III. Tasks to be accomplished by the end of the current quarter.
- IV. Spending and LOE used to date.

I. Events During the Period

A. 1994-1995 Implementation Plan and Annual Work Plan

On October 19, NHB and USAID agreed on an Implementation Plan. Abt submitted the Annual Work Plan to USAID on November 2. On November 7, the RCO requested changes in the allocation of costs to various budget categories, citing concerns about Abt's General and Administrative costs for training activities. Abt withdrew the Work Plan pending resolution of this matter.

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Quarterly Report through December 1994
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Abt spent quite a lot of time in November preparing a detailed response. On December 13, RCO's office withdrew its request.

Meanwhile, NHB sent a revised Implementation Plan reinstating the study on Women Co-borrowers as requested by USAID. Abt submitted the revised Work Plan to USAID on January 6, 1995.

B. Status of New Requests for Services

Abt prepared twelve RFS's during the quarter. Three were executed. Nine are pending. USAID emphasized low-income households' access to housing finance in its revisions to the scopes of work.

C. Dr. James Christian to Lead "Applied Housing Finance" Course

Dr. James Christian of Texas A&M University will be the lead faculty member for the two-week course, "Applied Housing Finance". He has consulted on housing finance and shelter issues in thirteen developing countries world-wide, and for eleven years was chief economist for the US League of Savings Institutions. In 1992, Dr. Christian published the monograph, *Integrating Housing Finance into the National Finance Systems of Developing Countries*. In it, Dr. Christian expertly covers virtually all of the matters the Program is addressing.

"Applied Housing Finance" will take place in India during August 1995. Dr. Christian will be supported by a finance expert, a specialist in human resources and management, and a housing finance practitioner.

D. Organization Development Workshops Scheduled Jan. 10 through 13

NHB's regulators and supervisors, to be led by Mr. S. P. Ghosh, will spend Jan. 10 and 11 with Mr. V. S. Mahesh, an internationally reputed expert on human resources, customer service, and adaptation of bureaucratic organizations to market environments.

Mr. Mahesh will lead a separate workshop for senior HFC executives, focussing on customer service, on Jan. 12 and 13.

**Housing Finance Expansion Program
 Quarterly Report through December 1994
 Page 3**

E. 16 Participants Attend Catalog Courses in Management and Finance

During the quarter, the program sponsored participants for the following courses:

Institution	Course Title	Dates	No. of persons
Institute of Capital Markets-UTI, Bombay	Risk Management	October 17-21, 1994	8
NIBM, Pune	PC Based Decision Support Systems	November 28-December 3, 1994	5
MDI, Gurgaon	Integrated Financial Management	November 28-December 7, 1994	3
Total			16

F. Savings Study: MARG Subcontract

The subcontract was re-submitted on November 30 and is pending USAID approval.

G. Pilot Mortgage Security: SBI Capital Markets Subcontract

Abt is ready to submit the subcontract to the Regional Contracting Officer for approval, pending NHB discussions with USAID about key personnel.

H. Audit of Mortgage Loans to Assess Potential for Inclusion in Pilot Mortgage-Backed Security; Prepayment Speed Study

Abt is holding off on executing these activities until the Pilot Mortgage Security work is underway.

I. Technical Assistance Workshop for NGO's is Planned

In place of the postponed workshop on "Downmarketing Housing Finance," a TA workshop for community-based groups interested in providing housing finance has been scheduled. Three foreign experts in the subject will provide in-depth assistance to about fifteen groups. Dates are February 14-16, 1995.

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Quarterly Report through December 1994
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NHB objected to not being specifically consulted about this activity, which was planned by Abt and USAID under Request for Services No. 24.

II. Problems and Opportunities

- A. Delays in executing the Implementation Plan, the Annual Work Plan, subcontracts and Requests for Services will make it impossible to deliver all or even most of the planned activities during this fiscal year. After Requests for Services are executed, consultants are recruited, and they require from three to nine months' advance notice.
- B. Problem: There is insufficient meeting of the minds between USAID/Abt and NHB about the objectives, desirability, and operating principles of proposed low income pilot programs. Perhaps a workshop among us, with a facilitator, would be useful.

III. Objectives for the Second Quarter

Draft Scopes of Work for remaining 1994-1995 Work Plan activities.

Begin Savings Study.

Begin Secondary Market Pilot Instrument and related activities.

Execute Requests for Services as they come in from USAID/NHB.

IV. Spending and LOE Used To Date

	Four-Year Contract Total	Cumulative Total Used, Dec. '94	Percent Used
Budget	\$3,989,999	\$1,898,048*	47.6%
Level of Effort (Months)	323.5	162*	50%

* Estimated

cc: N. Bhattacharjee
A. S. Dasgupta
E. Kessler
S. Merrill



Indo-US Housing Finance Expansion Program



Abt Associates Inc., USA

Post Box 8860, B2/13 (2nd Floor), Vasant Vihar, New Delhi-110 057

Tel.: 91-11-678988, 672563, 675811 Fax: 91-11-6888240 E-mail: 6097570@mcimail.com

From inside US: C/o USAID-New Delhi Washington DC 20521-9000

April 21, 1995

To: Lindsay Elmendorf, RHUDO, USAID

From: Richard Genz, Abt Associates, New Delhi

Subject: **Quarterly Report: Housing Finance Expansion Program
January 1 through March 31, 1995**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending March 31, 1995.

The following topics are addressed:

- I. Significant events during the period.
- II. Problems and opportunities.
- III. Tasks to be accomplished by the end of the current quarter.
- IV. Spending and LOE used to date.

I. Events During the Period

A. Organization Development Workshops Conducted Jan. 10 through 13

Seventeen NHB staff participated in a workshop with Mr. V. S. Mahesh, an internationally reputed expert on human resources, customer service, and adaptation of bureaucratic organizations to market environments.

Seventeen HFC executives from fifteen NHB-recognized housing finance companies, most of them managing directors, participated in a separate workshop, focussing on customer service, on Jan. 12 and 13. Both workshops took place in Delhi.

At the end of the quarter, Dewan Housing Finance Company invited Mr. Mahesh to Bombay to conduct a week-end workshop for Dewan staff.

Housing Finance Expansion Program
Quarterly Report through March 1995
Page 2

B. Workshop on Community-Based Housing Finance: Hyderabad, February 14-16

Twenty-four participants from 15 NGO's attended a two and one-half day session on Community-Based Housing Finance. Consultants Meera Mehta, Christine Glover, Anthony Scoggins, and Harry Garnett facilitated a process of information sharing and action planning. Several groups including SEWA Bank, SPARC, and Baroda Community Savings and Loan Ass'n expressed strong interest in using the resources of the Program to formalize and expand their housing finance activity.

The National Housing Bank's representative, Mr. Muralidharan, attended the first day of the workshop. He proposed to USAID that the groups attending form a "Network" to provide ongoing support for community-based housing finance. USAID shared the proposal with the workshop, and participants were interested.

NHB stated in a February 6 letter to Abt that no follow-up commitments to community groups should be made without NHB's prior approval.

C. 1994-1995 Implementation Plan and Annual Work Plan

Abt re-submitted the Work Plan to USAID for approval on January 5, 1995. On February 22, Abt staff including Dr. Sally Merrill met with RCO and RHUDO staff to discuss the status of USAID's review of the Work Plan. In response to USAID's desire to re-orient Year Three activities, Abt submitted a proposal for revising the Plan to RHUDO/RCO.

D. Second Annual Program Evaluation Performed

Mr. Michael Lee conducted his evaluation research during the last two weeks of January.

E. Bilateral Discussions on 1994-1995 Implementation Plan Revision

NHB and USAID began important discussions about changing the list of program activities (Implementation Plan). See "Problems and Opportunities."

F. Genz/Prabhakar Make Field Visits

March 8-10 Madras/Bangalore- Met with Canfin Homes new general manager, four non-NHB-recognized housing finance companies and one reputed building company.

March 14-15 Ahmedabad- Visited VIKAS re: community-based finance institution development. Also visited Friends of World Womens Banking to learn of their technical support and training for savings and credit groups throughout the country.

March 24 Delhi- Continued ongoing meetings with Sharan NGO to discuss plans for expanding its savings and credit activity.

Housing Finance Expansion Program
Quarterly Report through March 1995
Page 3

March 29-31 Trivandrum- Visited Palmyrah Workers' Development Society and discovered they are in an advanced stage of planning a community-based financial institution based on their existing savings and credit groups. Planning has been assisted by senior management of HDFC. Also visited Canfin Homes and two low-cost housing technology centers.

G. "Applied Housing Finance" Course Staffing Completed

Dr. James Christian will be assisted in this two-week course by Prof. Robert Bartell, University of Tennessee, and Prof. V. S. Mahesh, University of Buckingham. Mr. Prabhakar of Abt will provide the practitioner's perspective. The course will be held in Bangalore, August 21 through September 1, 1995

USAID and NHB are to decide on the list of participants.

H. 19 Participants Attend Catalog Course in Management and Finance

During the quarter, the program sponsored participants for the following courses:

Institution	Course Title	Dates	No. of persons
MDI, Gurgaon	Legal Aspects of Development Banking	January 9-14, 1995	6
MDI, Gurgaon	Credit Analysis & Financial Reporting in Banks	January 16-18, 1995	6
NIBM, Pune	Program on Relational Data Base Management System	January 16-25, 1995	1
UTI-Institute of Capital Markets	Value Pricing & Using Capital Market Instruments	March 13-15, 1995	6
Total			19

On March 16, Abt responded to RHUDO's request for the list of future catalog courses. RHUDO will review the list to ensure consistency with current Program direction. Courses currently approved extend through May 1995.

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Housing Finance Expansion Program
Quarterly Report through March 1995
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I. Activities Pending Implementation

USAID wishes to proceed now with the following activities: Variable Rate Mortgage Workshop; AIT Bangkok Course on Land and Development; Indian Catalog Courses; Fels Training Course; and Applied Housing Finance Course. Low income pilot project development is ongoing.

RFS's are pending with USAID on the first two activities. Catalog course review by USAID is required.

II. Problems and Opportunities

There is one urgent, over-riding problem/opportunity at the end of the quarter: re-establishing a working agreement between USAID and NHB about what activities the Program should accomplish. Given that there are policy and strategic issues involved, this can only be done by the parties. As soon as agreement is reached, Abt can design and deliver technical assistance and training.

III. Objectives for the Third Quarter

Submit a new revised Work Plan for 1994-95 containing five USAID requested activities and two carry-over activities.

Organize logistics for Fels Course.

Continue working directly with community-based financial institutions and refine our strategy for supporting them.

Develop options for housing finance company low income pilot programs.

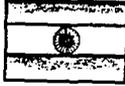
IV. Spending and LOE Used To Date

	Four-Year Contract Total	Cumulative Total Used, Mar. '95	Percent Used
Budget	\$3,989,999	2,050,000 *	51.4%
Level of Effort	323.5	178 *	55%

* Estimated

cc: A. S. Dasgupta
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L. K. Kessler



Indo-US Housing Finance Expansion Program



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From inside US: C/o USAID-New Delhi Washington DC 20521-9000

August 7, 1995

To : Lindsay Elmendorf, RHUDO, USAID

From : Richard Genz, Abt Associates, New Delhi 

Subject : Status Report: Housing Finance Expansion Program April 1 through June 30, 1995

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending June 30, 1995.

The following topics are addressed:

- I. Significant events during the period.
- II. Tasks to be accomplished by the end of the current quarter.
- III. Spending and LOE used to date.

I. Events During the Period

A. Tony Scoggins Evaluates Community Groups' Readiness for Housing Finance

Consultant Scoggins from Coady International Institute prepared a paper on this topic after spending ten days in India in April.

B. 25 Participants Attend Catalog Courses in Management and Finance

During the quarter, the program sponsored participants for the following courses:

Institution	Course Title	Dates	No. of persons
HDFC, Lonavla	Credit Appraisal & Loan Recovery	May 22-26 1995	12
HDFC Lonavla	Housing Finance Management & Managerial Effectiveness	June 19-30 1995	13
Total			25

C. 3 Participants Attend Fels Institute Three Week Course in Housing Finance

D. New Requests for Services

The following RFS's were approved by USAID and NHB.

RFS No. 30	Workshop on Variable Rate Mortgages
RFS No. 32	Workshop: Understanding Capital Adequacy, Income Recognition and Provisioning Norms
RFS No. 33	Workshop: Succeeding in Housing Finance in a Changing Business Environment
RFS No. 34	Development of Standard Mortgage Underwriting Guidelines, Forms and Manuals
RFS No. 39	Research Study: Structuring and Pricing Deposit Insurance for Housing Finance Companies
RFS No. 40	Research Study: Structuring Mortgage Default Insurance and Mortgage Security Credit Enhancement

E. New Activities Developed for Discussion with NHB

USAID, with input from Abt, prepared a matrix of new activities for discussion with NHB. The matrix was sent to NHB on July 6.

II. Objectives for the Third Quarter

Deliver Applied Housing Finance Course and Succeeding in Housing Finance in Changing Business Environment workshop.

Recruit consultants for remaining activities.

Meet with USAID and NHB to define activities for Year Four Implementation Plan.

After Implementation Plan is approved by USAID and NHB, complete Year Four Annual Work Plan by October 1.

III. Spending and LOE Used to Date

	Four-Year Contract Total	Cumulative Total Used, June '95	Percent Used
Budget	\$ 3,989,999	\$ 2,178,000*	54.6%
Level of Effort	323.5	193.5*	59.8%

* Estimated

cc: A.S. Dasgupta
E. Kessler
S. Merrill



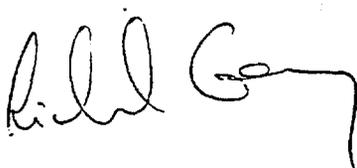
Indo-US Housing Finance Expansion Program



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From inside US: C/o USAID-New Delhi Washington DC: 20521-9000

October 4, 1995

To: Lindsay Elmendorf, RHUDO, USAID
From: Richard Genz, Abt Associates, New Delhi 
Subject: **Status Report: Housing Finance Expansion Program July 1 through September 30, 1995**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending September 30, 1995.

The following topics are addressed:

- I. Significant events during the period.
- II. Tasks to be accomplished by the end of the current quarter.
- III. Spending and LOE used to date.

I. Events During the Period

A. Applied Housing Finance Course (August 21 through September 1 - Bangalore)

This was the program's most extensive training offering to date. The two-week course covered a wide range of topics including: marketing shelter finance to below-median income borrowers; risk management; role of regulation and supervision; and human resources management. Core faculty: Robert Bartell, James Christian, V.S. Mahesh. Additional speakers: D. J. Reji Chandra, Conrad D'souza, Prabhu Ghatge, Richard Genz, C. V. Ignatius, Anand Kasthuri, V. C. Nadarajan, S. N. Nagendra, M. R. Prabhakar.

The course was attended by a total of 20 participants, including three from NHB, three from Sri Lanka, one representative of SEWA Bank, and middle-managers from eleven NHB-recognized housing finance companies.



Housing Finance Expansion Program
Quarterly Report through September 1995
Page 2

B. Workshop: Succeeding in Housing Finance in a Changing Business Environment (August 25 - Bangalore)

Dr. James Christian conducted a one-day workshop for 14 senior executives from HFC's and three executives from NHB on how to adapt strategically to rapid change in the operating environment.

C. Eight Participants Attend Catalog Course in Management and Finance

During the quarter, the program sponsored participants for the following course:

Institution	Course Title	Dates	No. of persons
XLRI, Jamshedpur	Creativity, Decision- Making & Problem Solving	Aug.28 - Sep. 1	8

D. Six Participants Attend Asia Institute of Technology Course on "Urban Development Through the Land Market at Bangkok: The Bangkok Experience and its Lessons" (August 7 - 19)

This two-week program informed participants about Bangkok's evolution of an efficient, effective housing market, with particular attention to low-cost condominium development and self-build housing systems. The six participants came from NHB, housing finance companies, SEWA and a private building company.

E. Proposed Activities Under Discussion with NHB

USAID discussed a matrix of proposed activities with NHB. When finalized, the matrix will constitute the basis for the Year Four Implementation Plan.

F. Abt Attends International Union of Housing Finance Institutions Annual Congress

M. R. Prabhakar attended this Sept. 12 - Sept. 14, three-day meeting in London.

Housing Finance Expansion Program
Quarterly Report through September 1995
Page 3

II. Objectives for the Next Quarter

Abt to meet with USAID and NHB to define activities for Year Four Implementation Plan.

After Implementation Plan is approved by USAID and NHB, Abt to complete Year Four Annual Work Plan.

Recruit consultants for and/or schedule VRM Workshop, Deposit Insurance Study, Mortgage Insurance/Mortgage Security Credit Enhancement Study.

Direct consultants' work on Development of Standard Mortgage Underwriting Guidelines.

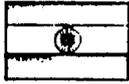
Conduct Workshop on Understanding Capital Adequacy, Income Recognition, and Provisioning Norms, October 25-26 in Madras.

III. Spending and LOE Used To Date

	Four-Year Contract Total	Cumulative Total Used, Sep. '95	Percent Used
Budget	\$3,989,999	\$2,388,820*	59.9%*
Level of Effort	323.5	208.5*	64.5%*

* Estimated

cc: A. S. Dasgupta
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Indo-US Housing Finance Expansion Program



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From inside US: C/o USAID-New Delhi Washington DC: 20521-9000

January 12, 1996

To: Lindsay Elmendorf, RHUDO, USAID

From: Richard Genz, Abt Associates, New Delhi *RG*

Subject: **Status Report: Housing Finance Expansion Program October 1 through December 31, 1995**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending December 31, 1995.

The following topics are addressed:

- I. Significant events during the period.
- II. Tasks to be accomplished by the end of the current quarter.
- III. Spending and LOE used to date.

I. Events During the Period

A. Standard Mortgage Underwriting Guidelines

Consultants Cathee Re and V. Swaminathan conducted field research at several HFCs on existing practices for appraising (underwriting) mortgage loans. They will prepare standard underwriting guidelines and forms reflecting their recommendations for prudent practice. Their recommended standards will be forwarded to NHB and USAID in draft form for comment.

B. Workshop: Understanding Capital Adequacy, Income Recognition, and Provisioning Norms; October 25 & 26, Madras

Dr. Anthony Santomero of the Wharton School, on his fourth USAID-sponsored visit to work with Indian HFCs, presented regulatory and strategic information on capital management to 15 participants, including three executives from NHB and twelve from HFCs. Mr. Amitava Guha Roy of Price Waterhouse presented a summary of NHB Circular 2206/95 and provided information on the Indian context.

Mr. A. M. M. Sarma, Chief General Manager of the RBI's Department of Supervision, opened the workshop with a one-hour overview of trends in the regulation of non-banking financial companies.

C. Four Participants Attend Catalog Course: Advanced Financial Management, Indian Institute of Management, Ahmedabad, Oct. 30-Nov.4

D. Research Study: Structuring Mortgage Default Insurance

Mr. Roger Blood, an American expert on mortgage default insurance (MI), visited India in November-December to analyze the readiness of the housing finance industry for MI. Mr. Blood also met with community-based financial institutions to discuss experimental loan guarantee schemes.

The MI study will be complemented by research on mortgage security credit enhancement, to be conducted by Dr. Jack Guttentag in January 1996.

E. Friends of World Women's Banking Plan Workshop on Women and Shelter Finance

Abt contracted with FWWB to organize a three-day session to bring together representatives of women's savings and credit groups interested in shelter finance. Housing finance institutions will also participate. The workshop is to take place in January, under RFS No. 24.

F. Research Study: Structuring and Pricing Deposit Insurance for HFCs

Dr. Douglas Diamond, on his fourth USAID-sponsored visit to work with Indian HFCs, conducted research to analyze the potential role of deposit insurance for the Indian housing finance industry. The subject is timely due to the deregulation of commercial bank (insured) deposit rates on deposits of two years or more, which has increased competition for deposits and HFCs' cost of funds.

G. USAID, NHB, Abt Develop Year Four Implementation Plan

At the end of the quarter, three very productive meetings were held to finalize the program's agenda for the fourth year. Sally Merrill was in India for the meetings. Following the sessions, an Implementation Plan was prepared for NHB Acting Chairman Reddy's approval.

H. New Executive Director at NHB; RBI Announces Search for Candidates for Chairman and Managing Director

Mr. K. K. Mudgil succeeded Mr. V. Athavale, who retired in November, as NHB's Executive Director. Mr. Mudgil was formerly Chief Officer, Rural Planning and Credit Department, RBI. On October 10, 1995, the RBI invited applications for the post of Chairman and Managing Director, which has been vacant since May 1992.

Mr. Alok Prasad, who served as NHB's designated representative for the Program, resigned from the Bank on December 31, 1995.

II. Objectives for the Second Quarter

Abt to prepare Year Four Work Plan and draft scopes of work based on approved USAID/NHB Implementation Plan.

Upon approval of Requests for Services, recruit consultants and schedule activities.

Conduct Variable Rate Mortgage Workshop.

Friends of World Women's Banking Workshop on Women and Shelter Finance.

Finalize Scope of Work for Loan Portfolio Analysis, recruit consultants, and begin the activity.

Complete drafts of Standard Mortgage Underwriting Guidelines; Deposit Insurance Study; and Mortgage Insurance Study.

Assist with research on Mortgage Security Credit Enhancement.

III. Spending and LOE Used To Date

	Four-Year Contract Total	Cumulative Total Used, Dec. 31 '95	Percent Used
Budget	\$3,989,999	\$2,597,400*	65.1%*
Level of Effort	323.5	229.5*	70.9%*

* Estimated

cc: A. S. Dasgupta, RHUDO/USAID
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 Sally Merrill, Abt Associates, USA

*copied to - Scott Fisher }
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Indo-US Housing Finance Expansion Program



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From inside US: C/o USAID-New Delhi Washington DC 20521-9000

April 11, 1996

To: Lindsay Elmendorf, RHUDO, USAID

From: Richard Genz, Abt Associates, New Delhi

Subject: **Status Report: Housing Finance Expansion Program January 1 through March 31, 1996**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending March 31, 1996.

The following topics are addressed:

- I. Significant events during the period.
- II. Tasks to be accomplished by the end of the current quarter.
- III. LOE used to date.

I. Events During the Period

A. Year Four Annual Implementation Plan and Work Plan Approved

On January 2, 1996, USAID and NHB agreed on thirteen new activities for Year Four. On January 16, Abt submitted the Year Four Annual Work Plan for these thirteen and an additional six carryover activities to USAID for approval. Abt's proposed budget for the year is \$1,514,025.

Contract Modification No. 7 (March 27, 1996) incorporated the Year Four Work Plan into the contract and obligated \$470,000 in new funds, bringing the total to \$3,485,000.

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B. Variable Rate Mortgage Workshop

Dr. Jack Guttentag, Wharton School, and Mr. John Starke conducted a two day workshop on Variable Rate Mortgages. Twenty-six participants from seventeen housing finance companies, NHB, and ISEC attended. The workshop was held in Delhi, January 17 and 18.

C. Workshop on Women and Shelter Finance

Abt collaborated with Friends of World Women's Banking to conduct a three-day workshop attended by NGOs and women members of self-help savings and credit groups from rural and urban areas. The workshop was chaired by Ms. Elaben Bhatt, founder of SEWA, and attended by Ms. Linda Morse, USAID Mission Director. Mr. V. Raghu, Assistant General Manager, NHB also participated.

One important theme of the session, which featured extensive presentations by the group members themselves, was the complementary relationship of decent shelter and the women's productive employment. The workshop took place in Ahmedabad, January 22-24. Thirteen NGOs and four financial institutions participated.

D. Secondary Mortgage Market Development

On January 19, Messrs. Guttentag, Starke, and Razi Amin, an expert on asset-backed securities, met for four hours with NHB executives, merchant bankers, CRISIL, and executives of the HFCs that NHB has invited to participate in a pilot mortgage-backed security. A wide range of issues was discussed regarding the possible security structure and portfolio analysis requirements. NHB expressed an interest in serving as the issuer and guarantor of the pilot security. The Bank also stated a preference for a pilot issue of at least Rs. 100 crores.

Following the meeting, Mr. Amin and Dr. Guttentag travelled to Bombay to interview merchant bankers, CRISIL, and HFCs in more depth about the pilot security. Based on these interviews, they co-authored a report, "Proposal for a Pilot Mortgage-Backed Security Issue for Housing Finance Companies in India."

Mr. Amin returned to India from February 10 through February 23. A number of working sessions took place in Delhi with NHB, HFCs, rating agencies, and merchant bankers on February 12, 13, 22, and 23. Mr. Amin and Abt consultant S. Swaminathan visited several housing finance companies in Bombay and Bangalore to analyze their readiness for the loan portfolio analysis, and to assess the overall suitability of the portfolios and MIS systems for the pilot security. These visits and working sessions confirmed the apparent feasibility of a Rs. 100 crore pilot issue.

Mr. Amin prepared a detailed "Summary of Significant Terms and Conditions for Class A Mortgage-Backed Security" for analysis by NHB.

Abt was informed by USAID that Dr. Y. Venugopala Reddy, Secretary Banking, Ministry of Finance and Acting Chairman of National Housing Bank, met with FNMA and USAID officials in Washington on April 5 to discuss "technological collaboration" between NHB and FNMA on secondary mortgage market development. The relationship between this NHB proposal and the ongoing technical assistance being provided through the Housing Finance Expansion Program should be clarified.

The next steps are for NHB to analyze and respond to the work done to date. NHB should set forth its needs, if any, for further technical assistance from the program. After that, the loan portfolio analysis described in RFS 41 could be considered for action.

E. Requests for Services Approved by USAID and NHB

The following RFS's were approved during the period:

- RFS 49: Workshop on the Networking of CBFIs (Upto six sessions)
- RFS 48: Program on Housing Finance in the US
- RFS 47: Research Study: Guidelines for NHB Recognition of HFCs for Refinance
- RFS 46: Executive Familiarisation Tours on Low Income Lending (Three Tours)
- RFS 45: Workshops on Micro Financial Services (Five Workshops)
- RFS 44: Research Study: Guidelines for NHB Equity Support to HFCs
- RFS 43: Training Course: Applied Housing Finance
- RFS 42: Workshop: Understanding Capital Adequacy, Income Recognition and Provisioning Norms
- RFS 41: Analysis of Mortgage Loan Portfolios to Assess Potential for Use in Pilot Mortgage Security

F. Workshop on Women and Shelter Finance (SHARE)

On February 14, Abt supported a workshop on Women and Shelter Finance at Dacheppally where 243 women belonging to ~~SHARE's~~ savings groups of the NGO, SHARE, gathered to finalize shelter loan program parameters, including: eligibility criteria for loans; loan size; repayment terms; documentation formalities, and so forth.

SHARE, based in Hyderabad, provides grants, management assistance, technological and marketing support to poor rural women undertaking income generation programs. SHARE's members expressed the need for shelter finance in a recent series of

workshops on credit management. Subsequently, SHARE arranged loans from donors and financial institutions for a shelter finance program.

The Dachepally workshop concluded with decisions to provide shelter loans to women who have successfully undertaken income generation programs for at least two years; have achieved an 80% attendance record at group meetings; have clear land title; require a maximum loan of Rs. 10,000; loan interest rate 15%, repayment term up to four years; etc.

G. NGO Representatives Attend Habitat II Pre-Conference

Eight representatives from NGOs were funded by the program to attend the Habitat II Global Conference on "Access to Land and Security of Tenure," January 17-19, 1996 in Delhi.

H. SEWA Bank Requests Program Assistance

SEWA Bank has worked with Abt to develop a Scope of Work for "Development of a Planning Tool for Savings and Credit Groups." The Bank needs such a methodology to help its nine organizers of savings groups plan the growth process of savings groups, which typically begin with about 20 members and progress to an optimal size of 100 in SEWA Bank's successful model.

This work would be accomplished under RFS 24.

I. Gujarat Mahila Housing Sewa Trust to Collaborate with Housing Finance Expansion Program

A scope of work and budget were nearly finalized between Abt and Sewa Trust to develop a training module, including videotape, on the subject: "Understanding the Fair Market Value of Shelter." Sewa Trust has found that slum dwellers, especially women, need to know how to determine whether a price for shelter purchase or upgradation is reasonable, considering the location, shelter quality, construction type, land tenure status, availability of water and sewer, etc. Poor women also need to understand legal issues to ensure that they securely hold the shelter assets they purchase, thus building their wealth while improving their housing conditions. Training materials will be developed in formats easily understandable this group.

This work will be done as part of RFS 45, Workshops on Microfinancial Services.

J. Workshop Conducted on "Institutionalizing Savings and Credit Groups: Strategic Issues for NGOs," March 25-27, Cochin

During a three-day session, twenty-six participants from sixteen NGOs considered strategic ramifications for NGOs which are thinking of institutionalizing their savings and credit groups. Consultant Anthony Scoggins of Coady International Institute pointed out that "In applying the concept of institutionalization to community-based organizations, one is not suggesting that they should be bureaucratized or ossified. Rather, it is to propose a process by which these organizations successfully establish themselves as central and significant actors in the lives of the community." Scoggins conducted the session with assistance from Mr. V. Nadarajan, Ms. Padma Desai, and chartered accountant Mr. V. Nagarajan. Mr. K. Muralidharan attended from NHB and Mr. Anand Rudra represented USAID.

US Ambassador Frank Wisner inaugurated the workshop.

K. CRISIL Retained for Deposit Insurance Research

To supplement the deposit insurance research of Dr. Douglas Diamond, Abt contracted with the credit rating agency CRISIL to prepare reports on the deposit composition of major Indian financial institutions and on the risk profile of housing finance companies as compared with other non-bank financial companies. The two reports are due in late April and mid-May, respectively.

L. Four Reports Submitted for Comment

Abt delivered the following reports to USAID and NHB during the quarter:

Amin, Razi and Guttentag, Jack, *Proposal for a Pilot Mortgage-Backed Security Issue for Housing Finance Companies in India*, RFS No. 41
Re, Catherine and Swaminathan, S., *Development of Standard Mortgage Underwriting Guidelines, Forms, and Manuals*, RFS No. 34
Blood, Roger F., *Mortgage Insurance for India*, RFS No. 40
Diamond, Douglas B., *The Potential Role of Deposit Insurance in the Development of the Housing Finance Sector*, RFS No. 39

M. M. R. Prabhakar Resigns

Senior Finance Advisor M. R. Prabhakar left Abt on March 22, after three and one-half years of excellent service. Mr. S. Swaminathan, formerly an executive in the housing finance industry, will fill his position on a consulting basis.

II. Objectives for the Third Quarter

Conduct Applied Housing Finance Course, April 30 - May 4.

April 29 - May 3. Conduct Workshop on Legal Issues and Business Implications in Registering CBFIs.

William Handorf to visit India to conduct research on NHB refinance program and HFC recognition guidelines.

Discuss activity priorities and delivery schedule with NHB/USAID.

Develop project close-out plan.

III. LOE Used To Date

Level of Effort 248.5 months, used 76.8% of contract total 323.5 months.

Note: Spending estimate is pending completion of invoices for February and March.

cc: A. S. Dasgupta, RHUDO/USAID
 L. Kata, RCO, USAID
 E. Kessler, RHUDO/USAID
 S. Merrill, Abt Associates, USA



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From inside US: C/o USAID-New Delhi Washington DC 20521-9000

July 10, 1996

To: Lindsay Elmendorf, RHUDO, USAID

From: Richard Genz, Abt Associates, New Delhi

Subject: **Status Report: Housing Finance Expansion Program April 1 through June 30, 1996**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending June 30, 1996.

The following topics are addressed:

- I. Significant events during the period.
- II. Tasks to be accomplished by the end of the current quarter.
- III. Spending and LOE estimates.

I. Events During the Period

A. Revised Year Four Annual Work Plan Developed, Approved

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On April 15, the Regional Contracting Officer informed Abt that no more funds would be obligated to the contract. To adapt to the lower funding level, Abt and USAID prepared a revised Work Plan over the next two months. The new plan, containing sixteen activities amounting to \$1,011,392, was approved by USAID in June. Contract Modification No. 8 is being prepared to incorporate the Plan into Abt's contract.

Housing Finance Expansion Program
Quarterly Report through June 1996
Page 2

B. Applied Housing Finance Course, April 3-May 4

Twenty-three participants attended the Program's second offering of Applied Housing Finance. This year, the course was reduced from two weeks to one, and the original team of Dr. James Christian and Dr. Robert Bartell returned to teach. Fifteen participants attended from "classified" housing finance companies, signalling a new NHB desire to extend the Program's training benefits beyond the 21 "NHB-recognized" firms. Two participants from NHB also attended the session, which was held in Bangalore.

The "Bank President" computer simulation game once again proved very popular with participants. Abt has purchased the software.

C. Workshop on Legal Issues and Business Implications in Registering CBFIs, May 9-10 Hyderabad

This session was truly "by popular demand." Financially-oriented NGOs and savings and credit groups have many questions about the best way to organize for community-based finance under Indian law. Eighteen participants from nine groups attended the session, led by Chartered Accountant V. Nagarajan. Time was provided for groups to meet individually with Mr. Nagarajan to discuss their strategies. The workshop logistics were organized by SHARE and ASA, representing the INDNET group of Grameen Bank replicators.

D. Evaluation of HG Loans

Abt consultant Padma Desai began a research study to evaluate income levels of borrowers receiving NHB refinance funded by Housing Guaranty program loans in 1991.

E. Developing Microfinance Services as a Tool for Women's Empowerment

Abt consultant Meera Mehta wrote a brief paper to assist in developing strategies for expanding women's savings and credit groups.

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Twenty-two accountants and financial managers from eleven community-based organizations and NGOs attended a five-day training course in Bangalore on the Fundamentals of Financial Management. Topics included: Financial Flows in a Community-Based Financial Institution; Financial Information Systems; Financial Statements of CBFIs; Financial Analysis; Cash Management; and Asset/Liability Management.

The course was taught by Mr. Anthony Scoggins, Lecturer in Savings and Credit at Coady International Institute; and Dr. D. V. Ramana, Assistant Professor of Accounting at Xavier Institute of Management, Bhubaneswar.

G. Economics Institute Course in Microfinance

The program funded two senior officials from NHB, one HFC chief executive and one NGO chief executive to attend a four-week training course in microfinance in Boulder, Colorado from May 30-June 28. Two USAID representatives also attended. The course is taught by some of the most experienced professionals in the field. Three more NGO representatives had been proposed to attend by NHB, but the Department of Economic Affairs rejected their names.

H. Training Video for Women: Understanding Shelter Value

On May 6, Abt contracted with Gujrat Mahila Housing Sewa Trust to prepare printed and video training material to explain key shelter issues to poor women. Appropriate materials, fair prices, design evaluation, financing options, and site evaluation are some of the topics to be covered.

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J. CRISIL Deposit Profile Reports Submitted for Comment

CRISIL's three-volume report, "Comparative Deposit Profile and Comparative Risk Analysis of HFCs, Banks & NBFCs" was delivered and submitted for comment in April.

On June 18, NHB provided comments on the report. Comments on Dr. Douglas Diamond's companion report on deposit insurance are still pending.

K. Standard Mortgage Underwriting Guidelines; Mortgage Insurance

NHB sent its comments on the Draft standard guidelines on May 23.

Comments on Roger Blood's draft "Mortgage Insurance For India" report are still pending.

L. Training Materials Production Begins

Abt has contracted with the Institute for Financial Education (Chicago), William Handorf, and Tony Scoggins to deliver training materials based on project research reports.

M. Administrative Officer Resigns

Abt's Delhi Administrative Officer resigned unexpectedly on May 31. By the end of June, a replacement had been identified and recommended to USAID for approval.

II. Objectives for the Fourth Quarter

Finalize Reports and Training Materials including: Deposit Insurance; Standard Underwriting Guidelines; Mortgage Insurance; NHB Equity and Refinance Support for HFCs; Planning Guide for Savings and Credit Groups; Training Materials for Women on Shelter Value; Training Materials based on Project Reports; HG Loan Evaluation.

Update HFC database including low-income lending statistics.

Catalog microfinance reports, articles, and books for ready access and transfer to RHUDO/USAID.

Prepare Final Report.

(September 1-30) Close out the project; finalize local accounts and settle USAID cash advance; transfer program materials to RHUDO and project files to Abt Cambridge; close office; dispose of property in office and residence per USAID guidelines (items with initial value > \$500 to NHB; other property to be disposed in consultation with RHUDO).

III. Spending and LOE Estimated Through September 30, 1996

Spending:	\$ 3,485,000
LOE:	312.5 person-months

cc: A. S. Dasgupta, RHUDO/USAID
L. Kata, RCO, USAID
E. Kessler, RHUDO/USAID
S. Merrill, Abt Associates, USA

A-GI 98



Indo-US Housing Finance Expansion Program



Abt Associates Inc., USA

Post Box 8860, B2-13 (2nd Floor), Vasant Vihar, New Delhi-110 057

Tel.: 91-11-6789888, 672563, 675811 Fax: 91-11-6888240 E-mail: 6097570@mcintl.com

From inside US: C/o USAID-New Delhi Washington DC 20521-9000

September 24, 1996

To: Lindsay Elmendorf, RHUDO, USAID

From: Richard Genz, Abt Associates, New Delhi

Subject: **Status Report: Housing Finance Expansion Program July 1 through September 30, 1996**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending September 30, 1996.

The report presents significant events during the final quarter of Abt's contract.

I. Significant events during the period.

A. Project Reports and Training Materials Completed

The following were completed and delivered to USAID and NHB during the quarter:

- Standard Underwriting Guidelines
- Loan Underwriting Training Materials
- Regulation and Supervision Training Materials
- Reader on Community-Based Financial Institutions
- NHB Equity/Refinance Study (Handorf & A. F. Ferguson)
- Preliminary Review of "Non-Conforming" HG-OO3 Loans
- Planning Guide for Savings and Credit Groups
- Deposit Profiles of HFCs, NBFCs, and Banks

B. New NHB Chairman/Managing Director is Named

Mr. P. P. Vora, formerly Finance Director of Gujrat State Fertilizer Corp. and an officer of the State Bank of India, will begin work as NHB's chairman and managing director in October 1996. The post has been vacant since May 1992.

C. Cataloging of Microfinance Materials Completed

Microfinance resource materials at USAID and Abt were compiled in a comprehensive annotative bibliography to enhance access.

D. NHB and USAID Donate Most Project Equipment to Gujrat Mahila Housing Sewa Trust

All major items of equipment at the project office are being shipped to Gujrat Mahila Housing Sewa Trust in Ahmedabad. Computers, photocopier, telephone switchboard, office furniture, generators, etc. will be used by the NGO as it expands its operations.

E. NGOs Gather in Delhi for Planning Meeting for Next 12 Months of Program Activity on Microfinance

Fifteen representatives from 12 financial NGOs and CBFIs attended a planning meeting in Delhi on September. RHUDO/USAID invited the participants to assist with planning the next twelve months of technical assistance and training in microfinance.

F. Final Reports and Financial Summaries in Progress

Abt's final report is in draft form and will be submitted shortly. A summary fiscal report on project expenditures will also be forthcoming following completion of August and September invoices.



Indo-US Housing Finance Expansion Program



Abt Associates Inc., USA

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From inside US: C/o USAID-New Delhi Washington DC 20521-9000

April 11, 1996

To: Lindsay Elmendorf, RHUDO, USAID

From: Richard Genz, Abt Associates, New Delhi

Subject: **Status Report: Housing Finance Expansion Program January 1 through March 31, 1996**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending March 31, 1996.

The following topics are addressed:

- I. Significant events during the period.
- II. Tasks to be accomplished by the end of the current quarter.
- III. LOE used to date.

I. Events During the Period

A. Year Four Annual Implementation Plan and Work Plan Approved

On January 2, 1996, USAID and NHB agreed on thirteen new activities for Year Four. On January 16, Abt submitted the Year Four Annual Work Plan for these thirteen and an additional six carryover activities to USAID for approval. Abt's proposed budget for the year is \$1,514,025.

Contract Modification No. 7 (March 27, 1996) incorporated the Year Four Work Plan into the contract and obligated \$470,000 in new funds, bringing the total to \$3,485,000.

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B. Variable Rate Mortgage Workshop

Dr. Jack Guttentag, Wharton School, and Mr. John Starke conducted a two day workshop on Variable Rate Mortgages. Twenty-six participants from seventeen housing finance companies, NHB, and ISEC attended. The workshop was held in Delhi, January 17 and 18.

C. Workshop on Women and Shelter Finance

Abt collaborated with Friends of World Women's Banking to conduct a three-day workshop attended by NGOs and women members of self-help savings and credit groups from rural and urban areas. The workshop was chaired by Ms. Elaben Bhatt, founder of SEWA, and attended by Ms. Linda Morse, USAID Mission Director. Mr. V. Raghu, Assistant General Manager, NHB also participated.

One important theme of the session, which featured extensive presentations by the group members themselves, was the complementary relationship of decent shelter and the women's productive employment. The workshop took place in Ahmedabad, January 22-24. Thirteen NGOs and four financial institutions participated.

D. Secondary Mortgage Market Development

On January 19, Messrs. Guttentag, Starke, and Razi Amin, an expert on asset-backed securities, met for four hours with NHB executives, merchant bankers, CRISIL, and executives of the HFCs that NHB has invited to participate in a pilot mortgage-backed security. A wide range of issues was discussed regarding the possible security structure and portfolio analysis requirements. NHB expressed an interest in serving as the issuer and guarantor of the pilot security. The Bank also stated a preference for a pilot issue of at least Rs. 100 crores.

Following the meeting, Mr. Amin and Dr. Guttentag travelled to Bombay to interview merchant bankers, CRISIL, and HFCs in more depth about the pilot security. Based on these interviews, they co-authored a report, "Proposal for a Pilot Mortgage-Backed Security Issue for Housing Finance Companies in India."

Mr. Amin returned to India from February 10 through February 23. A number of working sessions took place in Delhi with NHB, HFCs, rating agencies, and merchant bankers on February 12, 13, 22, and 23. Mr. Amin and Abt consultant S. Swaminathan visited several housing finance companies in Bombay and Bangalore to analyze their readiness for the loan portfolio analysis, and to assess the overall suitability of the portfolios and MIS systems for the pilot security. These visits and working sessions confirmed the apparent feasibility of a Rs. 100 crore pilot issue.

Mr. Amin prepared a detailed "Summary of Significant Terms and Conditions for Class A Mortgage-Backed Security" for analysis by NHB.

Abt was informed by USAID that Dr. Y. Venugopala Reddy, Secretary Banking, Ministry of Finance and Acting Chairman of National Housing Bank, met with FNMA and USAID officials in Washington on April 5 to discuss "technological collaboration" between NHB and FNMA on secondary mortgage market development. The relationship between this NHB proposal and the ongoing technical assistance being provided through the Housing Finance Expansion Program should be clarified.

The next steps are for NHB to analyze and respond to the work done to date. NHB should set forth its needs, if any, for further technical assistance from the program. After that, the loan portfolio analysis described in RFS 41 could be considered for action.

E. Requests for Services Approved by USAID and NHB

The following RFS's were approved during the period:

- RFS 49: Workshop on the Networking of CBFIs (Upto six sessions)
- RFS 48: Program on Housing Finance in the US
- RFS 47: Research Study: Guidelines for NHB Recognition of HFCs for Refinance
- RFS 46: Executive Familiarisation Tours on Low Income Lending (Three Tours)
- RFS 45: Workshops on Micro Financial Services (Five Workshops)
- RFS 44: Research Study: Guidelines for NHB Equity Support to HFCs
- RFS 43: Training Course: Applied Housing Finance
- RFS 42: Workshop: Understanding Capital Adequacy, Income Recognition and Provisioning Norms
- RFS 41: Analysis of Mortgage Loan Portfolios to Assess Potential for Use in Pilot Mortgage Security

F. Workshop on Women and Shelter Finance (SHARE)

On February 14, Abt supported a workshop on Women and Shelter Finance at Dacheppally where 243 women belonging to ~~SHARE's~~ savings groups of the NGO, SHARE, gathered to finalize shelter loan program parameters, including: eligibility criteria for loans; loan size; repayment terms; documentation formalities, and so forth.

SHARE, based in Hyderabad, provides grants, management assistance, technological and marketing support to poor rural women undertaking income generation programs. SHARE's members expressed the need for shelter finance in a recent series of

workshops on credit management. Subsequently, SHARE arranged loans from donors and financial institutions for a shelter finance program.

The Dachepally workshop concluded with decisions to provide shelter loans to women who have successfully undertaken income generation programs for at least two years; have achieved an 80% attendance record at group meetings; have clear land title; require a maximum loan of Rs. 10,000; loan interest rate 15%, repayment term up to four years; etc.

G. NGO Representatives Attend Habitat II Pre-Conference

Eight representatives from NGOs were funded by the program to attend the Habitat II Global Conference on "Access to Land and Security of Tenure," January 17-19, 1996 in Delhi.

H. SEWA Bank Requests Program Assistance

SEWA Bank has worked with Abt to develop a Scope of Work for "Development of a Planning Tool for Savings and Credit Groups." The Bank needs such a methodology to help its nine organizers of savings groups plan the growth process of savings groups, which typically begin with about 20 members and progress to an optimal size of 100 in SEWA Bank's successful model.

This work would be accomplished under RFS 24.

I. Gujarat Mahila Housing Sewa Trust to Collaborate with Housing Finance Expansion Program

A scope of work and budget were nearly finalized between Abt and Sewa Trust to develop a training module, including videotape, on the subject: "Understanding the Fair Market Value of Shelter." Sewa Trust has found that slum dwellers, especially women, need to know how to determine whether a price for shelter purchase or upgradation is reasonable, considering the location, shelter quality, construction type, land tenure status, availability of water and sewer, etc. Poor women also need to understand legal issues to ensure that they securely hold the shelter assets they purchase, thus building their wealth while improving their housing conditions. Training materials will be developed in formats easily understandable this group.

This work will be done as part of RFS 45, Workshops on Microfinancial Services.

J. Workshop Conducted on "Institutionalizing Savings and Credit Groups: Strategic Issues for NGOs," March 25-27, Cochin

During a three-day session, twenty-six participants from sixteen NGOs considered strategic ramifications for NGOs which are thinking of institutionalizing their savings and credit groups. Consultant Anthony Scoggins of Coady International Institute pointed out that "In applying the concept of institutionalization to community-based organizations, one is not suggesting that they should be bureaucratized or ossified. Rather, it is to propose a process by which these organizations successfully establish themselves as central and significant actors in the lives of the community." Scoggins conducted the session with assistance from Mr. V. Nadarajan, Ms. Padma Desai, and chartered accountant Mr. V. Nagarajan. Mr. K. Muralidharan attended from NHB and Mr. Anand Rudra represented USAID.

US Ambassador Frank Wisner inaugurated the workshop.

K. CRISIL Retained for Deposit Insurance Research

To supplement the deposit insurance research of Dr. Douglas Diamond, Abt contracted with the credit rating agency CRISIL to prepare reports on the deposit composition of major Indian financial institutions and on the risk profile of housing finance companies as compared with other non-bank financial companies. The two reports are due in late April and mid-May, respectively.

L. Four Reports Submitted for Comment

Abt delivered the following reports to USAID and NHB during the quarter:

Amin, Razi and Guttentag, Jack, *Proposal for a Pilot Mortgage-Backed Security Issue for Housing Finance Companies in India*, RFS No. 41

Re, Catherine and Swaminathan, S., *Development of Standard Mortgage Underwriting Guidelines, Forms, and Manuals*, RFS No. 34

Blood, Roger F., *Mortgage Insurance for India*, RFS No. 40

Diamond, Douglas B., *The Potential Role of Deposit Insurance in the Development of the Housing Finance Sector*, RFS No. 39

M. M. R. Prabhakar Resigns

Senior Finance Advisor M. R. Prabhakar left Abt on March 22, after three and one-half years of excellent service. Mr. S. Swaminathan, formerly an executive in the housing finance industry, will fill his position on a consulting basis.

II. Objectives for the Third Quarter

Conduct Applied Housing Finance Course, April 30 - May 4.

April 29 - May 3. Conduct Workshop on Legal Issues and Business Implications in Registering CBFIs.

William Handorf to visit India to conduct research on NHB refinance program and HFC recognition guidelines.

Discuss activity priorities and delivery schedule with NHB/USAID.

Develop project close-out plan.

III. LOE Used To Date

Level of Effort 248.5 months, used 76.8% of contract total 323.5 months.

Note: Spending estimate is pending completion of invoices for February and March.

cc: A. S. Dasgupta, RHUDO/USAID
 L. Kata, RCO, USAID
 E. Kessler, RHUDO/USAID
 S. Merrill, Abt Associates, USA



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Abt Associates Inc., USA

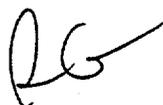
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From inside US: C/o USAID-New Delhi Washington DC 20521-9000

July 10, 1996

To: Lindsay Elmendorf, RHUDO, USAID

From: Richard Genz, Abt Associates, New Delhi 

Subject: **Status Report: Housing Finance Expansion Program April 1 through June 30, 1996**

This report summarizes the status of the Housing Finance Expansion Program for the quarter ending June 30, 1996.

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M. Administrative Officer Resigns

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II. Objectives for the Fourth Quarter

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Update HFC database including low-income lending statistics.

Catalog microfinance reports, articles, and books for ready access and transfer to RHUDO/USAID.

Prepare Final Report.

(September 1-30) Close out the project; finalize local accounts and settle USAID cash advance; transfer program materials to RHUDO and project files to Abt Cambridge; close office; dispose of property in office and residence per USAID guidelines (items with initial value >\$500 to NHB; other property to be disposed in consultation with RHUDO).

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cc: A. S. Dasgupta, RHUDO/USAID
L. Kata, RCO, USAID
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A-GI 10/4



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September 24, 1996

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I. Significant events during the period.

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