Social and Environmental Assessment for the Low Income Housing Finance Project
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EXECUTIVE SUMMARY

Introduction

The Social and Environmental Assessment (SEA) Report for the Project consists of an assessment of the sector followed by appropriate Social and Environmental Due Diligence (SEDD) measures to integrate S&E considerations into project implementation by NHB and its pre-financing and/or refinancing of QPLI1 lending operations to primary borrowers. As the project seeks to reach poor people who have been out of the formal housing finance sector to date, it will encounter credit and reputational risks, which need to be mitigated or minimized. The formal housing scenario addresses environmental aspects through housing regulations (such as municipal bylaws, land use and zoning, safety, etc.). However, the informal housing sector is devoid of such inherent S&E management considerations. In this context, appropriate S&E due diligence assumes importance for lending to informal sector housing to address issues such as: (i) environmental issues related to site, basic amenities and services, building safety, and regulatory norms; (ii) social issues such as the exclusion of poor in the informal work force, the lack of property titles among informal borrowers, and elite capture; and (iii) institutional mechanisms for Program implementation and monitoring. Considering the foregoing, the SEDD measures (in Part I of this report) have been developed based on the analysis presented in Part II. The baseline analysis focuses on environmental and social risks associated with lending for informal sector housing and the baseline scenario for addressing the S&E risks.

The SEA report is presented in two sections. Part I focuses on the S&E Due Diligence measures and covers: (i) Social and Environmental Due Diligence (SEDD) Requirements; (ii) Application of SEDD by NHB and the QPLIs; (iii) Institutional Mechanisms for effective implementation of SEDD. Part II is the social and environment assessment covering (i) a background study (ii) stakeholder analysis (iii) identification and prioritization of social and environmental risks, and (iv) review of current lending practices and policies.

Over 80 million urban Indians live in sub-standard housing. The urban housing deficit officially stands at 24.6 million housing units; unofficially, Indian cities need 40 million new homes, largely to house the poor. This figure, which suggests that India needs to create new housing stock over 40 million, is both overwhelming and misleading. The poor and low income households have coped with the lack of affordable housing choices by building or living in rentals in housing constructed by other low income families. Unfortunately, the housing is sub standard with poor sanitation due to diverse reasons. Upgradation and improvement in their current dwelling can address a large segment of the 80 million urban dwellers that are in need of better shelter.

1“Qualified Primary Lending Institutions (QPLI)” means and includes housing finance companies, banks (including cooperative banks), microfinance institutions (MFI), including NGOs, which are qualified and eligible for refinancing from the National Housing Bank (NHB) under the Project to lend to Eligible Primary Borrowers – with formal and informal incomes – to upgrade, construct or purchase formal and informal dwellings.
This project proposes to focus initially on Tier 2 to 4 cities which have progressive housing agencies that are providing affordable land for low income housing. Tier 1 cities may also be covered in time. It aims to make housing finance accessible to the low-income segment, which are understood to be (a) those with a formal income living in formal settlements, (b) those with formal income living in informal settlements, (c) those with informal income living in formal settlements, and (d) those with informal income living in informal settlements. The project will not refinance “project finance” (as it is known in NHB) which supports low-income housing developments for which land is amassed or acquired.

A large percentage of the target group lives in settlements that are characterized by informality of titles and income as well as poor living conditions, i.e., only a few percent of the target households have formal land titles, the others being ‘non-title holders.’ The majority of low-income households are excluded from borrowing by financial institutions because of the perceived risk of ‘no security of tenure’. Hence the project would reach out to them calling mainly for tenure to be at least as long as the loan repayment period. Further, in informal settlements, the formal housing approval system that ensures quality and safety of housing is not in place. Although approvals are usually required for construction, in practice the low-income segment has no access to professionals and bypasses the formal process entirely, and incremental construction is prevalent. The typology above reflects the variety of situations, but detailed data are not available. A more detailed assessment of the challenges and social risks relating to the availability and ownership of land is currently seen as beyond the needs of this project.

**Tenure to mean ‘right to occupy’**

While lending in settlements where dwellers have no ownership and tenancy rights is risky, lending to settlements where there is no ownership, but some form of tenure exists must be enabled for this project in order to make a significant impact. A fresh approach, however, is required to make finance available to this segment. First, in the absence of clear titles and unclear tenure conditions, lending institutions must consider a variety of documentation types to establish evidence of tenure or ‘right to occupy’. These documents would represent a ladder of tenure rights, such as notification or regularization of the settlement to formal certification from the local authority for a specific period. Tenure, therefore, must pertain to a right to occupy accorded by local authorities and the QPLI would need to address it locally, ensuring that the tenure duration is longer than the term of the loan.

**Legality of settlements**

To better understand and compare the context of poor and low-income settlements locations across India, the study adopted a typology based on legal characteristics. The classification relies on four parameters: title, tenure, right to sell and zoning (land-use) as described by the Master Plans and Town Plans. In mega and tier I cities, large variance may exist within typologies with respect to basic services, income levels, etc. Furthermore, in mega cities that have a complex history of legal action towards slums dwellers, there is a

---

2 mHS Study on Urban Housing in India, 2012. Refer to Annexure 1 in Part II of this report for details.
wide range of typologies present. On the other hand, in cities such as Dehradun, where there is a more simplistic administrative classification, only a few typologies are present.

<table>
<thead>
<tr>
<th>Type</th>
<th>Title/ Ownership</th>
<th>Tenancy</th>
<th>Right to Sell</th>
<th>Correct Zoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type A1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Type A2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Type B</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>Informal</td>
</tr>
<tr>
<td>Type C</td>
<td>✓</td>
<td>Partial</td>
<td>Informal</td>
<td>No</td>
</tr>
<tr>
<td>Type D</td>
<td>Limited</td>
<td>✓</td>
<td>Informal</td>
<td></td>
</tr>
<tr>
<td>Type E</td>
<td>None</td>
<td>Limited</td>
<td>Informal</td>
<td>Either</td>
</tr>
<tr>
<td>Type F</td>
<td>None</td>
<td>None</td>
<td>Informal</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 1: Typology of settlements

**Pilot to inform sustainable approach**
As the informal income/informal housing segment is very challenging, the project is structured to demonstrate a sustainable approach for this segment through pilots, on the basis of which the NHB will issue enhanced guidelines to QPLIs for refinancing this segment. The QPLIs have varied screening procedures, depending on their sophistication, to ensure that borrowers do not encroach on public land. After the pilots, the NHB will endeavor to update and/or standardize guidelines (covering procedures and criteria) that are required under their refinancing program.

**Technical assistance needed**
From an environmental perspective too, lending institutions may need to forego dependence on formal approvals. Instead, NHB will make available to QPLIs technical assistance to minimize unsafe conditions, especially incremental, self-constructed vertical additions to an existing structure.

**QPLIs need guidelines to mitigate risks**
Other social risks like over-indebtedness, social fragmentation and exclusion of certain groups such as the poorest of the poor, women, religious minorities and SC/ST; elite capture (in which the benefits of the project go to people in the top of the target income range) and rent-seeking behaviour by some people in such settlements is also present. Similarly, many environmental risks related to issues like a lack of basic services, hazardous conditions and use of the home for dangerous or criminal activities are present and need to be mitigated.

The existing organizational policies address the broad areas in terms of social inclusion as well as environmental safety. However, they are very general and do not provide sufficient guidance to lending institutions about what measures they can take to ensure that their lending is socially inclusive and environmentally safe.

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3. In settlements of Type A2 the property rights are the result of regularizations.
There is a need to identify gaps and offer clearer guidelines to QPLIs on how to address these issues through the process of due diligence, disbursement, recovery, foreclosure and monitoring and evaluation.

Based on the social and environment risks and mitigation measures and a policy review, this study suggests due diligence measures and capacity enhancement processes for organizations.
[PART I]

SOCIAL AND ENVIRONMENTAL DUE DILIGENCE
[PART I] SOCIAL AND ENVIRONMENTAL DUE DILIGENCE

1. SOCIAL AND ENVIRONMENTAL DUE DILIGENCE REQUIREMENTS

1.1 SOCIAL DUE DILIGENCE REQUIREMENTS

Based on the identified social risks and suggested mitigation measures\(^4\), this section defines the screening criteria to be adopted by QPLIs to minimize the credit and reputational risks arising from lending for low-income housing.

1.1.1 SETTLEMENT LEVEL

Lending under this program is envisaged to both households located in informal settlements and formal housing supplied by government or private developers. The study considers four types of borrowers:

I. Borrowers with formal income living in formal settlements: Those with formal employment (verifiable pay slips) that live in housing settlements meant for residential use as per the city master plan and have been through a formal approval process.

II. Borrowers with formal income living in informal settlements: Those with formal employment living in settlements that have limited legal status. Although a formal approval process exists (including building approvals) this is usually not followed.

III. Borrowers with informal income living in formal settlements: Those working in the informal sector having irregular income that has no formal verification and residing in formal housing, e.g. employer-provided accommodation, government flats, etc.

IV. Borrowers with informal income living in informal settlements: Those who have irregular income and live in informal settlements where some approvals are needed for construction. This is the more common situation for the target population that needs housing loans from this project.

The project will not cover pre-financed construction in informal/slum areas that are classified as Category F (covering non-titled settlements, and settlements that are neither regularized nor notified slums by ULBs). The project will cover poor and vulnerable households in slums regularized/notified by ULBs, irrespective of title holding. The project will not refinance construction on land from which government agencies or builders have removed squatters or encroachers without proper compensation.

The following are screening criteria for lending to the target segment, pertaining to the location of their home.

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\(^4\) Part II of this report gives background on risk identification, prioritization and suggestive mitigation measures.
1.1.2 BORROWER LEVEL
The following criteria are specified with a view to: a) avoid the risk of over-indebtedness, as a result of multiple loans, insufficient income or poor due diligence, etc., b) address risks created due to elite capture, or exclusion of vulnerable groups due to discrimination, and c) encourage lending to borrowers with informal income sources. While QPLIs remain prudent, the project provides support for some flexibility in order to reach the poorest informal segments covered by this program. QPLIs will lend to low-income borrowers focusing on those who demonstrate the ability and willingness to utilize the loan for its intended purpose and to repay the loan successfully. They will screen out those who are encroaching on public land. The project credit risk will be managed by commercial incentives and an underwriting process, and the social and reputational risks will be reduced. QPLIs have commercial incentives to protect their loans and therefore to not enter into wholly illegal or insecure situations. QPLIs’ risk management procedures (which include site visits and KYC processes) will further minimize the risk. If QPLIs identify land zoning laws as an issue, they can opt not to give loans for construction on such land.
### Social Due Diligence Requirements

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description of Criteria</th>
<th>Due Diligence Compliance Requirements</th>
</tr>
</thead>
</table>
| **No Discrimination** | **Intent:** to adopt ‘no discrimination‘ policy to ensure social equity – no social group should be excluded as long as they can meet loan criteria. Therefore,  
1. No poor household in the target income segment should be excluded on grounds of caste, religion, gender or physical ability of the borrower.  
2. Encouraged to reach out to those who may have been excluded for such reasons in the past through multiple mediums. | a) ‘No discrimination‘ policy to be part of credit policy  
- Credit appraisal information shall have disaggregated details of SC/ST/women, people with disability and religious minorities.  
- Record socio-economic details of all the borrowers.  
Or  
- Any other measures to track effectiveness of ‘No discrimination‘ policy.  
b) Awareness programmes / product information processes through multiple mediums to be followed (such as pamphlets, posters, door-to-door campaigns, website etc.) to reach the unreached. Use of local language to be encouraged. |
| **Co-Borrowing**  | **Intent:** Encourage co-borrowing and/or ensure co-owners consent.  
1. All co-owners should be encouraged to be co-borrower  
Or  
2. Consent from all the co-owners of property should be taken in case of shared tenure, and | a) Credit policy /legal policy to outline this process                                                                                                                                                                                                 |

---

5 Encouraged to include Transgender as beneficiary  
6 And Fair Practice Code
### Ability to repay

**Intent:** to ensure that borrowers do not fall deeply into debt as a result of the housing loan (to the extent possible, barring completely unforeseen circumstances) (and also reduce the credit risk to the project)

1. Develop and implement robust credit appraisal mechanisms to assess borrower’s ability to pay, and lend commensurate with this only.
2. Appraisals and sanctioning not to be undertaken by same staff member.
3. Verify construction cost prior to lending (to inform average construction cost to the borrowers)

### Protection of borrowers from third parties

**Intent:** to ensure that borrowers are not exploited by other parties interested in securing loans, properties, etc.

1. Engage directly/with its approved DSAs\(^7\) with low-income households for credit assessment, loan recovery and collections and not via third-party agent\(^8\)

### Notes

7 Direct Selling Agents

8 In case the primary lenders finances housing loans through intermediaries, like MFIs and SHGs, then these MFIs and SHGs are not considered “third parties”; instead, they are subject to the framework’s requirements together with the primary lender.
<table>
<thead>
<tr>
<th>Facilitation of borrowers</th>
<th>Intent: to facilitate borrowers by loan related processes. This would help to increase the market for low-income housing finance as well</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Assist borrowers in completing the formalities to open bank accounts, and register their bona fide properties, if desired by the borrower.</td>
</tr>
<tr>
<td></td>
<td>2. Financial Literacy and disclosure of product information in the in the local language/ or a language understood by customers to make them understand credit facilities, risk, impacts and opportunities of the project</td>
</tr>
<tr>
<td></td>
<td>3. Grievance redressal process needs to be available for receiving, registering and disposing of complaints and grievances in each of its offices</td>
</tr>
<tr>
<td>a) Facilitate borrowers to (i) open bank accounts and (ii) register their properties, if desired by the borrower.</td>
<td></td>
</tr>
<tr>
<td>b) Financial literacy procedures to educate the borrowers through interactions/publically available communication materials (like pamphlets, website, toll free numbers etc) about the product and the services. (e.g. charges and terms of condition)</td>
<td></td>
</tr>
<tr>
<td>c) Orientation of Staff on financial literacy</td>
<td></td>
</tr>
<tr>
<td>d) Grievance redressal processes and maintenance of records on the action taken</td>
<td></td>
</tr>
<tr>
<td>Security of tenure</td>
<td>Intent: To reduce credit risk and ensure that borrowers are not exposed to risk of over-indebtedness, examine to see</td>
</tr>
<tr>
<td></td>
<td>• If evidence of tenure is sufficient</td>
</tr>
<tr>
<td></td>
<td>• The tenure duration must be longer than the proposed loan term</td>
</tr>
<tr>
<td>QPLIs to determine the primary borrower’s property rights, including the “right to occupy” (tenure) through</td>
<td></td>
</tr>
<tr>
<td>Formal title: registered title for the place of dwelling establishing the right on the property</td>
<td></td>
</tr>
<tr>
<td>Or</td>
<td></td>
</tr>
<tr>
<td>Informal title: This should be as per the PLI’s policy, which should not impose any reputational risk to the project.</td>
<td></td>
</tr>
</tbody>
</table>
1.2 ENVIRONMENTAL DUE DILIGENCE (EDD) REQUIREMENTS

This section defines the basic requirements to be screened under two broad categories as part of NHB’s/QPLI lending process in order to minimize credit risks. These requirements are in the form of an exclusion list (negative list of parameters), and the essential parameters to be verified by the QPLI lending officers before disbursement of loans to individual borrowers. The proposed requirements included in the due diligence are based on the desk reviews, field experience, and focus group discussions with the stakeholders including the project target group, and PLIs.

The requirements defined under each category addresses the key environmental concerns and these are minimum lending standards to be enforced by NHB as part of their on-lending to QPLIs under the project. These requirements to be followed by the QPLIs will be reviewed and updated and/or reconfirmed periodically by NHB (preferably on an annual basis). Such an effort should be based on an annual evaluation by independent consultants commissioned by NHB.

The table below presents the EDD requirements covering broad due diligence categories. Considering the unique and complex nature of lending to housing sector, especially informal housing, the table below describes the intent of due diligence under each criteria, and the requirements of QPLI’s appraisal of borrowers in the form of simple questionnaire. Thus, even if any of the primary transactions are not amenable to be screened using the EDD questionnaire, the QPLIs will be in a position to apply the intent of EDD criteria and add to the appraisal questionnaire, in consultation with NHB.
### Environmental Due Diligence Requirements

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description of Criteria</th>
<th>Due Diligence Compliance Requirements</th>
</tr>
</thead>
</table>
| Location | **Intent:** Informal settlements suffer from many environmental/reputational risks due to the location. Minimize risks by avoiding locations which are prone to disasters and/or cause adverse impact on natural environment/ecology, such as:  
1. National or State Regulated areas of Ecological importance, National Parks, Sanctuaries, Forests, Biodiversity Hotspots, Coastal Regulation Zone, historical/archeological sites/ National Monuments  
2. Areas that are hazardous for human habitation like landfills/waste dump sites/Mining Sites/ Marshy Lands/ High Tension cables/canals | Credit Policy shall mention about avoiding locations which are prone to disasters or have appropriate mitigation measures to address the risks.  
Credit Policy shall mention about avoiding locations that cause adverse impact on natural environment/ecology.  
Assessment shall be conducted as per negative list of locations and/or locations were evaluated for disaster-risks and appropriate measures are undertaken prior to lending in locations that were identified as disaster prone. |

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9 For formal housing, location conformity is verified when the relevant authorities approve the building plan application made by the borrower. Where applicable, primary lenders rely upon these approval documents for their EDD (location).
### Access to Water Supply & Sanitation

**Intent:** is not to encourage housing which does not have basic water supply and sanitation facilities, and thereby triggering health impacts at settlement level as well as environmental impacts on urban areas. To address this aspect, QPLI's due diligence need to ensure that the settlements have access to:

- **Availability of Potable drinking water source:** household/community water supply/tanker water supply and Individual or community toilets, or
- the QPLI needs to explore the possible opportunity to improve the status of basic sanitation by providing additional funds.

Credit policy shall feature the availability of potable drinking water and basic sanitation facility.

Technical assessment to ensure access to potable drinking water and basic sanitation facilities or explore opportunity to improve the status of basic sanitation by providing additional funds.

### Household (HH) Activities

**Intent:** is to identify the household activities (mostly, the HH activities related to livelihood earning) which may pose risk in terms of fire safety and/or health hazards. Apart from the credit risk point of view, screening the HH would be of importance to minimize reputational as well as hazard risk. The due diligence in this regard relate to ensure:

1. Any hazardous materials or hazardous waste management facilities at the property, including treatment, storage, disposal and recycling facilities.
2. No production/trade of products deemed illegal under international convention and agreements – such as wild life and wild life products, etc. or any other activities illegal under national and international conventions.
3. No Mass Storage of fuels and chemical

Credit policy shall mention the credit risk dangers related to HH activities involved in hazardous material and any production or trade deemed illegal under national and international convention.

Assessment shall adhere to the negative list of household activities and production and trade prohibited under national and international conventions.
### Type of Construction

**Intent:** The structural safety of the physical dwelling should of the concern of the QPLIs, considering the personal safety of their borrowers (as well as the credit risk), reputational risk of the QPLIs, and the borrowers. In this regard the QPLIs, through their technical evaluation, need to ensure safety:

1. Compliance with safety standards and building regulations stipulated by local authorities (in case of formal housing)
2. Technical evaluation of structural safety (new or purchase of existing tenement) where formal approval systems are not in place
3. Technical assessment of all incremental housing that leads to extra load (vertical build) on existing structure
4. Rule out any structural safety issues for minor improvements

Credit policy shall mention technical and physical assessment and verification by qualified personnel at each stage of disbursement.

Technical appraisal report based on site visits shall be maintained.

Policy to encourage that the borrower is undertaking the envisaged construction with adequately trained construction workers (mason, contractors, etc).

### Documentation

**Intent:** is to have compliance with building by-laws related to the location and the settlement in case of formal dwellings.

Credit policy to ensure confirming compliance with building by-laws related to the location and the settlement in case of formal dwellings.

Records of site inspection/visit shall be maintained.

---

**Table 2: Environmental Due Diligence Requirements**

<table>
<thead>
<tr>
<th>Type of Construction</th>
<th>Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intent:</strong></td>
<td><strong>Intent:</strong></td>
</tr>
<tr>
<td></td>
<td>is to have compliance with building by-laws related to the location and the settlement in case of formal dwellings.</td>
</tr>
</tbody>
</table>
### Monitoring and Evaluation

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description of Criteria</th>
<th>Due Diligence Compliance Requirements</th>
</tr>
</thead>
</table>
| Monitoring and evaluation | **Intent:** effective implementation of SEDD                | *a)* Technical assessment at each stage of disbursement, Loan tranche disbursement after physical verification of construction  
|                            |                                                             | *b)* Certification of compliance with SEDD framework, submitted with the claim for refinancing or on an annual basis, along with a time-bound action plan for effective implementation of the SEDD (through policy change and/or capacity building of PLI staff) on an annual basis.  
|                            |                                                             | *c)* Make relevant SEDD information available to NHB and assist with site visits upon request, support during Annual third Party evaluation on SEDD compliance. |
| Capacity Building         | **Intent:** enhance the institutional capacity of QPLIs on effective implementation of SEDD | *a)* Regular Capacity building of all staff (including field officers), on application of SEDD through training and sensitization  
|                            |                                                             | *b)* Capacity building of credit appraisal team on negative checklist of EDD and supplementing documents |
2. APPLICATION OF SOCIAL AND ENVIRONMENTAL DUE DILIGENCE

NHB, as part of its on lending activities under this Project, needs to integrate SEDD provisions in refinancing guidelines with the QPLIs. Similarly, the QPLIs have to apply the SEDD requirements as part of their lending activities under the project. In line with these requirements, the SEDD shall be applied a two stage process as given below:

(a) The first level of screening will be part of NHB's credit appraisal, wherein a credit officer will review the corporate credit of the QPLI. In this phase, refinancing guidelines will be stipulated for application of SEDD for QPLI lending under the project. Further, NHB will be further responsible for monitoring QPLIs compliance with SEDD for the loans disbursed under the project. If NHB refinances Qualified Intermediary Institutions for low-income housing loans made by QPLIs to Primary Borrowers to purchase, build or upgrade their dwelling, then NHB and the Qualified Intermediary Institutions need to ensure that the Qualified Intermediary Institutions integrate SEDD provisions in lending arrangements. The Bank will rely on NHB's assessment of the QPLIs.

(b) QPLI’s Appraisal of Loans to primary borrowers: The second level of screening and application of SEDD shall be followed by the QPLIs as part of their appraisal for lending under the Project. Such arrangements will be formalized as part of QPLIs on-lending conditions. The Bank will rely on NHB’s assessment of the QPLIs.
Certification of compliance with SEDD framework is submitted with the claim for refinancing or on an annual basis, along with a time-bound action plan for effective implementation of the SEDD (through policy change and/or capacity building of PLI staff) and NHB will conduct a 3rd party audit on SEDD compliance by QPLIs and report to the World Bank. The responsibilities of NHB and QPLIs under the two stage process of SEDD application is detailed out in the table below.

**Environmental and Social Responsibility Matrix**

<table>
<thead>
<tr>
<th>Lending/On Lending Stage</th>
<th>Action To be Taken</th>
<th>Responsibility</th>
<th>Professional s/Key Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing / Credit Appraisal / Loan Disbursements / Refinancing</td>
<td>• SEDD certificate in place&lt;br&gt;• Action plan in place/validity of the action plan on annual basis&lt;br&gt;• Review S&amp;E reputational risks (visit to QPLI lending sites preferred)</td>
<td>NHB Credit Appraisal Team jointly with QPLI</td>
<td>NHB team to include S&amp;E experts</td>
</tr>
<tr>
<td>NHB Credit Appraisal of QPLIs</td>
<td></td>
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<tr>
<td>Credit sanction to QPLI (which would include cases of pre-financing for MFIs)</td>
<td>• Customizing loan product as per local S&amp;E requirements&lt;br&gt;• Inclusion of lending conditions to apply SEDD requirements including monitoring and reporting requirements</td>
<td>NHB Credit Appraisal team&lt;br&gt;QPLI to confirm acceptance including application of SEDD requirements</td>
<td>NHB team to include S&amp;E experts&lt;br&gt;QPLI team to confirm S&amp;E staffing for application of SEDD requirements</td>
</tr>
<tr>
<td>QPLI Appraisal of Borrowers</td>
<td>• Loan appraisal including application of SEDD requirements</td>
<td>QPLI Loan Appraisal officer to fill SEDD forms and confirm</td>
<td>Trained QPLI loan officers and qualified professionals to certify building safety</td>
</tr>
<tr>
<td><strong>Social and Environmental Assessment for the Low Income Housing Finance Project</strong></td>
<td></td>
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<tr>
<td>---------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>QPLI's Disbursement to Borrowers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Verification of compliance with conditions relating to S&amp;E safeguards</td>
<td>QPLI disbursement officer</td>
<td>Trained QPLI disbursement officer and support of qualified professionals to verify building safety and other S&amp;E aspects as may be necessary</td>
<td></td>
</tr>
<tr>
<td>• Include relevant S&amp;E conditions in loan agreement</td>
<td>compliance with SEDD requirements</td>
<td>and steps to mitigate social risks</td>
<td></td>
</tr>
<tr>
<td><strong>QPLI Claim for refinancing or settling of pre-financed loan</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Certifying the compliance with SEDD requirements with supporting documents and submission of time bound action plan to enhance SEDD capacity of PLIs</td>
<td>QPLI</td>
<td>QPLI credit officers</td>
<td></td>
</tr>
<tr>
<td><strong>NHB Refinancing of QPLI loan</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• QPLI SEDD compliance certification and action plan verified for refinance</td>
<td>NHB credit/refinance processing cell</td>
<td>NHB's S&amp;E Experts</td>
<td></td>
</tr>
<tr>
<td>• Certify compliance with SEDD requirements and subsequent action plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Monitoring / Evaluation / Outreach / Training</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>QPLI disbursement Monitoring</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100% Verification of compliance with conditions relating to S&amp;E safeguards – to be done at each stage of disbursement</td>
<td>QPLI disbursement officer</td>
<td>Trained QPLI disbursement officer and support of qualified professionals to verify building safety and other S&amp;E aspects as may be necessary</td>
<td></td>
</tr>
<tr>
<td><strong>NHB Refinancing Monitoring</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• SEDD compliance verified (verification of filled forms) for 15% loans based on Desk review + 5% field verified</td>
<td>NHB credit/refinance processing cell</td>
<td>NHB's S&amp;E Experts</td>
<td></td>
</tr>
<tr>
<td><strong>Redressal mechanism throughout Project period</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creation of Grievance Redressal Committee Development of grievance Redressal Procedures at the QPLI level Review of grievances addressed/procedures followed on quarterly basis</td>
<td>NHB and QPLIs to appoint relevant authority for grievances with channels for escalation</td>
<td>QPLIs (Operations Head/Branch head) S&amp;E experts Grievances in-charge at NHB</td>
<td></td>
</tr>
</tbody>
</table>
### Bi-Annual Project Implementation

- Review of functioning of S&E institutional mechanism
- Random sample verification of SEDD compliance documentation
- Random field visits to verify compliance with SEDD provisions

| NHB to conduct Project supervisions jointly with the respective QPLIs | NHB, and QPLIs professionals including S&E experts |

### Annual Third Party Audit by NHB

- Review of functioning of institutional mechanism for application of SEDD
- SEDD compliance Verification of 10% of QPLI loans including desk review and field verification
- Recommendations (if any) for updating SEDD requirements and application

| NHB to commission annual S&E audits | S&E Auditors with trained S&E professionals with the experience of working in the context of low cost housing |
| NHB to coordinate with S&E Auditors, QPLIs to facilitate audit process | NHB S&E experts to oversee auditors work |
| NHB to take follow up actions on |

### Capacity Building of NHB, QPLIs

- Publish manuals/primer on S&E issues and possible mitigation measures, including case-studies after first pilots. Provide update on annual base.
- Training of staff, other personnel, etc. on application of SEDD requirements.
- Conduct annual workshops on review of SEE aspects
- PLIs to have access to a pool of experts (S&E, legal, technical, etc)

| NHB to conduct trainings at regional level | S&E professionals with the experience of working in the context of low cost housing |
| NHB to facilitate trainings and provide required financial support to QPLIs | Financial experts to undertake training on product design, development underwriting and due-diligence procedures |
| PLIs to select key personnel for undertaking training |

### Table 3: Environmental and social responsibility matrix
2.1 SDD IMPLEMENTATION STAFF

The proposed implementation of measures to minimize social and environmental risks is part of the credit appraisal process of NHB, and QPLIs. Both NHB and QPLIs will have to equip themselves with the necessary technical experts in order to be able to perform the above-described due-diligence activities. There will be dedicated Social Expert/s and Environmental Expert/s at NHB that will have inter-related roles.

2.1.1 SDD IMPLEMENTATION STAFF/Responsibility/Skills

The proposed implementation of measures to minimize social risks in the project is integrated into the credit appraisal process of NHB, and QPLIs.

<table>
<thead>
<tr>
<th>Suggested Capacity Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLIs</td>
</tr>
<tr>
<td>Credit Appraisals Officer (CAO)</td>
</tr>
<tr>
<td>Loan Officers (LO)</td>
</tr>
<tr>
<td>Client Service/Social Relations officer</td>
</tr>
<tr>
<td>NHB</td>
</tr>
<tr>
<td>Training coordinator Expert in Low Income Households</td>
</tr>
</tbody>
</table>
Legal officer (part-time) | Liaison with the government authorities on legal issues related to land/titles/repossession security of tenure clarity documentations, work with QPLIs to address their concerns | Familiarity with issues on land titles/and relevant laws; knowledge and capacity to mentor/advice QPLIs on legal issues
---|---|---
Monitoring and Evaluations Officer | Evaluate QPLI portfolio on lending to vulnerable groups; undertake impact assessment studies; follow up on grievances and complaints redressal | Analytical skills, ability to work with QPLIs to track progress against social risk indicators and suggest recommendations
Grievance and Feedback In charge | Quarterly review of grievance and follow-up with concerned departments; coordinate with other NHB officers (M&E and training) on gaps in QPLI practices | Problem solving ability; ability to escalate issues to appropriate authorities

Table 4: Implementation staff/Responsibility/Skills

2.1.2 SEDD IMPLEMENTATION STAFF
The proposed implementation of measures to minimize environmental issues in the project is integrated into the credit appraisal process of NHB, and sub-borrowers -- QPLI’s. The application of EDD to minimize environmental risks is relatively simpler and would require specialized and non-specialized skills. Both NHB and QPLIs will have to equip themselves with the necessary technical experts in order to be able to perform the above-described activities.

At NHB level, architects and civil, geo-technical and structural engineers are the most appropriate professional figures.

At the QPLI level, architects and engineers can play a role in the assessments and reviewing processes. Further they can use their expertise to train less qualified personnel, internal or external to QPLIs, which will eventually be implemented in the day-to-day process in an on-going lending process. These personnel can be constituted of diploma engineers or diploma holders in general, skilled masons and builders, etc.

Further, NHB will propagate the EDD amongst QPLI’s engaged under the Project, through awareness programs.

About 1.2 million people live in such colonies. The Delhi government’s Slum Clearance Act in 1956 created these colonies to accommodate families whose homes were demolished. Though the lands fall under correct zoning, residents have been given a pre-approved house plan which is usually G or G+1/2 (insufficient for almost all the resettled families) and no further approval is required. This has resulted in hundreds of thousand units built, and hundreds getting built every day, with absolutely no safety standards. Majority of the units in the older colonies are 3 floors high, built on masonry walls that are of single brick width, with no or insufficient structural frame.
Suggested Technical Assistance Framework

This chapter suggests how QPLIs, in partnership with professionals, can use their services and provide Technical Assistance (TA) to borrowers.\(^\text{11}\)

In terms of locations, the considered income group is located in different settlements according to the tier class of the city. However one common factor is that the formal building approval system, which includes submission of technical drawings, is currently not in place in the majority of the cases. Therefore, in the majority of typologies and locations, self-construction is the norm and there is no formal check on the quality and safety of structures. This lack of enforcement is true even for settlements where the zoning is correct and the law requires formal approvals (e.g. resettlement colonies).

The lack of access, knowledge and consequent implementation of the IS Codes (Indian Standard Codes) and NBC (National Building Code) leads to the construction of unsafe structures and poor quality houses.

It must be emphasized that in the context of this project, the suggestion is not to have the refinancing agency (such as NHB) be responsible for drafting new building guidelines\(^\text{12}\). Rather, they should facilitate a viable and systematic process to make basic technical assistance accessible to target borrowers.

This proposed system suggests that no formally signed drawings by architects/engineers will be filed for approval; rather technical inputs (in the form of advice) will be given before and during construction to the locally trained mason with monitoring at key stages of construction. Appointment of local professionals will aid the QPLI and their borrowers. Prior, during and after construction, professionals will submit a report to the QPLI. Certificates related to due diligence assessments and reports of the units will be based on templates agreed jointly by QPLIs and refinancing agencies like NHB.

QPLIs should partner with LTA (Local Technical Agencies), architects and engineers to provide assistance to financial agencies:

i. Completing the requested due diligences required for location and activity.
ii. Providing correct estimation rates for the requested loans.
iii. Monitoring the correct use of the funds (loans can be disbursed in installments based on construction phases).

To the other side LTAs can provide assistance to the borrowers such as:

i. Inputs for the design of the houses for improved ventilation, use of space, etc.
ii. Structural inputs prior and during construction.

\(^{11}\) Field observations and review of other studies clearly show how the supply of housing for the target group is mainly coming from self-construction practices. As previously mentioned, self-construction -also referred to as “incremental housing”, “self-built housing” and “home improvement,” is defined in this study as a process in which the homeowner is closely involved in every aspect of building and where design and technical expertise are dependent on local knowledge that often fails to ensure basic safety standards.

\(^{12}\) While ideally the approval system should be improved and reviewed to include the poor settlements, this is a process that requires a long-term vision and is not practical to wait for this to fall into place.
iii. Approximate cost-estimates for the proposed construction
iv. Expertise and material to conduct training camps for masons and contractors.

In order to facilitate these partnerships, refinancing agencies such as NHB, should make available innovative R&D solutions and technical guidelines to QPLIs. These guidelines will be a bottom-up system to implement standards and parameters in the context of self-construction and low-income settlements. Support can also be provided to QPLIs for the selection of LTAs and procedures in order to implement projects. For checks and balances, refinancing agencies will conduct regular audits to oversee the correct implementation of the requirements.

Promoting mason’s training in project locations will also be key to achieve better safety and quality standards in construction.

2.2 FEASIBILITY OF TECHNICAL ASSISTANCE
QPLI's will compensate LTAs with one-time fees for due diligences and initial certificates, and recurrent fees for monitoring. The cost can be partially recovered directly from the borrowers as technical assistance fee and charged as a percentage of the loan amounts.

mHS’s experience on the field and a business model developed with the help of the SOM (School of Management, Yale University) indicates that the fee necessary to cover the cost of monitoring can be approximately 3.5-4% of the loan amount.

2.3 ANOTHER FORM OF TECHNICAL ASSISTANCE, THE CASE OF ONE STORY UNITS
While the above system focused on settlements where new construction or incremental building take place, there are other settlements where the households have an income below 5,000 Rs/Month (especially typologies E and F) where plots are very small and structures temporary or semi-permanent. In these locations that face the lowest standards of living, the majority of the units are ground floor only (households are reluctant to invest given the uncertain housing conditions) and covered with plastic sheets and/or tin sheets. In this scenario, small loans to repair a leaking roof or to enable access to water and sanitation facilities should be facilitated.
While loans should reach these households despite the poor property rights of the above mention typologies, it is necessary to ensure that the interventions will not lead to any vertical incremental building. For example, replacing a leaking plastic sheet with a tin corrugated roof can be acceptable, but the construction of an RCC slab as a roof should not be financed, as it will certainly lead to a future burden on the existing unit. Although vertical construction may be allowed after the pilots, the decisions on the nature of interventions and their cost estimation would be made by QPLI/NGO staff who are trained by professionals in the application of basic selection criteria.

For such cases, the decision regarding types of households and nature of interventions are eligible for the loan along with its cost estimation, would be best determined by the QPLIs/NGO staff, which can be trained by professionals in application of a basic selection criterion.

2.4 TEMPLATES

2.3.1 SUGGESTED TEMPLATES FOR IMPLEMENTATION OF SDD

<table>
<thead>
<tr>
<th>SETTLEMENT LEVEL-</th>
<th>Minimum due diligence requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>Is the tenure duration longer than the proposed loan term?</td>
</tr>
<tr>
<td>B2</td>
<td>Provide documents to show tenure rights as per the PLI's policy without imposing any reputational risk to the project</td>
</tr>
<tr>
<td>B3</td>
<td>Does the borrower have property rights or 'right to occupy'?</td>
</tr>
<tr>
<td>B4</td>
<td>Has QPLI selected clients without discrimination? No social group or financially qualifying household can be excluded based on caste, religion or gender and ability of the borrower.</td>
</tr>
<tr>
<td>B5</td>
<td>During appraisal process, collect data on the Borrowers’ social group, gender and disability.</td>
</tr>
<tr>
<td>B6</td>
<td>Has QPLI obtained consent from the co-owners of property in case of shared tenure?</td>
</tr>
<tr>
<td>B7</td>
<td>Has the QPLI encouraged spouse as co applicant?</td>
</tr>
<tr>
<td>B8</td>
<td>Has a QPLI developed robust credit appraisal mechanism?</td>
</tr>
<tr>
<td>B9</td>
<td>Indicate the current processes and procedures in place. Indicate team members of appraisals and disbursements.</td>
</tr>
<tr>
<td>B10</td>
<td>Has QPLIs made construction cost estimates prior to lending? What is the amount of loan vis-à-vis cost estimate?</td>
</tr>
<tr>
<td>B11</td>
<td>Which product is appropriate for this primary borrower?</td>
</tr>
<tr>
<td>B12</td>
<td>What are the documents available with the households for income verification?</td>
</tr>
</tbody>
</table>

Show documents like pay stubs, employer certificates, buyer references, cash receipts, bank account statements and other types of documentation.

| B13 | Has QPLI engaged directly or by DSAs with low-income households and not via third party agents\(^\text{14}\)? |
| B14 | Indicate the designation of staff responsible for interaction with clients, appraisal, sanctioning and recovery of loan and their records shall be maintained |
| B15 | QPLIs must assist each eligible household without discrimination to complete account opening formalities and provide financial literacy/disclosure of product information to the customers |
| B16 | Specify assistance provided for opening of accounts and register their bona fide property |
| B17 | Has QPLI provided grievance redressal support to the customers, if desired by them and maintaining all the documents on the action taken |

**Table 5: Templates for implementation of SDD**

### 2.5 TEMPLATES FOR IMPLEMENTATION OF EDD

The EDD requirements presented in Table 2 above includes the QPLIs appraisal questionnaire/template to addresses environmental aspects. The template of questionnaire covers four EDD criteria i.e. A1. Settlement Location; A2. Access to Water Supply and Sanitation; B1. Household Activities; and B2. Type of Construction. The EDD template will be integrated as part of NHB’s conditions of credit sanctioning to QPLIs which in turn will be applied by QPLIs as part of borrowers loan appraisal.

### 3. INSTITUTIONAL CAPACITY BUILDING REQUIREMENTS

In order to apply the SEDD Requirements, NHB should have the necessary professional social and environmental expertise. Qualified Primary Lending Institutions should have access to this expertise while 3rd Party audits will assess that this capacity is in place and efficient.

#### 3.1 SOCIAL CAPACITY ENHANCEMENTS

Some capacity enhancement measures to responsibly serve this segment at the NHB level as well as QPLI level are:

**National Housing Bank**

- NHB to enhance internal capacity on project appraisal, trainings and grievance redressal (please refer to chart below on suggested staff/skills/responsibilities).
- NHB to undertake training modules for both in-house and QPLI staff. This should include knowledge documentation and sharing events.
- NHB to study different forms of titling and kinds of loans that can be given against each type of borrower (varying in income and dwelling (in)formality); and to research successful practices of lending without complete titles to promote ‘best practices’ as

\(^\text{14}\) In case the primary lenders finances housing loans through intermediaries, like MFIs and SHGs, then these MFIs and SHGs are not considered “third parties”; instead, they are subject to the framework’s requirements together with the primary lender.
part of their guidelines and norms. This could be done with or by QPLIs. This would involve examining various tenure rights, situations associated with different categories of areas, relevant laws and regulations, and common sources of insecurity associated with these tenure situations.

- NHB should enter into partnerships and MoUs with other government agencies, practitioners, social entrepreneurs and professional firms to impart trainings and build capacity of QPLIs such as NGOs/MFIs to undertake housing finance transactions
- NHB to invest and develop capacity of regional NHB offices (especially in areas of training, stakeholder consultations, workshops, public meetings with beneficiaries).
- NHB should create pilots, in partnership with practitioners and specialists to demonstrate the “Informal income/Informal dwelling” segment. NHB should create a separate division in the e-portal to disseminate information on practices and policies addressing the target segment such as new schemes, innovations, etc.
- NHB should organize exchange visits for internal staff. In addition, NHB should offer short-term courses for staff/ and full sponsored visits for staff of QPLIs.
- NHB to adapt the QPLI rating indicators to include social assessment criteria.
- NHB to issue guidelines to QPLIs to ensure that project goals regarding inclusion of low-income borrowers, KYC and property processes, etc. are properly addressed.

QPLIs

- QPLIs, especially MFIs/NGOs, need enhanced capacity in underwriting large loans, back-end processes, KYC processes, etc. QPLIs’ capacity to strengthen the supply, diversity and market attractiveness of primary lending among poorer households also needs to be enhanced; and to develop and adopt loan appraisal mechanisms that ensure that loans meant for low-income borrowers are not captured by middle or higher income groups. Capacity building activities are to be made available by NHB to QPLIs under the project.
- QPLIs to give opportunity to their staff to be trained on social exclusion issues and undertake mandatory trainings organized by NHB.
- QPLIs to undertake periodic evaluation of portfolio to assess lending to vulnerable groups; poorer sections.
- NHB to undertake social impact assessments through case studies, third part evaluations on their refinancing programs.
  - After a series of pilots and assessments, there will also be the need for additional R&D in order to form better guidelines and codes of conduct for QPLIs to follow. This R&D must be a recurring feature of refinancing policy and it would therefore be prudent for it to take place in partnership with an institution, firm and/or a center that can monitor and improve the policy year after year.
3.2 ENVIRONMENTAL CAPACITY ENHANCEMENTS

The following recommendations are made to enhance the institutional capacity of promoters, financing institutions and urban local bodies/borrowers to address environmental risks.

There is the opportunity to work on the institutional framework to enable a supportive system in line with the scope of the project. It will be possible to intervene at different levels:

- On the refinancer level, there is the need to support QPLIs with Technical Knowledge along with finance. Appropriate environmental guidelines need to be defined in collaboration with QPLIs and the communities. The diversity of India and the settlements where the urban poor live must be acknowledged. Guidelines will take the form of recommendations and will be in line with other National and Local Norms. The guidelines should also emphasize existing conditions/improvements in infrastructure and access to basic services for settlements where basic mandatory requirements cannot be satisfied.
  - After a series of pilots and assessments, the Environmental Due Diligence Requirements guidelines should be reviewed with the help of QPLIs and borrowers. This R&D exercise must be a recurring feature year after year.
  - Experts will assist QPLIs in empaneling Local Technical Agencies that will be of support. They will also be in charge of periodic monitoring of the financed projects to make sure that the environmental requirements are respected.
    - In addition NHB will hire a 3rd party to conduct annual audits of the financed projects in different locations to make sure that the environmental requirements are respected.
    - Agencies such as NHB can partner with an external group of experts or build this technical capacity within the organization.
- Qualified Primary Lending Institutions, in following the guidelines set up by the refinancers, must ensure greater accountability and efficacy of lending by giving the power to monitor clients and lending behavior to a group of financial and technical experts, which will be able to objectively report to QPLIs while keeping in mind the guidelines mandated by refinancing agencies. These teams can also train the QPLIs in self-auditing, while training the borrowers in financial and technical literacy, ensuring a smoother lending process.
  - The presence of experts is required to verify that the environmental requirements are respected in order to support borrowers during the construction phases in the context of self-construction and to provide services to the financial institutions in terms of estimation of costs, and correct use of loans.
  - QPLIs should empanel internal staff to build this capacity or enlist the services of external consultants, ideally local technical, architectural and engineering offices.
• Local bodies. There is considerable scope for interacting with local authorities during the implementation of the projects. Refinancing institutions and QPLIs should facilitate this communication:
  • ULB/Land owning agency should collaborate and strengthen the relation with QPLIs and involve them in integrating the community/settlement in the redevelopment phase such as the settlement converting an ecological sensitive zone.
  • ULBs in association with QPLIs and refinancing institutions should develop sanitation, water supply programs in accordance with guidelines to avert any environmental hazards.
  • The coalition should also develop a mason training program to emphasize building safety, wherever necessary.
  • Environmentally friendly technologies should be introduced while lending to the borrower.

4. GRIEVANCE REDRESSAL MECHANISM

Given the nascent stage of the provision of housing finance to poor urban households, the Project should support the development of a robust grievance redressal mechanism for project beneficiaries. In relation to social risks identified, complaints may arise due to attitudinal biases of QPLI staff in dealing with potential beneficiaries from vulnerable groups or inadequacies in service standards of QPLIs and information gaps.

Suggested framework: All QPLIs should develop and submit their own internal grievance redress mechanisms prior to approval of financing from NHB. In the case of HFCs, complaints and grievances should be first addressed at the branch level with processes in place to escalate to regional/head office. In case any grievance requires escalation, NHB’s head office has a Complaint Redressal Cell under the Department of Regulation & Supervision dedicated to managing grievances of HFCs, which should be extended to other beneficiaries as well.

Branch level (QPLIs i.e., HFCs and MFIs)
• The Branch Manager would be responsible for responding to grievances
• It should be allowed that complaints are made either in writing, phone, email or in person during open office hours
• Acknowledgement of claims should be made within 10 days and a grievance number should be provided for follow-up.
• In case acknowledgement is not made, and/or beneficiary is not satisfied, they should be able to access QPLI head office.
• In case of MFIs that are part of industry associations; the customer/beneficiary should be able to directly contact the grievance cell at the Industry Association (e.g., Sadhan and MFIN)
• Selected examples of customer care in practice by QPLIs:
  • QPLIs circulate Toll-free numbers at all levels of the concerned authorities
  • QPLIs must designate at least one grievance redressal official to handle complaints and/or note any suggestions from the clients and make his/her contact numbers easily accessible to clients.
• Grievance redressal committees to meet on monthly basis to review complaints
• Educate beneficiaries on grievance policy

The beneficiary must be aware where complaints have to be made, who would be the concerned official receiving the complaint and the contact information, when to expect a reply and what other legal or internal recourse mechanisms exists in case the beneficiary is not satisfied. All grievances are to be addressed within 30 days of receipt of the complaint.

**Head Office (NHB)**
- The COO would be responsible for handling complaints escalated to the Head office
- COO to share monthly review meetings and understand progress on grievances.
- QPLI’s operations and customer service team to have support from NHB
- Selected examples of customer care followed by QPLIs:
  - Quarterly monitoring and review of clients complaints by COO
  - Submission of quarterly report on client grievance and complaints to Board
  - Decision on complaint made in writing and in person to the beneficiaries within 60 days of receipt of the complaint
  - Client feedback survey conducted both with internal staff/external agencies.
5. PLAN FOR CONSULTATIONS DURING THE PROJECT

The consultations during the SEA included

- consultations with practitioners (primary lenders, who included largely non-governmental micro-finance institutions as well as private and public sector banks) on lending practices, borrowers’ financial literacy, and consumer protection. These PLIs reflected the experiences and views of primary borrowers;
- discussions with industry associations, for example the microfinance industry network, to understand the development of the code of conduct with customers; and
- one-on-one meetings with experts to understand the regulatory framework in housing finance at the central bank and national housing bank.

During the project, the following consultations would be held.

1. Group discussions with QPLIs, and – if applicable – Qualified Intermediary Institutions, to get feedback and assess their meeting of the SEDD requirements (at least two group discussions per year). Environment conditions, in particular, are not widely understood among the intermediaries, and these discussions would be a good way to assess their training and capacity building requirements.
2. Interactions with primary beneficiaries during continuing training and capacity building sessions designed to meet the needs of the Project which would have a field component, undertaken in small towns. During the field work primary beneficiaries would be consulted, and academic/research institutions may be involved.
3. Workshops with financial intermediaries to discuss performance on SEDD requirements based on data gathered, as well as grievances received, at least once a year. These workshops will also include agencies working on incremental housing;
4. The design of pilots would be participatory, including municipalities and local NGOs in addition to financial intermediaries. The monitoring of pilots and other evaluation efforts would also be participatory and involve SEA experts.
6. TERMS OF REFERENCE FOR

THIRD PARTY SOCIAL AND ENVIRONMENTAL AUDIT (TPSEA)

Background
(to be added as relevant at the time of commissioning the TPSEA)

Objectives
1. To determine the Project’s conformity with the Social and Environmental Due Diligence (SEDD) requirements in lending operations by Primary Lenders and refinancing by NHB. The SEDD requirements are clearly indicated in Part I of the Project’s Social and Environmental Assessment Report; and
2. To recommend improvements in the SEDD framework of the project, if necessary, and document any good practices identified in the project.

Scope of Work
The scope of work involves conducting an independent social and environmental audit of lending operations by Qualified Primary Lending Institutions (QPLIs) including Housing Finance Corporations (HFCs) and Micro-Finance Institutions (MFIs), and of their refinancing by NHB under the World Bank-assisted Low Income Housing Finance Project (LIHFP).

The work should cover three key aspects:
(i) process audit - assessment of the adequacy of the institutional mechanisms of QPLIs and NHB, and – if applicable – Qualified Intermediary Institutions, to implement SEDD, and the process of integrating SEDD provisions into NHB’s appraisal processes, and the supervision mechanism for refinancing the Qualified Primary Lending Institutions (QPLIs);
(ii) technical audit - technical review to ascertain the quality of compliance with SEDD provisions by reviewing sample cases in the field; and
(iii) good practices – identification and description of the good practices

Based on the above the audit would recommend measures, as required, to improve the SEDD implementation mechanisms, so that NHB can take the necessary actions in consultation with the World Bank.

The specific activities to be covered by the consultants should include the following.

Social
Review of the status of compliance with social aspects of the NHB’s and QPLI’s appraisal mechanisms, and effectiveness of implementation of the social due diligence criteria, including:
(a) minimizing settlement level risks so that borrowers are not exposed to the risk of uncertain tenure;
(b) checking the profile of borrowers and holding discussions with a reasonable sample to ensure that they have not been put at undue risk by provision of loans by QPLIs;
(c) reviewing the practices of QPLIs and data on their borrowers to ensure that a ‘no discrimination’ policy is being followed; this includes gender and socio-religious groups;
(d) review of NHB’s processes for screening and certifying QPLIs to ensure that socially diligent QPLIs are selected and refinanced;
(e) review of information provision, and training and capacity building efforts by QPLIs and
NHB to ensure their timely, equitable and effective provision.

**Environment**

Review the status of compliance of environmental aspects of the appraisal mechanism, and implementation effectiveness of application of due diligence criteria, including:

(a) minimizing settlement level environmental risks such as location of settlements vis-à-vis environmentally sensitive locations;
(b) access of settlements to water supply and sanitation;
(c) intent to identify the household activities (mostly, the HH activities related to livelihood earning) which may pose risk in terms of fire safety and/or health hazards; and
(d) structural safety of the physical dwelling, considering the personal safety of their borrowers (as well as the credit risk), reputational risk of the QPLIs, and the borrowers.

**Institutional Aspects**

Review the status of functioning of the Social and Environmental institutional mechanisms agreed as part of the Project, covering:

(a) Adequacy of professional inputs to oversee the application of SEDD provisions including QPLI’s capacity to understand and implement the S&E provisions, effectiveness of NHB’s appraisal of refinancing proposals, QPLI/NHB’s supervision efforts, compliance documentation, and technical review of the quality of the social and environmental management under the project;
(b) Adequacy of capacity building efforts to sensitize the QPLIs on social and environmental aspects of the project and its objectives;
(c) Review the grievance redressal mechanism and verify a 20% sample of cases related to Social and Environment issues, if any, to ascertain the effectiveness of the complaint handling.

Based on the above, the consultants should propose improvements to the SEDD, as needed/desirable; suggest capacity building interventions needed; and document good practices.

**Timing of Audit**

Third party audits are to be carried out at the end of each year of the LIHF project, and completed within two months of their commissioning.

**Qualifications of Team**

The team should contain atleast one Social Specialist (with a Master’s degree in a relevant Social Science, 10 years field experience in the micro-finance sector, and proven sensitivity to gender and social disadvantages) and one Environment Specialist(with a Master’s degree in a relevant science and 10 years field experience in the urban environment sector). It should also include persons with knowledge of urban poverty, slums and housing; and the skills to design and manage a rigorous audit and write a cogent report. It should include as many persons to carry out reviews and field visits at the QPLI level and at the NHB as are necessary to complete the work within two months at the level to be agreed at the time of commissioning.

**[PART II]**
SOCIAL AND ENVIRONMENTAL BACKGROUND AND ANALYSIS
[PART II] SOCIAL & ENVIRONMENTAL BACKGROUND AND ANALYSIS

CONTEXT OF THE LOW INCOME HOUSING FINANCE PROJECT

The objective of the LIHF Project is to provide access to sustainable housing finance for low-income households to enable them to purchase, build or upgrade their dwellings. The Project Components are:

1. **Capacity Building** of the National Housing Bank (NHB), Qualified Intermediary Institutions, and Qualified Primary Lending Institutions (QPLIs),

2. **Financial Support for Sustainable and Affordable Housing** for NHB to, directly or indirectly through Qualified Intermediary Institutions, refinance low income housing loans made by QPLIs to Primary Borrowers to purchase, build or upgrade their dwelling;

3. **Project Implementation**.

Component II will refinance primary lenders that have made loans to target low-income beneficiaries. These include:

a. Formal sector borrowers (whose income can be verified) upgrading, constructing or buying a formal sector dwelling

b. Formal sector borrowers upgrading, constructing or buying an informal sector dwelling

c. Informal sector borrowers (households without income verification) upgrading, constructing or buying a formal sector dwelling

d. Informal sector borrowers upgrading, constructing or buying an informal sector dwelling

The Social and Environmental Assessment (SEA) and Social and Environmental Due Diligence (SEDD) requirements have been designed to address both the vulnerabilities of the diverse target customers of the Project, as well as the institutional capacity building required at the regulator and lending levels. This is to ensure adequate customer protection and to mitigate the identified social and environmental risks.

1. OBJECTIVE OF SOCIAL AND ENVIRONMENTAL DUE DILIGENCE

This report encompasses risk assessments of the social and environmental sphere surrounding housing finance and construction, while also providing recommendations on due diligence procedures and risk mitigating measures. At the same time, all conclusions and findings presented in the course of this assessment must be considered as potentially evolving during the course of further discussions amongst the key agencies and, particularly, of practice on the ground and pilots specifically designed to clarify various issues or test out strategies.

The principal objective of the social and environmental due diligence is to suggest appropriate measures that will address the social and environmental risks in the context of lending for housing undertaken with the support of World Bank.
The study considers four types of borrowers:

I. Borrowers with formal income living in formal settlements: Those with regular employment (can show pay slips) that live in housing settlements that are meant for residential use as per the city master plan and have been through a formal approval process.

II. Borrowers with formal income living in informal settlements: Those with regular employment living in settlements that have no formal approval processes in place and could have limited legal status.

III. Borrowers with informal income living in formal settlements: Those working in the informal sector having irregular income and residing in formal housing, e.g. employer-provided accommodation, government flats, etc.

IV. Borrowers with informal income living in informal settlements: This is the situation of the majority of the poor that need the housing loans as per this project. People who have irregular income and live in informal settlements where no approvals are needed for construction and the legal status of the settlement might be uncertain as well. This usually means incremental housing (self-construction).

The project loan will be used by NHB to refinance, directly or through Qualified Intermediary Institutions, several Qualified Primary Lending Institutions (QPLIs). The target groups of this project reside in the typologies (refer to section 4.2) that are characterized by informality of settlements and poor living conditions. In such locations the formal housing approval system that ensures quality and safety of housing is not in place. This study makes recommendations to prevent or minimize any negative impacts for the environment and on borrowers that might occur as a result of lending, and proposes mechanisms for monitoring the social and environmental performance of the proposed projects.

2. SCOPE AND LIMITATIONS OF THE STUDY

While some environmental assessment criteria are already in place by different agencies such as National Disaster Management Authority (NDMA) and National Housing Bank (NHB), a quick review shows that the application of these parameters are unreasonable in the given context and would result in an extremely restrictive outreach. On the other hand, no social criteria exist within the policy framework or the QPLIs as of now.

Therefore, in line with the efforts of the World Bank to facilitate QPLIs to reach a segment of the population that has been unreached so far, the scope of this work is to define broad social and environmental requirements. These are based on existing conditions and aim to practically address the main and more significant risks while creating an enabling environment for lending to the considered segments.

The recommendations made in this draft report are preliminary in nature as they were undertaken during a short study period and need to be revised in consultation with primary stakeholders and borrowers prior and during the pilot.
3. APPROACH AND METHODOLOGY

The SEA was carried out in early 2012 following a study by the World Bank on assessment of the demand for and supply of housing, particularly in the area of incremental housing. The SEA was especially designed to accommodate the lower income, informal settlement context of the Project Objectives and Components. The need to design a robust SEDD framework required assembling a team with knowledge of possible social and environment risks related to housing finance. The risk analysis and prioritization was translated into specific recommendations and due diligence requirements that the National Housing Bank and the primary lenders (retail financial intermediaries) could deliver under the Bank-assisted project. The ToR included a review of existing literature on the regulatory and legal environment, consultations with practitioners, and a close working dialogue with NHB officers as well as the social and environment experts of the World Bank.

3.1 IDENTIFICATION OF BASELINE CONDITIONS

The Environmental and Social Risk Assessments have been undertaken based on a standard operating procedure for such assessments.

The baseline conditions for the social and environmental assessments are based on mHS working knowledge and understanding of the target groups; the extensive field work in low-income housing projects, surveys and interviews over the last year (2011) with over 1500 households to understand the housing and finance requirements, literature review of material that discusses the target households' housing and financial situation and vulnerabilities. This data has been supplemented by figures of the National Sample Survey Organizations (NSSO) to get a picture at the national level.

Social

The prioritization of social risks has been undertaken in consultations with primary stakeholders such as housing finance companies, micro finance organizations and NGOs that work and serve with the target group. The social assessment also presents case studies of measures adopted to address the risks by different institutions. The recommendations for risk mitigation have been undertaken after a review of existing operational and institutional policies of key stakeholders.

Suggestions have been made to enhance social institutional capacity so that the lending process creates minimum adverse impact on communities and in fact, raises them from their current situation to an improved one.

Environmental

For environmental baseline conditions, first, relevant data on basic housing and infrastructure conditions was compiled and potential developments in the housing sector in poor urban areas/low income housing examined to assess the existing conditions. In parallel, guidelines set by the World Bank, the UN, WHO and similar agencies such as the National Housing Bank (NHB) have been studied to understand the acceptable environment conditions under which lending can be carried out to low-income households in urban India. This section means to highlight the baseline conditions within which any
recommendations made in the course of this report must be implemented. The baseline study includes housing conditions, neighborhood development, infrastructure services, geology, public attitude and community resources. Overall, three parameters of a) location, b) basic services and c) activities are used to frame the environmental risk assessment.

Once baselines are identified, relevant risks are listed and grouped according to the same three broad categories (zoning, basic services and activities) considering environmental issues at two-levels: the first level focuses on settlement related issues, the second related to individuals/tenants that can be potential borrowers. After this classification, risks are measured as, high, medium or low and finally mitigating measures are suggested.

**Identification of Risks for EA section**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Environmental Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZONING</td>
<td>Legal, Health, Safety, Ecological</td>
</tr>
<tr>
<td>BASIC SERVICES</td>
<td>Health, Ecological</td>
</tr>
<tr>
<td>ACTIVITY</td>
<td>-</td>
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</tbody>
</table>

*Table 6: Identification of Risks*

In defining mandatory requirements for the lending process, an exclusion list was prepared on the basis of the baseline conditions, the aforementioned risk analysis and the possible mitigation measures. Through this exercise, a list was compiled identifying undesirable areas, activities and minimum basic amenities requirements. This will enable the providing agency/institution to prevent and avoid the creation of environmental risks for the borrowers or the financial institution itself.

Environmental enhancement measures are suggested on the basis of the analysis mentioned above that will lead not just to mitigation, but to actually enhance the environment (site conditions, basic services and housing condition).

Existing policies and/or safeguards in place that should help mitigate the identified environmental risks are reviewed and commented upon. This review covers existing government policy on lending to the urban poor, guidelines and codes of conduct developed by the refinancer.

![Percentage comparison of people that used a contractor in three locations](source: Primary data collected through 1500 households survey)

*Figure 2: Percentage comparison of people that used a contractor*
(e.g. NHB) and agreements between QPLIs and Borrowers. At the institutional level, the existing body of work informs a series of suggestions for building institutional capacities to mitigate the risks identified and to create a more successful mechanism for lending to low-income households.

The study is undertaken completing a desk review of policies and studies, analyzing existing data from different level of surveys, conducting interviews with stakeholders and with the experience of mHS’ work in the context of low-income urban housing.

4 BACKGROUND STUDY

4.1 CURRENT HOUSING SITUATION OF THE URBAN POOR: A CASE FOR HOME FINANCE

Growing population

India has grown to 1.2 billion inhabitants in recent years\textsuperscript{15}. Its urban population is set to nearly double from 340 million in 2010 to 590 million by 2030. Urban India is, however, unprepared for this growth. Both urban infrastructure and housing need urgent attention, especially among low-income populations.

Poor have limited shelter and housing options

The unofficial urban housing deficit of India currently stands at 40 million\textsuperscript{16} while the official estimate from the Ministry of Housing and Urban Poverty Alleviation is 24.6 million units. Instead of being overwhelmed by this growing number, it is key to understand where and how urban poor are currently meeting their housing needs and finding innovative ways to improve current living situation. A large segment of poor live as renters in informal settlements; others are living in slums or in semi-formal settlements such as urban villages, unauthorized colonies and government planned colonies. Many others are homeless. Clearly the poor need more housing and shelter options. There is an opportunity to improve and upgrade existing housing, provide rental housing and dormitories shelters for rental housing. While necessary, not all of the deficit needs to be met by green field housing developments. While the Government of India is increasingly recognizes low-income housing as a priority and to address shelter needs more broadly, it is the state governments that need to be proactive about enhancing current housing stock and developing new stock.

Self-construction a reality; but poor tenure, poor structural/environmental conditions a risk

The largest supply of low-income housing (more than 60%) in the country comes from self-construction, a practice in which the homeowner builds using locally available expertise. Often, these self-constructed homes are built in parts of the city where title security is weak though there is some security of tenure (no eviction guarantees, possession slips, power of

\textsuperscript{15}Census of India, Provisional Population Totals Paper 1 of 2011 India Series 1. 2011
attorneys, lease-hold properties). For example in Delhi alone, 55 to 60% of all housing is built by self-construction, which means that no architect/engineer or professional builder is consulted in the building process. While this ensures that the poor address their shelter needs, construction is undertaken in a way that produces unsafe structures and thereby endangers the physical, as well as the economical well-being of the poor, who tend to be already vulnerable. The litany of reports from major cities detailing building collapses during mundane construction exercises is only one aspect of the dangerous situation that unassisted self-construction results in. Though the laws cover nearly all aspects of building adequately, the lack of enforcement on a national and regional level results in lack of oversight and corruption that structures are constructed in such a way resulting in uneven development of communities and structures and the safety of the tenants and ultimately the safety of the community can no longer be ensured. Thus, while self-construction presents an opportunity to meet India's large scale housing need; there is a need to ensure safety and quality of living standards.

Case study: Mangolpuri, Delhi, DHS pilot project

Of 462 customers interested in a construction loan, only 253 were able to satisfy BASIX' due diligence criteria.

1. 100 did not have possession slips for properties- In the context of a resettlement colony; this reflects the practice of selling allocated plots to others on a power of attorney basis. In general, it is reflective of the poor title/tenure situation in low-income communities.

Housing

Housing has potential to improve productivity, uplift from poverty

Safe and hygienic housing conditions are a key to well being, especially for the poor, many of who are employed in the informal sector and work from their homes. “A poor family’s home is often a production place, market place, entertainment center, financial institution and also a retreat.” Thus, the entire livelihood of a large number of Indians is directly tied to their quality of housing, making investment in their housing through smart housing finance even more key.

Few highlights on poverty from NSSO's survey:” Housing conditions and amenities in India 2008-2009”

Some aspects on housing conditions in India that have prevailed in the year 2008-2009

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3. The DHS pilot project done by mHS, supported by the Michael and Susan Dell Foundation, involved close interaction with these communities (resettlement colonies in Delhi—specifically Mangolpuri, Narela and SavdaGhevra) with the objective of offering them housing finance.
Furthermore, a low quality of housing results in a loss of productivity as the lack of services in many low-income neighborhoods affects the health of its residents, leading to disease and sickness, bringing all the negative effects. Thus, residents have to work fewer hours since they must either take care of themselves or their family. Once again, since the poor are more vulnerable to impacts in their income than higher income groups, a decrease in health invariably leads to a loss of income and a subsequent decrease in the quality of life, perpetuating a vicious cycle. It is in the interest of a poverty alleviation scheme to focus on the health aspect in order to address the holistic issues of poverty.

The poor spend considerable amount on home improvement

The poor are very price-sensitive, which means they are particularly vulnerable to economic changes and external shocks, such as the economy, health and other litanies. A house is for most people, especially the poor, one of the most expensive investments of their lives. Contrary to the impression that since the poor are poor, they consume only cheap goods, housing remains a very costly undertaking for them. mHS studies and interviews and discussion with poor people, shows that poor families invest from INR 25,000 to over INR

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Only 68% of households in urban areas have access to three basic facilities: drinking water within premises, latrine and electricity
Only 62% of households in urban areas lived in owned dwellings
17% of households in urban areas lived in kutcha structures
6% of settlements had open kutcha drainage and 15% households did not have a drainage arrangement in the urban areas

<table>
<thead>
<tr>
<th>Loan Needs for Home Improvement</th>
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</thead>
<tbody>
<tr>
<td>Average expenditure for home improvement</td>
</tr>
<tr>
<td>&lt;5000</td>
</tr>
</tbody>
</table>

Source: Primary data collected through 1500 households survey

Figure 3: Loan needs for home improvement

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Primary Source of Finance

Source: Health and Living Conditions in 8 Indian Cities, NFHS-3, 2005-06
500,000 in their houses\textsuperscript{21}, ranging from simple repairs to adding multi-storey rooms and flats. This is equal to 4 to 5 times their annual income\textsuperscript{22}, an estimate based only on income and the direct cost of building and loans, without consideration of future expansion of the house nor the bribes, oftentimes becomes necessary to build.

**Home finance must be encouraged and enabled; however, there are several barriers**

In short, housing is extremely expensive for the poor; therefore progressive financing options must be taken into consideration. A purely market-based solution will also not work, as such a market has until this point produced shocking housing inequality as land prices, tenure rights and other issues related to housing have been dictated by the behavior of up-market housing.

From seminal work by thinkers such as Hernando de Soto\textsuperscript{23}, it is known that there is a strong correlation between home-ownership, rights to the land or tenure, stability of income, quality of housing and ultimately quality of life. Secure property rights mean that the tenant is “bankable,” i.e., he or she can interact well with the formal banking system and thereby gain access to loans, mortgages and other financial tools, as well as reap other social security benefits. Market cannot take care of legal rights, underscoring the conclusion that “pure market-based solutions will not be enough to bridge the gap and serve this segment; and home ownership would have to be promoted by a combination of market-based levers, policy initiatives and direct assistance by the government\textsuperscript{24}.”

As discussed above, the poor are trapped in a vicious cycle of poverty, where they are constantly subject to shocks from external sources. Smart financing can give them the agency that has been denied to them under the current system. Once financially empowered, they will be subject to all the scrutiny, checks and balances of a formal financial system, in short, they will be financial citizens. This future is in danger since the legal title

\textsuperscript{21}micro Home Solutions. “Self-Construction: Enabling safe and affordable Housing in India” Executive Summary, pg. ii.

\textsuperscript{22}Wadhwa, Kiran. “Affordable Housing for Urban Poor”. National Resource Centre SPA, New Delhi July 2009


\textsuperscript{24}Nenova, Tatiana. “Expanding Housing Finance to the Underserved in South Asia: market Review and Forward Agenda. The International Bank for Reconstruction and Development (IBRD)/World Bank. 2010
that is necessary to attain this goal, property rights and/or tenure rights, is denied to many of the poor today.

Housing finance in India is marked by the exclusion of the EWS and LIG segments while subjecting those eligible few to unfair conditions and complex Bureaucracy. Efforts to alleviate this situation will require cooperation from both the private and the public sector.

Given this context and with the ultimate goal of breaking the poor out of a vicious cycle of poverty, the objective of this study is to figure out the social and environmental constraints, as well as the operational constraints in order to form a housing finance structure that satisfies all stakeholders while addressing the problems discussed above.

### Case study: Mangolpuri, Delhi, DHS pilot project mHS

In Mangolpuri, where about **350,000** people reside, our Design Home Solutions (DHS) offering (that combined home finance via micro finance institution BASIX with technical assistance offered by mHS) was able to construct only **12** homes.

- Some clients who consented for the loan were not comfortable with handing over the possession slip to BASIX - This reflects the kind of mistrust low-income borrowers experience, largely because the title to their home is their largest and sometimes only asset. MFIs would need to work hard on programs to communicate with communities and build their trust.
- 100 clients of 253 did not have possession slips for properties - In the context of a resettlement colony; this reflects the practice of selling allocated plots to others on a power of attorney basis. In general, it is reflective of the poor title/tenure situation in low-income communities.
- Few applications were rejected because of poor credit - This meant they could not demonstrate regular or sufficient income.
- Problems such as unavailability of guarantors dictated the possibility of availing a home loan/other loans and a majority of such phenomenon is hindrance to any loan program.

#### 4.2 BORROWER PROFILE: WHERE THE URBAN POOR LIVE CURRENTLY

To better understand and compare the context of poor and low-income settlements across India, the study adopted a typology classification based on legal characteristics\(^\text{25}\). The classification relies on four parameters: title, tenure, right to sell and zoning (land-use) as described by the Master Plans and Town Plans. In mega and tier I

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\(^\text{25}\)mHS in the study on urban housing in India 2012
Cities, large variances may exist within typologies with respect to basic services, income levels, etc. Furthermore, in mega cities that have a complex history of legal action towards slums dwellers, there is a wide range of typologies present. On the other hand, in cities such as Dehradun, where there is a more simplistic administrative classification, only a few typologies are present.

<table>
<thead>
<tr>
<th>Title/Ownership</th>
<th>Tenancy</th>
<th>Right to Sell</th>
<th>Correct Zoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type A1</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Type A2&lt;sup&gt;26&lt;/sup&gt;</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Type B</td>
<td>✔️</td>
<td></td>
<td>Informal</td>
</tr>
<tr>
<td>Type C</td>
<td>✔️</td>
<td>Partial</td>
<td>Informal</td>
</tr>
<tr>
<td>Type D</td>
<td>Limited</td>
<td></td>
<td>Informal</td>
</tr>
<tr>
<td>Type E</td>
<td>None</td>
<td>Limited</td>
<td>Informal</td>
</tr>
<tr>
<td>Type F</td>
<td>None</td>
<td>None</td>
<td>Informal</td>
</tr>
</tbody>
</table>

Table 7: Typology classification developed for this study

**Type A1**
This category usually refers to planned colonies in the urban area; suitable for formal, secured mortgage finance. Settlements are characterized by registered title, right to tenancy and appropriate zoning. In these settlements the formal approval system is in place, this guarantee safety in construction and decent quality of the units. Locations are appropriate and activities are appropriate to the zoning bylaws. These locations are served by basic services, transportation and physical and social infrastructures.

**Type A2**
Settlements classified as Type A2 are home to households that possess clear titles and full tenancy as a result of a land title regularization process. This gives them the same status as A1 communities legally, but usually residents in this category belong to a lower income segment and possess smaller plot sizes. As a result of their history as illegal settlements, they are also likely to have less sanitation and unsafe structures and more likely to be located in unsafe zones. Residents of these types of settlements are likely to be employed in the formal economy, but to a lesser extent than residents of Type A1.

**Type B**
Settlements classified as Type B are home to households that have titles, but may not be registered in the formal revenue records, and full tenancy. Usually they can only trade the property through an informal system, because their legal right to sell is restricted. Most urban and rural villages fall into this category, which means the level of construction is quite low as houses are closely built together and sanitation is generally low. However, they

<sup>26</sup>In settlements of Type A2 the property rights are the result of regularizations
are located in environmentally sound zones and its residents are mostly employed in a formal economy, at least in the urban context.

**Type C**
Settlements in type C have households that have proof of land ownership/Power of Attorney, through which they have bought the land after an illegal division of the land (usually not falling under residential zone as per the master-plan or other statutory document governing the land-use of a city) into small plots. The majority of settlements in this group are unauthorized colonies built on agricultural land. The quality of construction is poor. The access to basic services varies across settlements depending on their tenure on their land.

**Type D**
Settlements in type D are households that share a lease/license document, varying from 5 to 99 years, usually given by the government, but with the restriction of selling. Despite the restrictions it is common practice to trade through Power of Attorney documents. There may be prescribed formal laws regarding the construction of homes in these settlements, but are not practiced and exercised in most cases. As a result the quality of construction is mostly poor and not safe. These settlements usually have access to basic services that are not necessarily installed or made available to the people, at the time of resettlement. The occupation of the people involves small/large scale informal/formal business to a formal government job.

**Type E**
Settlements in Type E are households that have no right to ownership for their land. As for tenancy, they merely possess the right to occupy. In terms of zoning, these settlements may or may not fall under residential land, but predominantly on encroached land. The quality of construction may depend from Tier to Tier but at an average it is poor and the construction type ranges from *kaccha* to *semi pucca* structures. Depending on the type of construction the houses maybe single storied or at an average two storied. Access to basic services varies across settlements. The occupation for most of the households in this category is at a household level and community based.

### mHS’s survey from SunderNagri, in-situ redevelopment scheme with SEWA/MHT

<table>
<thead>
<tr>
<th>Extracts on percentages of pukka, semi pukka and kutcha structures in the slums F1 and F2 that falls in the category of Typology E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>F1-E60</strong> - 52% pukka, 40% semi-pukka and 8% kutcha</td>
</tr>
<tr>
<td><strong>F2-E117</strong> - 29% pukka, 63% semi pukka and 8% semi pukka</td>
</tr>
</tbody>
</table>

**Type F**
Settlements in Type F are households that have no ownership or tenancy right, since they are encroached settlements in protected land or hazardous sites or simply in a zone that is not specified for residential purposes by bylaw. Quality of units are extremely poor, the type of construction mostly *kutcha*. The houses are usually single storied. These settlements do not have access to basic services for water supply (drinking and other uses, mostly on natural sources of water).Occupation of the people residing in this typology range from rag picking to other informal activities.
As the project seeks to support loans to beneficiaries in informal settlements in which the beneficiary has some evidence of tenure rights (right to sell, title and tenancy), it will encourage banks and HFCs to prudently go into ‘B’ and ‘C’ categories, whereas, ‘D’ and ‘E’ are likely to be covered by MFIs. In types C and E, where tenancy is limited, the QPLIs will ensure security of tenure longer than the loan repayment period.

### Some data from NSSO’s survey on ‘Housing conditions and amenities in India 2008-2009’

In urban areas, ‘tube well/hand pumps’ served the highest proportion of SC households (23%) and lowest proportion of ‘others’ households (14%), the population most likely to be in the Typology F.

23% of SC households had no latrine facility in urban areas, also likely to belong in the Typology F category.

### Case studies on World bank’s study on Housing finance in India, DHS project by mHS on Typology F

It is estimated that households belonging to this Typology have available floor areas ranging from 1.8 sq.m to 4 sq.m.

The construction based mostly on experiences from masons from the area with no professional credibility.

In Tier II and Tier III cities, which represent the area of fastest future growth for India’s cities, the INR 0-15000 per-month/HH income segment group commands a large share of the supply and demand of housing. Similarly, the Tier II and III cities are home to a greater percentage of INR 0-5000 per-month/HH income segment; as the cost of living is much lower here as compared to Mega and Tier I cities.

Considering India’s current rate of urbanization (at about 2.5% annually), there is an expected growth of about 1,50,000 dwelling units in Mega-cities/year, ~35,000 units in Tier I/year, ~150,000 units in Tier II/year and ~225,000 units in Tier III/year in the target segment of INR 0-15000 per-month/HH alone (micro Home Solutions, 2011).

To summarise, the project seeks to meet the demand in Tier II, III and IV cities. However, in case there is any mismatch between demand and supply, resulting in price rises, the project has the flexibility to allocate more funding to incremental housing or to other locations where prices are more affordable.

### 4.3 CURRENT INCOME AND FINANCIAL SITUATION

In total, urban India (considering the mega-cities, Tier I, Tier II and Tier III cities) is home to ~ 8,000,000 owner households earning INR 0-5000 per-month/HH, ~5,000,000 owner households earning INR 0-15000 per-month/HH.

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27Classification of ‘mega city’ is based on the HRA (House Rent Allowance) parameter recommendations of the Sixth Pay Commission of India, wherein ‘X’ category as listed is considered as a ‘mega city’. Similarly based on ‘India Urbanization Econometric Model; Census 2001; McKinsey Global Institute analysis’ (13) ‘tier one’ cities are with population more than 4 million, ‘tier two’ cities are with 1 to 4 million population and ‘tier three’ cities are with a population less than 1 million

28This income cap has been increased to Rs. 16,667 per month since the SEA, in line with Government guidance.
households earning INR 5000-10000 per-month/HH and ~10,000,000 households earning INR 10000-15000 per-month/HH. Especially among the lower two income groups (INR 0-10000 per-month/HH), a high percentage of income comes from informal sources, which means that these households will not be able to enter the formal banking market as easily as those that have ready documentation of their income. Thus, for many HFCs, other ways of measuring a steady source of income or right to housing are related to employment, such as stable business for the past few years, money lent to relatives and friends, gold, etc. Surrogate methods are also used, such as bank account statements, mobile bills, vegetable expenses, etc. Each institution has an internal credit score calculation system. Despite these alternate measures, HFCs find it risky to lend to low-income households because of unsure tenure/title.

Figure 6: Distribution of different income groups across different tier cities in India

4.4 AVAILABILITY OF HOUSING FINANCE (ACCESS)

The low-income families, despite massive inroads recently by MFIs and HFCs, continue to receive most of their financing from informal sources such as family, friends and moneylenders, who lend at much higher rate of interest i.e. around 60% per annum. In the settlements surveyed in New Delhi for example, the percentage of households that borrow from these informal sources hovers around 60%, which represents an immense potential for expanding financial services.

Recently, there has been a push from the formal banking sector to enter into collaboration with LIG and EWS segments of Indian society, in the course of which, fees for processing and administrative tasks were waived, and Loan to Value ratios were pushed to unsustainable heights. Though this frenzy has somewhat subsided, there are still dangers inherent in borrowing, even from Housing Finance Corporations (HFCs). A discussion with seven representative HFCs reveals that the formal finance sector now considers the INR 0-15000 per-month/HH income segment as valuable. In fact, for the seven HFCs described, the average income cap was INR 15 – 20,000. Most HFCs have also extended their loan...

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29mHS study on self construction for Michael and Susan dell foundation.
30Ashoka Foundation’s publication titled ‘Breaking Barriers: Housing Finance for India’s Informal Sector’
31mHS report titled ‘Self-Construction: Enabling safe and affordable housing in India’; fieldwork done in Mangolpuri resettlement colony, Delhi
32Reference to the MFI crisis that started in Andhra Pradesh in 2010, resulting in curbs on micro finance lending at large in India via the Malegam Committee report
33Ashoka Foundation’s publication titled ‘Breaking Barriers: Housing Finance for India’s Informal Sector’
terms, ranging from 15 – 20 years on average. However, their minimum loan amounts of ~ 2 lakh INR are still high given that a large section of population is looking to undertake extensions, minor improvements and meet their water and sanitation needs³⁴.

The four graphs below show the presence of financial institutions in Mega cities, Tier 1, 2 and 3 cities. It is evident that while the average urban household has access to banks, it is for no frill bank accounts (savings, post office accounts) rather than for credit. Many microfinance organizations have been providing business, education and personal loans to the segment and some have provided loans up to Rs 50,000 for minor housing improvements.

The objective of the NHB and World Bank project should be to facilitate the provision and access of housing finance to households that:

I. earn between ₹0-15k monthly income (informal or formal income)³⁵
II. are in need of credit to upgrade/construct/buy new home
III. possess security of tenure
IV. can afford market based housing credit through formal financial institutions (credit worthy)

To clarify, this project will address only a subset of the larger low income/vulnerable population in need of housing. There are households (vulnerable and low income) that may not meet the above criteria. While product innovation and other mechanisms such as awareness/literacy; subsidy programs can be adopted to ensure that the project remains inclusive for the target; for other vulnerable poor groups the effort should be to offer diverse housing/shelter options. For e.g. Rickshaw Pullers (single men migrated to the city with families in village) are not interested in buying a house or availing credit for housing they are interested in affordable shared rentals located near livelihoods. Anything between 20%-70% of households in slums/informal settlements in the large cities are renters (both individuals and families). Instead of only focusing on home-ownership mHS argues for the need for a portfolio of housing options (dormitories, shelters, upgrades home ownership) and allowing for upward mobility. The Government of India, though the Rajiv Awas Yojana program has acknowledged the need to think about shelter more broadly. Although National Housing Bank (NHB) has a mandate to finance projects for shelter; that will not be part of this World Bank- NHB project, which is aimed solely for that segment of urban poor/low income that meet the above criteria of target groups.

³⁴mHS research, 2011
³⁵This income cap has been increased to Rs. 16,667 per month since the SEA, in line with Government guidance.
5. STAKEHOLDER ANALYSIS

5.1 KEY STAKEHOLDERS IN LENDING PROCESS

At the Macro-level, the World Bank will work as the overarching lending institution with a refinancing agency (like NHB) acting as the primary housing finance agency. QPLIs will enter into financial agreements with local borrowers directly or via Self-Help Groups, the process of which is facilitated by trusts or NGOs. Developers/Investors may also be active in assisting QPLIs in funding and project management, while architects and engineers can
plan context specific solutions for low-income needs. However in reality access to formal finance is low and informal financiers like money lenders currently service this segment.

The stakeholders will act at three levels, depending on their function sphere – macro, mezzo & micro level. All the stakeholders can be classified into five parts – Lenders, Facilitator/Regulator, Borrower, Community Mobilizers & Construction Mobilizers.

<table>
<thead>
<tr>
<th>MACRO LEVEL</th>
<th>LENDER</th>
<th>FACILITATOR/REGULATOR</th>
<th>BORROWER</th>
<th>COMMUNITY MOBILISER</th>
<th>CONSTRUCTION MOBILISER</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>MESO LEVEL</th>
<th>LENDER</th>
<th>FACILITATOR/REGULATOR</th>
<th>BORROWER</th>
<th>COMMUNITY MOBILISER</th>
<th>CONSTRUCTION MOBILISER</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>MICRO LEVEL</th>
<th>LENDER</th>
<th>FACILITATOR/REGULATOR</th>
<th>BORROWER</th>
<th>COMMUNITY MOBILISER</th>
<th>CONSTRUCTION MOBILISER</th>
</tr>
</thead>
</table>

Table 8: Stakeholder identification

5.2 STAKEHOLDER ROLES

<table>
<thead>
<tr>
<th>Stakeholder Organization</th>
<th>Stakeholder Type</th>
<th>Role in project</th>
<th>Motivation/Interest(s) at stake in relation to project</th>
<th>Key concerns of the QPLIs/beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LENDERS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
<td>Macro Level Lender</td>
<td>Assisting national government on poverty reduction programs by providing technical and financial assistance.</td>
<td>○ Better housing for the target group ○ Improve social organization ○ Sustainable system for credit lending to the target group</td>
<td></td>
</tr>
<tr>
<td>Refinancing Agencies (NHB)</td>
<td>Macro Level Lender</td>
<td>Nationalized Bank for Refinancing Housing Loans</td>
<td>○ Facilitate lending process ○ Fund lending programs for the target group</td>
<td></td>
</tr>
<tr>
<td>Role</td>
<td>Level</td>
<td>Task</td>
<td>Principal Responsibilities</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
<td>------</td>
<td>--------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>PLIs</strong></td>
<td>Meso Level Lender</td>
<td>Provide finance to the end user.</td>
<td>○ Tap the credit demand  ○ Build relationship with the donor agency (for funding)  ○ Developing better loan products for the target group  ○ Credit risk mitigation  ○ Access to long term capital/funds  ○ Regulatory requirements of re-financing institutions  ○ Unsecured lending norms of RBI/regulatory authority</td>
<td></td>
</tr>
<tr>
<td><strong>Informal Money Lender</strong></td>
<td>Micro Level Lender</td>
<td>Provide finance to the end user.</td>
<td>○ Tap the local credit demand*  ○ Asset accumulation of defaulters*</td>
<td></td>
</tr>
<tr>
<td><strong>FACILITATOR/REGULATOR</strong></td>
<td>Central Government Housing Department (MHUPA, HUDCO)</td>
<td>Macro Level Facilitator/Regulator</td>
<td>Create programs for poverty alleviation and housing the urban poor</td>
<td>○ Better housing for the target group  ○ Improve social organization  ○ Reduction in the housing deficit</td>
</tr>
<tr>
<td></td>
<td>State Government Housing Department</td>
<td>Meso Level Facilitator/Regulator</td>
<td>Housing the urban poor</td>
<td>○ Better housing for the target group  ○ Improve social organization  ○ Reduction in the housing deficit</td>
</tr>
<tr>
<td></td>
<td>ULB (DDA, MCD, BMC, MMRDA)</td>
<td>Macro Level Facilitator/Regulator</td>
<td>Design Policies, regulations and chart bye-laws</td>
<td>○ Develop urban space/planning/spatial development regulations  ○ Slum free city  ○ Uplifting social structure</td>
</tr>
<tr>
<td></td>
<td>Local Politician</td>
<td>Micro Level Facilitator/Regulator</td>
<td>Representative of the people</td>
<td>○ Development of the constituency  ○ Secure loyalty of voters*</td>
</tr>
<tr>
<td><strong>BORROWER/Potential beneficiary</strong></td>
<td>Household</td>
<td>Micro Level Borrower</td>
<td>Borrow with security of tenure  Borrow without legal title or security of tenure  Avail finance for re-constructing existing house  Avail finance for refurbishing existing house  Avail finance for additional space in existing house  Avail finance for constructing another house (for renting etc.)*  Avail finance for buying pre-constructed another house (for renting etc.)*  Giving up of title/tenure documents  Timely disbursements of installments during construction  Price escalations in construction materials  Collateral requirements/guarantors  Due-diligence processes including reference checking,</td>
<td></td>
</tr>
</tbody>
</table>

*Denotes options available for the Borrower/Potential beneficiary.
<table>
<thead>
<tr>
<th>Neighborhood inquiry on character</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renters</strong></td>
</tr>
<tr>
<td>Micro Level Borrower</td>
</tr>
<tr>
<td>○ Formal Renter</td>
</tr>
<tr>
<td>○ Informal Renter</td>
</tr>
<tr>
<td>○ Avail finance for construction of a new/existing house</td>
</tr>
<tr>
<td>○ Affordable and secure rental options</td>
</tr>
<tr>
<td><strong>Homeless</strong></td>
</tr>
<tr>
<td>Micro Level Borrower</td>
</tr>
<tr>
<td>(e.g. rickshaw puller, vendor and other informal sector workers)</td>
</tr>
<tr>
<td>○ Affordable and safe rental/dormitory accommodation</td>
</tr>
<tr>
<td><strong>COMMUNITY MOBILISER</strong></td>
</tr>
<tr>
<td><strong>Trusts/ NGOs (SPARC, MHT)</strong></td>
</tr>
<tr>
<td>Micro Level Community Mobilizer</td>
</tr>
<tr>
<td>Mobilize community, undertake trainings and build capacity</td>
</tr>
<tr>
<td>○ Better housing for the target group</td>
</tr>
<tr>
<td>○ Propagation of schemes</td>
</tr>
<tr>
<td>○ Development of donor base/networking</td>
</tr>
<tr>
<td>○ Community empowerment</td>
</tr>
<tr>
<td><strong>Self Help Promoting Institutions (SHGs etc)</strong></td>
</tr>
<tr>
<td>Micro Level Community Mobilizer</td>
</tr>
<tr>
<td>Works toward betterment of community</td>
</tr>
<tr>
<td>○ Community empowerment</td>
</tr>
<tr>
<td>○ Better living condition for the community</td>
</tr>
<tr>
<td><strong>Community/ Neighborhood</strong></td>
</tr>
<tr>
<td>(As a group, neighbors etc.)</td>
</tr>
<tr>
<td>Micro Level Community Mobilizer</td>
</tr>
<tr>
<td>Effected by any change in the community/neighborhood</td>
</tr>
<tr>
<td>○ Better neighborhood</td>
</tr>
<tr>
<td>○ Mitigate inconvenience created due to construction*</td>
</tr>
<tr>
<td>○ Rent seeking behavior*</td>
</tr>
<tr>
<td>○ Criminality and Illegal acquisitions by powerful members*</td>
</tr>
<tr>
<td>○ Act as agent/middlemen in the lending process*</td>
</tr>
<tr>
<td><strong>CONSTRUCTION MOBILISER</strong></td>
</tr>
<tr>
<td><strong>Developers / Investors</strong></td>
</tr>
<tr>
<td>Meso Level Construction Mobilizer</td>
</tr>
<tr>
<td>Investing funds in housing projects</td>
</tr>
<tr>
<td>○ Tap the development in this sector</td>
</tr>
<tr>
<td><strong>Architects/ Engineers</strong></td>
</tr>
<tr>
<td>Meso Level Construction Mobilizer</td>
</tr>
<tr>
<td>Designers</td>
</tr>
<tr>
<td>○ Projects and innovation space</td>
</tr>
<tr>
<td><strong>Construction material Manufacture</strong></td>
</tr>
<tr>
<td>Meso Level Construction Mobilizer</td>
</tr>
<tr>
<td>Sell construction materials</td>
</tr>
<tr>
<td>○ Tap the development in this sector</td>
</tr>
<tr>
<td><strong>Local Contractor</strong></td>
</tr>
<tr>
<td>Micro Level Construction Mobilizer</td>
</tr>
<tr>
<td>Help the residents with construction of their houses</td>
</tr>
<tr>
<td>○ Locally tap the development in this sector</td>
</tr>
</tbody>
</table>
Mason & Construction workers | Micro Level Construction Mobilizer | Help the residents with construction of their houses | ○Locally tap the development in this sector

Local Construction material Suppliers | Micro Level Construction Mobilizer | Provide construction material locally | ○Locally tap the development in this sector

Table 9: Stakeholder roles

* Could be opponents for the proposed finance scheme (Negative Stakeholder)

Negative stakeholders pose a threat to the lending program.

Informal Money Lenders - Informal money lenders have strong community connection, and this makes them capable of having a flexible due diligence and lend without proper documentation as well as influence the borrower to an extent. Taking advantage of the financial illiteracy of the borrowers, some of money lenders disburse loan at a very high interest rate. Since the lending process has minimal legal documentation, the disbursement and recovery is often un-ethical and leads to harassment of the borrowers.

Local Politician - Local politician may have vested interest in supporting informal money lender and the middlemen, and hence could oppose the project. There is also a considerable probability of the local politician favoring certain group over the other, based on caste, religion etc.

Middlemen - Middlemen usually takes advantage of the financial illiteracy of the borrower and the complicated paper work involved in the lending process. For such services, the middlemen may influence borrower regarding their decisions and also demand for kickbacks/payments, thereby increasing indebtedness.

5.4 STATUS AND PERFORMANCE OF CURRENT LENDING BY PLIs - SOCIAL

In India, there has been very limited experience of providing formal housing finance to the target group in urban areas. While MFIs have served this target segment with financial products such as credit, insurance, housing loans against property have not been given. The nature of a housing loan in terms of tenure, technical due-diligence requirement and informality of titles makes it a different playing field for MFIs. Banks and Housing Finance Companies that provide housing loans have not traditionally served this segment and face challenges in terms of outreach and adapting internal processes such as under-writing to recovery to serve this segment.

PLIs such as Housing Finance Companies that are serving the target customer have inbuilt some safeguards to screen against social & default risks such as over-indebtedness, multiple borrowing. They have tailored their due-diligence and credit appraisal mechanisms for informal sector borrowers and are reporting information to the credit bureaus. The microfinance institutions have also voluntarily adopted safeguards as part of effort of the Microfinance Code of Conduct (appendix). Some of the safeguards against risks of:
Over borrowing and indebtedness: PLIs currently carry out their own due-diligence and do not subcontract loan appraisal to third party agencies. One of the main reasons behind the MFI over lending in India (Andhra Pradesh) was aggravated by lending through third party agents. Further HFCs regulated by NHB working in areas where secured titles are present.

Financial Literacy and transparency of product information: Some MFIs have been undertaking financial literacy programs with their borrowers (Ujjivan MFI), although this is not industry wide practice amongst PLIs. The HFCs interviewed for this study have brochures in Hindi language that explain the purpose of the loan, interest rates and documentation requirements.

End use monitoring of loans: HFCs have hired external evaluators to undertake monitoring of construction prior to release of installments; however in case of MFIs supporting housing improvements, there is limited end-use monitoring and it is undertaken by in-house staff. NHB also undertakes an annual audit of the MFIs to verify use of funds, however does not evaluate for quality of construction standards (addressed in Environmental section).

Sensitization of staff on vulnerable groups: Although RBI requires PLIs to have a no-discrimination clause based on gender/caste/religion; there is no systematic training of staff or monitoring on disbursements to vulnerable sections. Some institutions are making an effort to address vulnerable section by partnering with local NGOs to spread awareness and information about the product and handholding for the documentation processes. SEWA Mahila Housing Trust (MHT) acts as a technical facilitator for the borrowers assisting in getting electricity & water connections, filling up of forms. BASIX MFI gives a 1% interest rate subsidy in case of women borrowers to encourage asset ownership for women. HFCs encourage co-borrowing for large loans both for repayment responsibility as well as undue social pressure on any one member for repayments.

Grievance redressal mechanisms
RBI guidelines for recovery agents stipulate the PLIs to have grievance cell. Some HFCs interviewed such as Indian Shelter are taking proactive measures of setting up toll free online access for customers for grievance and complaints. As signatories to the Industry Code of Conduct (Sadhan and MFIN) MFIs such as Cashpor and MIMO Finance have adopted internal redressal mechanisms to resolve customer grievance at branch and head offices.

5.5 POLICY REVIEW

5.5.1 REVIEW OF POLICIES FOR SOCIAL ASSESSMENT

Government programs to boost low-income housing have failed in implementation; have no safeguards to avoid social risks

National Urban housing and Habitat Policy, 2007: The policy emphasizes creation of opportunities for the private sector to assemble land within the purview of master plans and asks state governments to prepare a 10-year perspective plan for EWS and LIG housing
as well as a Habitat Infrastructure Action Plan for all cities with a population of over 100,000. This is the guiding document behind the government’s policy of reserving 20-25% FAR in middle- and high-income housing projects for low-income homes. I

As per the policy, housing for the urban poor should be provided at their present locations or near their work places. In-situ rehabilitation is preferred; in contrast to Delhi government’s resettlement efforts that continue to take place, even today. Additionally, providing access to finance through micro finance institutions and the creation of detailed surveys and maps are also part of the policy. Many of these principles have been partly realized in subsequent reform efforts, to varying levels of success. The implementation of the policy as a whole is yet to be seen.

JNNURM: The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched in 2005 with the mission to invest in citywide infrastructure and is soon to complete its first 7-year phase. The program offered funding from the central government to worthy projects in 65 cities across India under sub-mission called Basic Services to the Urban Poor (BSUP). Another sub-mission named Integrated Housing and Slum Development Programme (IHSDP) extended to a larger network of cities and towns. While partially successful, the mission meets a small fraction of the needs of the sector and is dependent on the mobilization of state and local governments.

Rajiv Awas Yojana: With the President of India’s call for a Slum Free India by 2014, the central government is now preparing to launch a new policy that aims to achieve this ambitious vision. RAY is intended to bring existing slums within the formal system and provide them access to the same level for basic amenities as the rest of the city. RAY also looks at taking corrective measures to rectify the failures of the formal system, by addressing the reasons for the creation of slums like shortage of urban land, tenure, etc. It will, for instance, support states to provide property rights to slum dwellers. A Central Electronic Registry to prevent frauds involving multiple lending on the same immovable property is already in place and NHB is a co-promoter.

Mortgage guarantee fund: In alignment with RAY, the government announced the intention in the 2011-2012 budget to create a Mortgage Guarantee Fund for low-income housing. Floated jointly by the central and state governments with a corpus of Rs 10 billion (USD 224 million), the fund is intended to bridge the gap between supply (builders, lenders) and demand (low income households). The National Housing Bank, which regulated and supervises all Housing Finance Companies (HFCs), will administer the fund. Once in operation, HFCs will be able to give home loans for up to Rs 5 lakhs to the low-income segment without third party guarantee and without fear of bad loans. A Rural Housing Fund has been established with an allocation of Rs. 4,000 Crores for 2012-13

ISHUP: An Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) offers a 5% interest subsidy on housing loans up to Rs 100,000 (USD 2240) to the EWS and LIG households for both home purchase and home construction

Comment: Despite the above initiatives, implementation has been an issue and therefore, the schemes have not shown results. Government schemes are dependent on the
coordinated working of governments at local, state and national levels, which has been difficult to achieve. Market-based supply of housing is, therefore, the only viable answer to address the deficit in housing supply for the low-income segment. Government programs have no specific safeguards for the inclusion of vulnerable groups like women, dalits, etc., nor provisions for the mitigation of any social risks like over-indebtedness, elite capture, etc. Eligibility criteria like cut-off dates and income levels restrict rather than be inclusive; however, higher subsidy and quotas for BPL, SC/STs etc do exist.

**Regulatory restrictions on lending to low-income neighborhoods**

Majority of the low-income houses are located in areas, which are not formally authorized by the competent government authorities. This leads to restrictive regulations, e.g. the Delhi High Court order on unauthorized construction restricts lending to any unauthorized colony even for commercial purposes. Many locations ask for approved plans for providing housing loan. Such approval process is not accessible for the target income group and further more the informal nature of the settlement restricts them from attaining an approval for house construction. Although MFIs like ISHF work with patta, and in an event of possession use a power of attorney to register the property, but it is difficult for MFIs & HFCs to provide housing loan without clear a title.

**Loan cap and other financial restrictions**

The project finance policy of NHB (September 2011) restricts the loan amount to INR 2.5 Lakhs for new construction and INR 1 Lakh per house for renovation. This cap on the amount leads to insufficient funding and the borrower acquiring more funds informally, often on higher interest rate. Even to take the stipulated INR 2.5 Lakhs loan, the minimum income shall be INR 4170/month (based on RAY guidelines stating 40% of income as a maximum limit for EMI). The new microfinance bill (May 2011) based on the Malegam Committee prohibits MFIs from taking any collateral for loans less than INR 50000 and for lending to income groups that earn more than INR 10000 per month in urban areas.

**Access to the loan and repayment mechanisms**

PLIs follow the KYC norms (October 2010) for accounts and this is very restrictive for the target income group as they lack in many documents and have an informal source of income. Recovery mechanisms sometimes leads to harassment, though MFIN’s code of conduct lays norms for recovery such as the point of recovery shall be in public place. For PLIs using recovery agents need to follow the RBI directives that lay clear guidelines for the PLIs to inform the borrower about the agent including the phone number though that he/she will be contacted.

As per the ‘Master Circular on Housing Finance’ (July 2008) by RBI, the banks are free to evolve their own guidelines with the approval of their boards. Such guidelines could be sensitized for social issues if a guideline could be provided via NHB.

**Grievance redressal**
RBI guidelines for recovery agents stipulate the PLIs to have grievance cell. RBI ombudsman is inaccessible for the target income group. HFCs like ISHF are taking proactive measures of setting up toll free online access for customers for grievance and complaints. Apart from this passive measures taken up by PLIs, like training the front desk employees with skills to effectively explain the loan product also helps in reduction of complaints.

5.5.2 Review of operational policies for EA

For the purpose of the current study the following policies have been reviewed:

- NDMA (National Disaster Management Authority) to NHB (National Housing Bank) | Sept. 2010 | Guidelines on Ensuring Disaster Resilient Construction of Buildings and Infrastructure financed through Banks and other Lending Institutions.
- RBI (Reserve Bank of India) | July 2008 | Master Circular on Housing Finance
- RBI (Reserve Bank of India) | July 2006 | Master Circular on Housing Finance
- World Bank | October 1998 | Operational Policy 4.01: Environmental Assessment
- World Bank | July 2006 | Operational Policy 4.11: Physical cultural resources
- NHB | Oct 2010 | guidelines on ‘Know your customer’ and ‘anti money lending measures’ for HFCs.
- MHUPA (Ministry of Housing & Urban Poverty Alleviation) | 2007 | National Urban Housing and Habitat Policy
- BIS (Bureau of Indian Standards) | 2005 | National Building Code
- World Bank to SIDBI (Small Industries Development Bank of India) | December 2009 | Exclusion list of Activities for Environmental Management

Taking into account the three categories considered (Location, Basic Services and Activities) main issues and limitations of the policies have been highlighted.

Overall

The existing guidelines address some of the environmental risks, especially regarding appropriate zoning and safety in construction. However the implementation of these safeguards often relies on formal documents such as Master Plans and National Building Codes and the formal approval system under guidance of these documents that foresees the work of professionals as architect and engineers.

As illustrated before, Economic Weaker Groups and Low Income Groups are often located in locations where this formal system is not in place. Moreover, they don’t have access to the professional expertise needed to ensure that standards are followed.

Other guidelines propose exclusion lists for activities that are considered at risk for the borrowers or the environment. Again these norms need to be relaxed considering the context. For instance ‘trade and storage of inflammable material’ is common in all the rag-picker settlements in urban areas where dwellers collects recyclable material (as paper) and store it in considerable quantity.

To summarize, if the guidelines address some of the main environmental issues, the implementation is often not applicable for the LIG and EWS groups here considered. Refinancing agencies and Primary Lending Institutions need to recognize the operational
context and re-define their requirements and the management measure to prevent or reduce the risks.

Amongst the reviewed policies, the **National Disaster Management Guidelines** that NHB circulate to all register Housing Finance Companies (HFCs) on **May 2011** is the most significant document. These guidelines have been formulated by NDMA to ‘**ensuring disaster resilient construction of buildings and infrastructures financed through the financing institutions, viz banks, housing financing companies and other lending institutions**’.

NDMA acknowledges certain critical gaps in the process of approving the loan applications. The document starts with the observation that natural hazards in India create huge damaged to lives and buildings and state that this negative impact could be in majority of the cases avoided if safety standards would be applied. In order to do this, the documents ‘propose the modalities that will aid the banks for putting in place an improved and robust techno-financial regime, that will help the banks to ensure disaster-resilience and safety of bank-financed assets by themselves (without relying on the techno-legal process controlled by ULBs).

‘The implementation of these techno-financial provision would require banks to equip themselves with the necessary technical expertise, by either developing suitable technical human resources internally [...] or by outsourcing the peer review of technical documents submitted to the bank to empanelled professional architects, civil engineers, geo technical engineers and structural engineers.

In practical terms, the NDMA document circulated by NHB is perfectly in line with the perspective of this project. Given the context where the target groups live, the complexity of the formal approval system and the lack of enforcement, the idea is to equip financial institutions (QPLIs) with the required financial and techno capacity to ensure that basic standards are met. The following EDD requirements are designed following this scope.

**Location**

**A1 NDMA to NHB|Guidelines on Ensuring Disaster Resilient Construction of Buildings and Infrastructure financed through Banks and other Lending Institution**

Disaster safety has to be verified by PLIs before granting loans by certified structural engineers (Sept 2010)

Buildings need to withstand the impact of multiple hazards like earthquakes, cyclones etc. Most Financial Institutions do not have capability to verify and assess the projects for its specificity and zoning in hazardous areas. The policy suggests Financial Lending Agencies to build or acquire the technical capacity to guarantee that safety standards are met.

This policy correctly addresses the problem, but doesn’t give specific direction regarding the ‘how’. Furthermore it doesn’t consider the main problem, the target group usually does not have access to structural engineer or an architect and a monitoring is required.

**RBI| July 2008| Master Circular on Housing Finance**

No loan for properties in unauthorized colonies until they have been regularized.
Limited application, majority of the target group reside in areas not formally authorized by the government.

**World Bank| October 1998| Operational Policy 4.01: Environmental Assessment**

No project that contravenes national legislation, relevant international environmental treaties, or exceeding the emission levels marked in the *Pollution Prevention Handbook* will be financed.

World Bank will not be able to support housing projects in India (for the income bracket of 0 to 15000 Rs/HH/Month) unless they provide certain relaxation in their operations (*Since majority of the target group reside in areas not formally authorized by the government*).

**World Bank| July 2006| Operational Policy 4.11: Physical cultural resources**

Any project that could have an impact on any physical cultural resources must have a plan that includes measures for avoiding or mitigating these impacts. The plan should be consistent with national legislation.

If the impact on physical cultural resources is impossible to mitigate, the project will not finance the related investment.

The Financial Institutions should identify a mitigation plan in order to receive finance, in line with the proposed project.

**NHBB| Oct 2010| guidelines on ’Know your customer’ & ’anti money lending measures’ for HFCs**

This policy has no relevant requirement related to environmental issues.

**MoHUPA| 2007| National Urban Housing and Habitat Policy**

Flood plains of tropical rivers will be kept free from construction.

Special Development Plans should be made for areas with fragile ecological characteristics, so as to take care of all environmental concerns.

City planners have to lay down norms for development of services in urban sprawls.

**BIS| 2005| National Building Code**

No plot shall be put to any use different than the uses identified in the classification that shows [Residential, Commercial, Manufacturing, Public, Recreational, Transport, Agriculture], except with the approval of the Authority.

The outreach of NBC is very restrictive. Following these requirements it would address environmental issues but and it is of difficult implementation given the physical characteristic of considered settlements. The reality is that many settlements lie in other or no correct land-use destination.

**Basic Services**

**1. BIS| 2005| National Building Code**

All dwellings shall be provided with supply of potable water that shall not be connected with unsafe water resources. The minimum quantity of water per head is fixed in:

- For communities with population up to 20000 and without flushing system:
• 1) Water supply through stand post 40 lphd, Min
• 2) Water supply through house service connection 70 to 100 lphd
• For communities with population 20000-100000 together with full flushing system 100 to 150 lphd
• For communities with population above 100000 together with full flushing system 150 to 200 lphd

The minimum sanitation requirements for dwellings without individual conveniences are one water tap with floor trap in each tenement, one water-closet with flushing apparatus and one ablution tap bath for every two tenements, and one bath with water tap and floor trap for every two tenements. These requirements are not possible to achieve considering the current context.

**BIS| 2005| National Building Code**

Existence of basic services such as water supply and sanitation is much less than mandated/suggested, in areas where majority of the target income group lives.

Bank should develop a checklist and assess the loan disbursement based on the existing conditions rather than not providing at all.

Minimum requirement like access to portable water and sanitation (toilet – private or community) should be a mandate.

**RBI directed PLIs and HFCs** have made a checklist of documents to be submitted along with loan application. These are listed under following categories:

- Salaried Individuals
- Self-employed /Businessman
- If the flat is purchased from a builder
- If the property being purchased is in Cooperative Housing Society
- If constructing on Own Land

[see annexure 4]

After submission of all the documents, QPLIs/MFIs appoint a third party evaluator to assess the building for its current and future market value, current status of construction and emphasis stages of loan disbursement in relation with the construction (Pre-Sanction Technical Evaluation Report, India Shelter Finance Corporation Ltd). The evaluator assesses the apartment/building briefly for its status and whether the said project/building will be nuisance to the neighbouring plots. This does not mention any thing about environmental hazards or safety. Does not highlight any documentation related to environmental risks, building safety or basic service requirements to be submitted by the applicant.

**PLI guidelines to borrowers**
In order to identify guidelines for environmental risks and building safety, if any, set by PLIs/MFIs for loan applicants, mHS contacted and interviewed following personnel:

- Mr. Sunil Rasania, Regional Manager, **NHB**
- Mr. Apar, Loan Manager, **HDFC Ltd**.
- Ms. Prerika Patil, Personal Bank Account Manager, **Kotak Mahindra Ltd**.

The information received indicates that there are no existing guidelines set by RBI or PLIs/MFIs for loan applicants. However, the lending institutions can ask for a certificate stating that National Building Codes and fire safety norms have been followed. In some cases, they also ask loan applicants to submit approved building plans.

### Activity/ Construction

1. **RBI (Reserve Bank of India) | July 2006| Master Circular on Housing Finance**

   No relevant requirement related to activity issues.

   The acquired house, using the loan from another bank, might be in a hazardous area/activity zone. Refinance institutions should assess the location under HLAS.

2. **World Bank to SIDBI| December 2009| Exclusion list of Activities for Environmental Management**

   Some of the activities are irrelevant for the program and others are too restrictive.

   The national building codes are suggestive guidelines. However, for borrowers certain guidelines should be made mandatory, depending upon zones and density, in terms of minimum requirement for:
   - Structural strength
   - Light & Ventilation

3. **NDMA to NHB| Guidelines on Ensuring Disaster Resilient Construction of Buildings and Infrastructure financed through Banks and other Lending Institutions**

   In an earthquake, the critical lifeline buildings should be able to perform their functions and services immediately after the earthquake. The retrofitting of existing buildings should be done to comply with force and deformations levels more stringent than those specified in the Indian Standards intended for the design of new buildings.

   Loan application for modifications of buildings older than fifty years have to be certificated by a Structural Engineer (Sept 2004).

   All banks have to mention adherence to the NBC 2005 while approving loans for any building construction (June 2006).

   These guidelines required that financial institutions should assessed with the help of engineers/architect, structural strength and hazardous zone to insure minimum standards and outside the formal process of approval. The policy however doesn't provide specific implementation suggestions.


   Low income housing in urban areas should have a minimum plot size of 15 m$^2$, the maximum height of the building 15 m and the minimum frontage of the plot shall be 3.6 m wide.
Defines the minimum aggregate of openings, that shall be not less than:

- one-tenth of the floor area for dry hot climate;
- one-sixth of the floor area for wet hot climate;
- one-eighth of the floor area for intermediate climate;
- one-twelfth of the floor area for cold climate.

The guidelines provide detail parameters to ensure quality and safety of the structures such as structural design indications including loads to be taken in account in the design of the structural elements of the building, indications about the suitable foundations for the building, specifications of each kind of material used in housing construction, etc.

6. RISK IDENTIFICATION, ANALYSIS AND MITIGATION MEASURES

6.1 Identification of social issues

Income disparities and poverty create peculiar conditions of inequality and marginalization. There is no equal opportunity available and the lack of literacy excludes the poor from information net. In the context of this report, the major fallout is financial exclusion of the poor.

Vulnerable groups

In the course of the social risk assessment for loans, based on these four parameters, we have come across the following vulnerable groups:

**INR 0-5000 per-month/HH income group**

People in this group run the risk of being excluded from loans the most since they are often unable to document their income, have almost no collateral, earn less than is required for most EMIs. An mHS survey in Mangolpuri, Delhi reveals that 6.9% earned less that INR 2500 per-month/HH and 27.35% earned between INR 2500-5000 per-month/HH. Figures in Savda Ghevra, another low-income settlement in the outskirts of Delhi, were worse, with about 15% earning less than INR 2500 per-month/HH and 50.9% earning INR 2500-5000 per-month/HH. In Sunder Nagri, East Delhi, mHS worked with two slum blocks. The majority of families—about 69% of families in E60 block and 68% of families in E117 block—earn between INR 2000-5000 per-month/HH, with reported expenditures often higher than the reported income.

Also, because of their low financial literacy, they are subject to exploitation by moneylenders. In fact, informal loans that come from those within their community (moneylenders, friends and family) are the most commonly availed of partly because of the comfort factor and largely because formal loans are simply not reaching the low-income group. Research shows that 51.1% of the loans taken by low-income families are from informal sources.\(^{37}\)

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\(^{37}\) ‘Assessing the Effectiveness of Small Borrowing in India’, NCAER-CMCR, 2011
Low-income families often have other social obligations, which prevent them from accessing loans or using it for housing construction. In mHS' interactions with slum communities at Sunder Nagri, East Delhi, the team found that while interest in housing was high, families prioritized expenditure on weddings, healthcare and education as equally if not more important.

**Women**

Many women are systematically discouraged from attaining financial as well as general literacy and often face situations at home as well as within their community, which keeps them from taking loans or using them for proper ends. They are also often quite poor and can easily be taken advantage of.

**Social attitudes often do not consider contribution of women workers; excludes them**

**Case Study: Sunder Nagri, East Delhi**

In Sunder Nagri’s E60 block, which is a schedule caste community that largely repairs and makes shoes, most of the women were reported to be unemployed in the survey. However, the mHS team observed that women were closely involved with the family occupation of leatherwork. While some families reported the involvement of their women in the leatherwork providing a figure of 15% as self-employed women for the block, several families had not reported the women’s contribution as work at all. Women are often additional workers in a self-employed family, but are not perceived to be bread-earners and are excluded from financial decisions in the family. In practice, we found women in E60 to be astute, discussing opportunities for business and marketing of their goods, while deferring to male members for decisions. However, in general, these types of social attitudes make it difficult for women to build a credit history and access to finance is difficult. However, there were a small percentage of salaried women reported in E60, largely domestic workers in the neighboring middle-income colonies.

**Women borrowers in low-income communities can be astute, self-reliant and care more about the condition of housing**

**Case Study: Mangolpuri, New Delhi**

Shoba is a widow who is employed by the municipality to sweep Delhi’s streets. She became a DHS client to upgrade her ground floor structure into a G + 2 home, wanting to accommodate her four sons who would all marry and continue living in the house with their wives over the next few years. Especially given the dilapidated state of her old home, Shoba wanted her new house to be beautiful and set apart from the rest of the neighborhood.

Two months into construction, Shoba’s Rs 250,000 loan (USD 5,500) was running low, even though the upper two floors were far from complete. Yet the upper floors could wait—Shoba’s priorities were elsewhere. Instead, she spent the last of her loan on smooth white marble tiling to cover the floor ground level.

In accordance with DHS recommendations, Shoba got strong brick walls covered in plaster that gives them a cool, smooth finish. She had a two-room structure with a tin roof before; now her house is three stories tall with seven rooms that are big enough to house her
growing family. But of all the differences between old and new, the marble floor gave Shoba the most pride.

Shoba was also the most cooperative client in the DHS pilot. Like the other women borrowers, she was particular about repayments being on time. She understood that suggestions made by the technical team as well as BASIX was to her ultimate advantage.

**Scheduled castes**
SC communities usually have no collateral or documentation for loan if they have migrated to urban areas. Such communities have highly interdependent social networks, which are strong as well as very sensitive to external stimulus. They may be subjected to discrimination out of individual or organizational prejudices.

**Religious minorities**
Religious minorities also may be subjected to discrimination out of individual or organizational prejudices.

**Religious minorities are on the defensive, having faced prejudice; also more politically tuned**

**Case study: SunderNagri, East Delhi**
In Block E117, SunderNagri, East Delhi, 87% of the population practices Islam. The mHS team found the community to be poorer than E60, an adjacent slum and with lower levels of education.

Sensitivities were high in E117. Survey teams were roughed up and it took several visits and long interactions with the local (informal) pradhan to pacify the community and build a basic level of trust.

The Pradhan repeatedly told the mHS team about how many times the community had been made false promises by the government and by NGOs, which were not kept. They were politically aware and had a history of demonstrating outside the homes of their councilor and even the state CM for the slightest need.

At a community meeting held by mHS and MHT jointly, the team faced a hostile atmosphere because people had needed to show their IDs and sign on a register. It took much effort to pacify the people and it seemed that most people were not literate or aware enough to know what they were signing for. Most left thumb impressions and they were suspicious of being made to sign something that was harmful to their families.

They were also more united and trusted their pradhan blindly. Lending institutions would find no trouble in relying on the social capital in such communities, which is rather high.

**Residents of Typology F**
People that are part of this group often lack any kind of documentation related to ownership or tenancy and therefore do not and/or cannot take a loan under most conditions. Often, they themselves view their homes as temporary(as many of them are migrants from the country or from other parts of the city) and under a constant threat of eviction, thus they are not willing to invest in their units.
6.2 SUGGESTIONS FOR VULNERABLE GROUPS THAT DO NOT MEET PROGRAM CRITERIA

Despite best efforts to remain inclusive, the Project design will only address a subset of the larger low income/vulnerable population in need of housing. There are households (vulnerable and low income) that may not meet the program criteria. While product innovation and other mechanisms such as awareness/literacy; subsidy programs can be adopted to ensure that the project remains inclusive; for other vulnerable poor groups the effort should be to offer other diverse housing/shelter options.

For e.g. Rickshaw Pullers (single men migrated to the city with families in village) are not interested in buying a house or availing credit for housing - they are interested in affordable shared rentals located near livelihoods. Anything between 20%-70% of households in slums/informal settlements in the large cities are renters (both individuals and families). Those undertaking self-construction to add an extra room often to do so for rental income or accommodating extended families. Instead of a sole national objective of encouraging home-ownership, mHS argues for the need for a portfolio of housing options (dormitories, shelters, upgrades home ownership) and opportunity for upward mobility. The Government of India, through the Rajiv AwasYojana program has highlighted the need to think about shelter more broadly. Although National Housing Bank (NHB) has a mandate to finance projects for shelter; that will not be part of this World Bank- NHB line of credit, which is aimed solely for that segment of urban poor/low income that meet require construction/housing finance and meet the Project criteria.

![Figure 8: Housing Scenario](image_url)
6.3 SOCIAL RISKS
The social assessment (SA) has been undertaken based on our working knowledge and understanding of the target groups; literature review of material that discusses the target households’ housing and financial situation and vulnerabilities, and interviews over the last year (2011) with over 1500 households to understand the housing and finance requirements. This data has been supplemented by data of the National Sample Survey Organizations (NSSO) to get a picture at the national level.

The prioritization of risks has been undertaken in consultations with primary stakeholders such as housing finance companies, micro finance organizations and NGOs that work and serve with the target group. The social assessment also presents case studies of measures adopted to address the risks by different institutions. The recommendations for risk mitigation have been undertaken after a review of existing operational and institutional policies of key stakeholders.

For the risk analysis and mitigation measures, the SA lists modifications that would need to made to operational guidelines of lending institutions as well as to the design of the housing finance process, implementation and monitoring.

Suggestions have been made to enhance institutional capacity so that the lending process creates minimum adverse impact on communities and in fact, raises them from their current situation to an improved one.

7 RISK ASSESSMENT & MITIGATION
Description each type of risk, discussion with data/mHS experience/stakeholder experience used to validate salient or controversial points

Social risk of 'no title': This refers to the risk of QPLIs not lending to borrowers in uncertain title and tenure conditions, essentially to the category of informal income borrowers that live in informal settlements and construct their homes incrementally. This results in exclusion of households living in categories E and F.

In the absence of clear titles and unclear tenure conditions, it is suggested some evidence of tenure (right to occupy) be taken into consideration. This is not a standardized set of documents and a ladder of tenure rights exists, ranging from government notification or regularization of the settlement to formal certification from the local authority for a specific period. Tenure, therefore, pertains to a right to occupy accorded by local authorities and the QPLI would need to address it locally.

Over-indebtedness: There is a potential risk of over-indebtedness in providing housing finance to the lower end segments. There are underlying conditions that may trigger this risk, some of which the most important are listed below:

- Existing indebtedness: occurs in cases where formal finance has been inaccessible and the borrower’s only recourse has been high-interest informal lending
- Multiple loans: occurs when multiple loans are required to meet the credit need due to maximum lending norms of financial institutions; for e.g., MFIs can only lend
upto Rs 50,000 and the rest of the borrower’s requirement is met through informal credit sources

- End use of loans: In instances that housing loans are diverted for other productive/non productive uses
- Lack of awareness or financial education: borrowers that are unaware of the financial responsibility of undertaking a long-term housing loan
- Miscalculation of payback capacity: Inadequate due-diligence by lending institutions
- Financial/economic dislocation: Households move above the poverty line may not be eligible for other government subsidies etc. as a result of availing a formal line of credit.
- Emergency or medical conditions: Genuine cases of medical emergencies and other unavoidable circumstances

Risk of over-indebtedness will exist is all target group categories of low-income families (formal-formal, formal, informal, informal-formal and informal-informal), but be more pronounced among those with irregular income, employed in the informal sector.

**Social fragmentation and exclusion of vulnerable groups:** Either due to some biases that exist in society towards some vulnerable groups, or certain institutional practices and policies, may lead to exclusion of vulnerable groups from accessing housing finance. A few of these situations are listed below:

- Access for 0-5k segment: In a market-based lending program some income groups may not be eligible for loans, due to very low-income levels
- Exclusion of vulnerable groups by religion, caste, and ethnicity: when there is a bias among QPLIs against approaching or lending to these types of households.
- Harassment of women borrowers: policies that may create perverse incentives that lead to division of households and families; e.g., lending only to women members
- There may be situations where there are existing squatters on the land demarcated for a project; the loan may therefore result in the eviction or resettlement of poor households

Risk of fragmentation and exclusion exists across target group categories.

**Elite capture and rent-seeking behavior**

- Misappropriation of assets: loans or housing meant for target households may end up in the hands of local criminals or persons outside of target groups
- Aggregating borrowers: certain powerful groups in settlements try to ‘hire’ low income households in order to access the benefits of cheap housing intended for poor income households. For e.g the margin contribution maybe covered by the powerful groups, and ownership transferred in case of default.
- Accessing cheap finance for on-lending in the community: individuals that can meet the lending criteria of banks take the credit and then become moneylenders to the poorer groups that cannot directly access the financing
• In order to qualify for loan and prove eligibility, government officials are required to attest or certify that may lead to rent-seeking behavior.
• NHB or QPLIs could be uncomfortable lending to borrowers in informal settlements, especially those building incremental housing due to these concerns.

Elite capture and rent-seeking behavior is predominantly seen in informal settlements, but could impact borrowers working in both the formal and informal sectors.

Social risk on ‘no title’ | uncertain tenure

<table>
<thead>
<tr>
<th>Detail Risk</th>
<th>Risk Level</th>
<th>Description</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of informal income, incremental households due to uncertain tenure conditions</td>
<td>High</td>
<td>QPLIs perceive uncertain tenure and title conditions as high risk and do not lend, fearing future evictions and resettlement by the government or private property owners; however, this excludes the majority of the low-income segment in the country and needs to be addressed</td>
<td>QPLIs must examine to see if evidence of tenure is sufficient. The tenure duration must be more than the loan term. Moreover, the structure of the project also mitigates the risk. For the informal income/informal dwelling segment, pilots will demonstrate a sustainable approach. The approach is one of a “learning” project, which will utilize the rich set of practitioners in India, in partnership with NHB and the Bank, to sustainably provide housing finance to the informal sector. Conceptually, typology “F” is not suitable for lending because there is no evidence of tenure rights, hazardous locations and significant risk of eviction</td>
</tr>
</tbody>
</table>

Figure 9: Social risk on ‘no title’ - uncertain tenure

Over-indebtedness | default risk

<table>
<thead>
<tr>
<th>Detail Risk</th>
<th>Risk Level</th>
<th>Description</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance inaccessible; high-interest informal lending only option</td>
<td>High</td>
<td>The poor find it easier to access loans from friends/family and other informal sources because of quick access, no documentation requirements</td>
<td>Assistance on formalities such as filling bank and loan applications; more information of products available and offering of a financial product for refinancing indebted household</td>
</tr>
<tr>
<td>Multiple borrowings</td>
<td>High</td>
<td>Loan amount insufficient; hence borrower goes to informal sources like moneylender to obtain remaining funding at higher interest rates.</td>
<td>Raise max loan amount permitted to a verified realistic figure that is actually needed for construction, close to 4-5L or collaborate</td>
</tr>
<tr>
<td>Detail Risk</td>
<td>Risk Level</td>
<td>Description</td>
<td>Mitigation</td>
</tr>
<tr>
<td>-------------</td>
<td>------------</td>
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<td>------------</td>
</tr>
<tr>
<td>Wrong end-usage of loan</td>
<td>High</td>
<td>Uses loan for marriage, illness, starting a business, etc.</td>
<td>Provide installments linked to construction progress; tighten monitoring process</td>
</tr>
<tr>
<td>Ignorance; lack of financial education</td>
<td>Medium</td>
<td>Insufficient knowledge of lower interest rates available in formal institutions, other lending terms and conditions</td>
<td>Programs to increase financial literacy; tool free help lines</td>
</tr>
<tr>
<td>Miscalculation of payback capacity</td>
<td>Medium</td>
<td>Poor due diligence on part of QPLI leads to financial stress on borrower (e.g. more number or higher amount of EMI than expected/repayable)</td>
<td>Link to SHGs and NGOs for better due diligence; for example, assess income of 2-3 family members; co-borrowers</td>
</tr>
<tr>
<td>Economic dislocation</td>
<td>Low</td>
<td>Addition of housing to assets may place borrower in higher bracket excluding, him/her from social subsidies (e.g. BPL card, rations, etc.)</td>
<td>Regional assessment; future study to list such perverse incentives that put poor families in a false statistical group not reflective of their poverty</td>
</tr>
</tbody>
</table>

Table 10: Over-indebtedness- default risk

Social fragmentation/exclusion of vulnerable groups | perverse incentives

<table>
<thead>
<tr>
<th>Detail Risk</th>
<th>Risk Level</th>
<th>Description</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of vulnerable groups by religion, caste, tribe</td>
<td>Medium</td>
<td>Groups like Muslims, or Dalits, get excluded from lending because of social bias of lender or because of location</td>
<td>QPLI guidelines must have no-discrimination clause on the basis of caste/religion/gender, etc.; QPLIs links with local NGOs/SHGs to be strengthened to build trust, reduce perceived risks among QPLIs; Any rejection of application to be made in writing with reasons for rejection</td>
</tr>
<tr>
<td>Social/neighborhood divide</td>
<td></td>
<td>Create perverse incentives that cause division within communities</td>
<td></td>
</tr>
<tr>
<td>Harassment of women borrowers</td>
<td>Medium</td>
<td>Lower interest rates for women often lead to loans being taken in the name of the woman in the house; when default occurs, women can be unduly harassed by QPLI with no recourse; in fact their default may be due to intra-household problems;</td>
<td>Due diligence, strengthen to understand intra-family dynamics; /sensitize QPLIs processes for dealing with women; default cases in general; woman on staff of QPLI; Encourage women borrowers retain property title; Encourage co-borrowing</td>
</tr>
</tbody>
</table>
Pushed towards unethical behavior

Perverse incentives that force borrower to lie, cheat in order to take loan

Transparency about product information, literacy and communications

Table 11: Social fragmentation/exclusion of vulnerable groups - · perverse incentives

<table>
<thead>
<tr>
<th>Elite capture and rent seeking behavior</th>
<th>misappropriation of assets</th>
</tr>
</thead>
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<tr>
<td><strong>Detail Risk</strong></td>
<td><strong>Risk Level</strong></td>
</tr>
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<td>Misappropriation of assets</td>
<td>High</td>
</tr>
<tr>
<td>Aggregating borrowers</td>
<td>Low</td>
</tr>
<tr>
<td>Taking loan for on-lending in community</td>
<td>Medium</td>
</tr>
<tr>
<td>Government approval required to attest borrower income levels</td>
<td>Medium</td>
</tr>
<tr>
<td>Eviction/resettlement</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Table 12: Criminality and rent seeking behavior - · misappropriation of assets
Mitigating social risks in Formal Housing

In the case of formal housing, the related social risks are limited to verifying borrower’s capacity to repay and elite capture of formal low income housing by higher income groups. These risks would be minimized by QPLIs working directly with potential beneficiaries and undertaking due-diligence of project locations/sites and developers.

<table>
<thead>
<tr>
<th>INCOME</th>
<th>FORMAL</th>
<th>INFORMAL</th>
</tr>
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<tbody>
<tr>
<td>FORMAL</td>
<td>• Pushed towards unethical behavior</td>
<td>• Finance inaccessible; high-interest informal lending only option</td>
</tr>
<tr>
<td></td>
<td>• Misappropriation of assets</td>
<td>• Multiple borrowings</td>
</tr>
<tr>
<td></td>
<td>• Government approval required to attest borrower income levels</td>
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<td>• Exclusion of vulnerable groups by religion, caste, tribe</td>
</tr>
<tr>
<td></td>
<td>• Harassment of women borrowers</td>
<td>• Harassment of women borrowers</td>
</tr>
<tr>
<td></td>
<td>• Pushed towards unethical behavior</td>
<td>• Pushed towards unethical behavior</td>
</tr>
<tr>
<td></td>
<td>• Misappropriation of assets</td>
<td>• Misappropriation of assets</td>
</tr>
<tr>
<td></td>
<td>• Aggregating borrowers</td>
<td>• Aggregating borrowers</td>
</tr>
<tr>
<td></td>
<td>• Taking loan for on-lending in community</td>
<td>• Taking loan for on-lending in community</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HOUSING/HOUSING</th>
<th>FORMAL</th>
<th>INFORMAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FORMAL</td>
<td>• Wrong end-usage of loan</td>
<td>• Exclusion of informal income, incremental housing type of borrowers due to uncertain tenure conditions</td>
</tr>
<tr>
<td></td>
<td>• Ignorance; lack of financial education</td>
<td>• Finance inaccessible; high-interest informal lending only option</td>
</tr>
<tr>
<td></td>
<td>• Miscalculation of payback capacity</td>
<td>• Multiple borrowings</td>
</tr>
<tr>
<td></td>
<td>• Exclusion of vulnerable groups by religion, caste, tribe</td>
<td>• Government approval required to attest borrower income levels</td>
</tr>
<tr>
<td></td>
<td>• Harassment of women borrowers</td>
<td>• Wrong end-usage of loan</td>
</tr>
<tr>
<td></td>
<td>• Pushed towards unethical behavior</td>
<td>• Ignorance; lack of financial education</td>
</tr>
<tr>
<td></td>
<td>• Misappropriation of assets</td>
<td>• Miscalculation of payback capacity</td>
</tr>
<tr>
<td></td>
<td>• Aggregating borrowers</td>
<td>• Economic dislocation</td>
</tr>
<tr>
<td></td>
<td>• Taking loan for on-lending in community</td>
<td>• Exclusion of vulnerable groups by religion, caste, tribe</td>
</tr>
<tr>
<td></td>
<td>• Eviction/resettlement</td>
<td>• Harassment of women borrowers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Pushed towards unethical behavior</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Misappropriation of assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Aggregating borrowers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Taking loan for on-lending in community</td>
</tr>
</tbody>
</table>

*Figure 10: Risk assessment matrix*
One other important risk to consider is related to formal housing for the EWS and LIG as part of PPP projects. In this case NHB need to obtain the World Bank clearance before providing finance. There is a risk to incentive projects that see governmental land given away as part of PPP projects. This can be an easy way for authorities to meet the required number of low-income units; however it is clear that the downside of losing governmental land is not acceptable. Too often in this kind of projects the beneficiaries are the private developers.

**Mitigating social risks in Informal Housing**

As the informal income/informal housing segment is very challenging, the project is structured to demonstrate a sustainable approach for this segment through pilots, on the basis of which the NHB will issue enhanced guidelines to QPLIs for refinancing this segment. The approach is one of a “learning” project, which will utilize the rich set of practitioners in India, in partnership with NHB and the Bank, to sustainably provide housing finance to the informal sector. Market infrastructure, enhanced capacity and institutional building of NHB and the primary lenders, etc. will be the sustained impact of the project after utilization of the refinancing.

### 7.1 ENVIRONMENTAL RISKS

This section identifies the potential risks associated with lending to low-income households at macro level (settlement) and micro level (household). Listed risks are rated considering the baselines defined on existing operational policies, survey and field experience. Finally mitigation measures are suggested.

It is important to re-state that the scope of this exercise is to be pragmatic regarding the context of the urban settlements where our target group live. Requirements that are too restrictive would make the project fail as already explained in the objective section of this report.

**Formal Housing**

In the case of formal housing, the related environmental risks are limited, since the entities (public or private) that will promote these kinds of projects will have the capacity to access professional services and follow the procedures of the formal approving system. In India, this approval system addresses the environmental issues for the three categories considered (zoning, basic services and activities).

**Zoning:** To be approved, formal housing projects need to be located in land with ‘residential’ use designation. Governmental authorities currently do this land categorization during the outline of official documents as master plans. This screening ensures that residential zones are in safe areas suitable for living.

**Basic services:** In order to be approved, housing projects need to be supported by the necessary infrastructure system that provides the basic services. In particular water and sewage system, roads and public illumination, landscaping including green areas and
parking need to be in place. If these services are not ready, the projects can be approved only if the basic infrastructure is constructed contextually with the developments.

**Activities, quality and safety of housing:** The land use classification defines a list of permissible activities for residential areas that exclude any potential danger for residents or structures.

The building approval system in India also assures quality and safety by adhering to the IS Codes for structural/fire safety and the National Building Code for quality of a sustainable habitat. These codes lay down the norms, NBC lays the ground for the State/ULB to formulate building bye-laws and the IS codes gives standards for safety. (See Appendix. 5 for details)

In the context of formal housing, the only risk can be associated with a possible lack of enforcement that can occur at different stages during the process. This could lead to some risks: at the zonal level - related to the presence of basic services, and at household level - for quality and safety of structures.

The following tables consider the environmental risks in detail and suggest mitigation measures.

### Settlement | Location Risks

<table>
<thead>
<tr>
<th>Risk Group</th>
<th>Detail Risk</th>
<th>Risk Level/Note</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LOCATION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Law</strong></td>
<td>Heritage areas</td>
<td>Medium</td>
<td>Refer to ASI or State Conservation guidelines for possible adjustments. As far as possible, all such locations to be avoided</td>
</tr>
<tr>
<td></td>
<td>Construction or encroachment in 'No development Zone' as defined by master plan or other official documents.</td>
<td>Low-Medium</td>
<td>Discuss possible reasons and adjustment measures with ULB or other authoritative agencies. Thus verifying the tenure of location with ULB is essential</td>
</tr>
<tr>
<td></td>
<td>Construction or encroachment on governmental land.</td>
<td>Low-Medium</td>
<td>Verify the legal status of tenure and should be allowed for lending only if recognized and or no eviction status is provided by the Urban local bodies.</td>
</tr>
<tr>
<td></td>
<td>Construction or encroachment on municipality or private land.</td>
<td>Low-Medium</td>
<td>Discuss and negotiate possible agreement between community, municipalities (local authorities) and private agencies or landowners.</td>
</tr>
<tr>
<td><strong>LOCATION</strong></td>
<td>Landslide prone areas</td>
<td>Mid-High</td>
<td>Avoid such areas as far as possible. If there is possibility for measures, consolidate the land with appropriate technical solutions where possible, otherwise consider possible relocation</td>
</tr>
</tbody>
</table>

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### Table 13: Settlement - Location Risks

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>Risk Level/Note</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecological</td>
<td></td>
<td></td>
</tr>
<tr>
<td>River’s bank</td>
<td>High</td>
<td>All such areas should be avoided to minimize risks. If the community is willing to discuss with ULB and negotiate a possible relocation to nearby locations such communities can be considered for lending.</td>
</tr>
<tr>
<td>Marshy land</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Landfill/ garbage dump</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Location near factory or site where toxic or hazardous materials are contaminating air, water or soil</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Low-Medium</td>
<td></td>
</tr>
<tr>
<td>Flood prone areas</td>
<td>Low-Medium</td>
<td></td>
</tr>
<tr>
<td>High density development</td>
<td>Low-Medium</td>
<td>Unplanned colonies can put extra load on the physical infrastructure with impact on the environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encroachment on ecologically sensitive sites</td>
<td>Low-Medium</td>
<td>Irreversible danger to ecology, flora and fauna.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 14: Settlement - Existing Services Requirements

<table>
<thead>
<tr>
<th>Requirement Group</th>
<th>Requirement Detail</th>
<th>Risk Level/Note</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic Services</strong></td>
<td>Access to potable water</td>
<td>High</td>
<td>QPLIs and refinancing institutions to promote W&amp;S projects in collaboration with CBOs and use of decentralized infrastructures.</td>
</tr>
<tr>
<td></td>
<td>Access to sanitation</td>
<td>High Absence of toilets may lead to people defecating on open space with complications that may affect health and environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Access to electricity</td>
<td>Medium</td>
<td>Alternate sustainable technologies can be installed where the grid supply is not possible.</td>
</tr>
<tr>
<td></td>
<td>Access to waste management services</td>
<td>Medium</td>
<td>Self help groups to create program/initiatives with ULB for waste management.</td>
</tr>
<tr>
<td><strong>Other Services</strong></td>
<td>Access to public transportation within a limited distance</td>
<td>Mid-High</td>
<td>Facilitate as part of discussions for possible solutions with ULB or other authorities.</td>
</tr>
<tr>
<td></td>
<td>Access to social Infrastructure (schools, hospitals, etc.)</td>
<td>Low-Mid Area less attractive to inhabitation; residents unhappy</td>
<td>Self help groups to create program/initiative with ULB for provision of institutions and services or access to public transportation.</td>
</tr>
<tr>
<td><strong>Health Parameters</strong></td>
<td>Plots and streets size, layout of settlements, density</td>
<td>Mid-High Extremely crowded and dense settlements don’t allow light and ventilations</td>
<td>Discuss possible in situ upgradation solutions with ULB and in collaboration with CBOs.</td>
</tr>
</tbody>
</table>
### Settlement and Household Activities

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>Detail Risk</th>
<th>Risk Level</th>
<th>Note/Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law</td>
<td>Any activities involving damaging national monuments, non-replicable cultural properties.</td>
<td>Medium</td>
<td>Discuss possible mitigation measures to prevent irreversible damage to the properties.</td>
</tr>
<tr>
<td></td>
<td>Production or trade in illegal Alcoholic beverages including country-made liquor.</td>
<td>Low-Medium</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Any activities requiring industrial production processes requiring regulatory clearance from pollution control boards.</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB’s, wildlife or products regulated under CITES.</td>
<td>Mid-High</td>
<td>QPLIs and refinancing agencies to promote shifting to alternative business at the settlement level.</td>
</tr>
<tr>
<td>Safety</td>
<td>Production or trade in radioactive materials</td>
<td>High</td>
<td>Programs to generate sustainable business and involve individual by developing a favorable trade model.</td>
</tr>
<tr>
<td></td>
<td>Production or trade in unbound asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Ethical</td>
<td>Production or activities involving harmful or exploitative forms of forced labor/harmful child labor</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Ecological</td>
<td>Any activities involving irreversible conversion of natural habitats/ecologically sensitive areas.</td>
<td>Mid-High</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trade in wildlife products regulated under Convention On International Trade In Endangered Species (CITES)</td>
<td>Mid-High</td>
<td></td>
</tr>
</tbody>
</table>

**Table 15: Settlement and Household Activities**

<table>
<thead>
<tr>
<th>Construction Type</th>
<th>Detail</th>
<th>Risk Level</th>
<th>Note/Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Construction (Formal)</td>
<td>For the income target group (0-15k Rs/month) formal housing under governmental schemes (EWG-LIG). Or Public Private Partnership</td>
<td>Low</td>
<td>Usually built by competent builders/contractors, projects get approval from ULB’s and met safety standards</td>
</tr>
</tbody>
</table>

Household Safety in Construction
<table>
<thead>
<tr>
<th><strong>New Construction, (Self-Construction)</strong></th>
<th>New units constructed in any kind of typologies in regime of self-construction</th>
<th>Mid-High Lack of controls on quality of materials or structure, lack of formal approval system, corruption of local officials favor substandard quality</th>
<th>Facilitate mason-training programs. Provide technical inputs and monitoring by qualified professionals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Incremental Building (Self-Construction)</strong></td>
<td>Any addition on existing units self-build that add extra load on the existing structure or that will lead to an additional number of people living in the same unit</td>
<td>High Very difficult to determine strength of existing structures.</td>
<td>Identify an economically viable retrofitting technical solution. Monitoring of further addition by qualified professionals.</td>
</tr>
<tr>
<td><strong>Incremental Horizontal Building (Self-Construction)</strong></td>
<td>Any addition on existing units self-build that will NOT add extra load on the existing structure</td>
<td>Low</td>
<td>Monitoring by QPLI staff/appointed agency that can be trained by qualified professionals.</td>
</tr>
<tr>
<td><strong>Minor Improvement (Self-Construction)</strong></td>
<td>Minor work done with the scope of improve living condition, i.e. repair of roofs, strengthen of structural elements, repainting, etc.</td>
<td>Low</td>
<td></td>
</tr>
</tbody>
</table>

Table 16: Household- Safety in Construction

---

38 Any house self-build or built with the close involvement of the owner, usually by masons/contractors with limited technical knowledge.
ANNEXURE

ANNEXURE 1: TYPOLOGY OF HOUSING

Typologies constructed based on legal characteristics

While many classifications already exist, categories, which respected the actual state of housing in the selected localities, had to be found.

To better understand and compare the context of poor and low-income settlements locations across India, the typology framework is based on legal characteristics. The classification chose to focus mainly on the legality of ownership; capacity to trade the property as well as zoning which defines that tenancy. This simplistic categorization, while it doesn’t consider other crucial parameters that describe and define the different settlements in Indian urban areas (density and income, just to mention two of these) is helpful to aggregate favorable settlements for the purpose of this project. The categorization addresses the primary scope and concerns of financial lending institutions that seem to base their willingness and capacity to intervene on the property rights that homeowners enjoy in the various locations considered.

The classification relies on four parameters: title, tenure, right to sell and zoning (land-use) as described by the master plans and other official documents. In mega and tier I cities, large variances may exist within typologies with respect to basic services, income levels, etc. Furthermore, in mega cities that have a complex history of legal action towards slums dwellers, there is a wide range of typologies present. On the other hand, in tier II cities, where there is a more simplistic administrative classification, only a few typologies are present.

<table>
<thead>
<tr>
<th>Type</th>
<th>Title/ Ownership</th>
<th>Tenancy</th>
<th>Right to Sell</th>
<th>Correct Zoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>A2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>B</td>
<td>✓</td>
<td>✓</td>
<td>Informal</td>
<td>✓</td>
</tr>
<tr>
<td>C</td>
<td>✓</td>
<td>Partial</td>
<td>Informal</td>
<td>No</td>
</tr>
<tr>
<td>D</td>
<td>Limited</td>
<td>✓</td>
<td>Informal</td>
<td>✓</td>
</tr>
<tr>
<td>E</td>
<td>None</td>
<td>Limited</td>
<td>Informal</td>
<td>Either</td>
</tr>
<tr>
<td>F</td>
<td>None</td>
<td>None</td>
<td>Informal</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 17: Typology of settlements developed for this study

Table 17 briefly describes the different typologies. Following is the brief description of the typologies:

**Type A1**

This classification has been proposed by mHS in the course of the study supported by the World Bank ‘Assessment of the Effective Demand and Supply Potential for LIG/EWS Households and Housing in India’, Oct 2011.

In settlements of Type A2 the property rights are the result of regularizations.
Settlements grouped under Type A1 are characterized by registered title, right to tenancy and appropriate zoning. Households in these communities have free/leasehold title on their land and are registered in the government administrative system/listing. Furthermore, aside from full tenancy, they have the right to transfer/sell their property. This category usually refers to planned colonies and settlements in the urban area and is suitable for formal secured mortgage finance.

**Type A2**
Type A2 groups households in settlements that have clear titles and full tenancy as a result of a regularization process. This gives them the same status as A1 communities, but usually residents in this category belong to a lower income segment and smaller plot sizes. This is because, for a long time these settlements were illegal, and have only recently been regularized.

**Type B**
Households in this group have titles (but may not be registered in the formal revenue records) and full tenancy. Usually they can only trade the property through an informal system, because their legal right to sell is restricted.

**Type C**
While households in these locations have proof of land ownership/Power of Attorney, they have bought the land after an illegal division of the land (usually not falling under residential zone as per the master-plan or other statutory document governing the land-use of a city) into small plots. The majority of settlements in this group are unauthorized colonies built on agricultural land.

**Type D**
These communities share a lease/license document, varying from 5 to 99 years, usually given by the government, but with the restriction of selling. Despite the restrictions it is common practice to trade through Power of Attorney documents.

**Type E**
Households in these locations have no right to ownership for their land. As for tenancy, they merely possess the right to occupy, often as a result of an authority intervention that gives dwellers a ‘no eviction’ guarantee or because of the political strength they possess due to number of people staying in the settlement. In terms of zoning, these settlements may or may not fall under residential land, but almost always is on an encroached land.

**Type F**
Settlements in Type F are households that have no ownership or tenancy right, since they are encroached settlements in protected land. Due to the sensitivity of the protected land in general these settlements are usually prone to relocation/eviction.
ANNEXURE 2: FIELD SURVEY AND NSSO DATA
SURVEYS PART OF mHS STUDY FOR DELL FOUNDATION | 2011:
(1500 households in three different resettlement colonies, Delhi)

BASIC SERVICES
Some aspects of housing condition among social groups

1. Water & Sanitation facilities

*Whole Urban Area across incomes*

Water supply

- Tap water-major source of water for -74 % of urban households
- Tube well/hand pump – served 18 % of urban households
- Main source of drinking water
- 28.58% - piped into dwelling
- 4.71% - piped to yard/plot
- 5.64% - public tap
- 24.34% - tube well/bore hole
- 0.2% - dug well
- 33.89% - Tanker truck
- 0.13% - Bottled water’
- In urban areas, proportion of households who depended on ‘tap’ was lowest amongst households (69%) and the same was highest among ‘others’ (78%).
- In urban areas,’ tube well/hand pumps’ served the highest proportion of SC households (23%) and lowest proportion of ‘others’ households (14%).
- 92% of ST households had electricity.
- 98% of households in the ‘others’ category had electricity.

*Majority of the urban poor depend in large case by tap-water, generally provided by the municipalities and it is expected to be protected water supply. While*

2. Sanitation

*Whole Urban Area across incomes*

- 22 % - urban households with no bathroom facility
- 44.1% - has toilets in the house
- 55.9% - does not have toilets in the house
- 31%-urban households had detached bathroom
- 77% - urban households had/used septic tank/flush latrine.
- 11% - urban households did not have latrine facility
- 8% - urban households used pit latrine

*Some aspects of housing condition among social groups*

- 23% of households grouped as SC had no latrine facility in urban areas.
- 21% of ST households had no latrine facility.
- 4% of households categorized as ‘others’ had no latrine facility.

3. Electricity
Whole Urban Area across incomes

At all India level 96% households had electricity for domestic use.

Some aspects of housing condition among social groups

- 92% of ST households had electricity.
- 98% of households in the ‘others’ category had electricity.

4. Cooking fuel used

- 52.85% - Gas
- 0.46% - electricity
- 25.4% - kerosene
- 0.6% - Charcoal
- 24.6% - Firewood
- 0.27% - not answered

ACTIVITY/CONSTRUCTION:

Whole Urban Area across incomes

1. Construction for residential purpose in the last 365 days

- 4% - urban households undertook construction in the last 364 days
- 4% urban households completed construction and less than 1% undertook constructions which were in progress.
- Average cost per completed house in urban areas was Rs. 58,000.
- Average cost of construction in urban areas that were in progress was nearly Rs. 1,53,000.
- 71% of the type of construction undertaken in urban areas in the year was in the fields of alteration/improvement/major repair.
- 14% - New construction in urban areas.

2. Type of structure

Whole Urban Area across incomes

- 92% - urban households lived in pukka structures
- 6% - urban households lived in semi pukka structures
- 2% - urban households lived in kutchha structures.
- Availability of separate room to married couples and per capita floor area
- 75% - urban households had availability of separate rooms for married couples.
- 9.45 sq. m per capita floor area was available in urban areas
- 13% - urban households had per capita floor area of 20 sq. m and above.
- Rent of hired accommodation
- Average monthly rent of hired dwellings per household in urban areas was Rs. 1149

LOCATION:

Whole Urban Area across incomes
1. Micro environmental elements surrounding the house
   - 6% - urban areas had open *kutcha* drainage
   - 15% - urban areas had no drainage arrangement.
   - 6% - urban households had no direct opening to road

**SURVEYS PART OF mHS STUDY FOR DELL FOUNDATION | 2011:**
(1500 households in three different resettlement colonies, Delhi)

- Slums growing at 5% per year
- Ministry of urban development: 4.4 million people added to slums every year. The number of slum settlements fell from 56,000 in 1993 to 52,000 in 2002, clearly showing increase in density and overcrowding.
- 15.72% of Delhi’s population lives in areas designated as ‘slums’ by the Govt. however vast majority of Delhi’s residents live in a wide variety of spaces ranging from squatter settlements in interstitial spaces to more urban and rural villages to unauthorized colonies, which are developments raised on agricultural lands, that are illegal at the moment.

**ACTIVITY/CONSTRUCTION**
1. Percentage of number of stories in a resettlement colony:
   - 56.17% - Of houses are single storied.
   - 33.29% - Of houses are two storied.
   - 9.95% - three storied
   - 0.4% - four storied.
   - 0.66% - not answered??

2. Home based income-generating activity (%)
   - 4.97% - Shops
   - 1.86% - home enterprise
   - 0.13% - rented for business
   - 92.64% - no home based income generating activity
   - 0.46% - not answered

3. Home improvement Undertaken in the last 5 years?
   - 39.92% - YES
   - 60.08% - NO
   - 8.31% (50 HH)- of 602 respondents in Mangolpuri, Savda and Narela undertook repairing

**ZONING**
1. Proximity to workplace (count)
   - 551 – 0-10 kms
   - 293 – 11-20 kms
   - 294 – 21+ kms
ANNEXURE 3: WORLD BANK TO SIDBI ACTIVITY EXCLUSION LIST

World Bank to SIDBI | December 2009 | Exclusion list of Activities for Environmental Management

a) Lists what activities cannot be involved in projects going to be financed by any MFI’s:

- Any activities involving conversion of natural habitats/eco-logically sensitive areas/or damaging national monuments, non replicable cultural properties.
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international convention and agreements.
- Production or trade in alcoholic beverage including country made liquor.
- Gambling, casinos and equivalent enterprises.
- Trade in wildlife or wildlife products regulated under CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES).
- Production or trade in radioactive materials.
- Production or trade in or use of unbounded asbestos fibers.
- Purchase of logging equipment for use in cutting forest.
- Production or trade in pharmaceuticals subject to international phase outs or bans.
- Production or trade in pesticides/herbicides subject to international phase outs or bans.
- Fishing in the marine environment using electric shocks and explosive materials.
- Goat/cattle rearing dependent on forest resources.
- Production or activities involving harmful or exploitative forms of forced labor harmful child labor.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in products containing Polychlorinated Biphenyls (PCBs).
- Production or trade in ozone depleting substances subject to international phase out.
- Production or trade in wood or other forestry products from unmanaged forests.
- Production, trade, storage, transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals.
- Production or trade or processing of products involving tobacco (including beedi)
- Production or trade or use or storage of dyeing chemicals and dye intermediaries.
- Production or storage or packaging of inflammable material.
- Any activities requiring industrial production processes requiring regulatory clearance from pollution control boards.

ANNEXURE 4: LIST OF DOCUMENTS REQUIRED FOR LENDING

(RBI to QPLIs)

Salaried Employee

1. Salary slip/Form 16 A.
2. A photocopy of the first and last pages of Ration card or copy of PAN/Telephone/Electricity bills.
3. A photocopy of Investments (FD Certificates, Shares, any fixed asset etc. or any other documents supporting the financial background of the borrower.
4. A photocopy of LIC policies with the latest premium payment receipts (if any).
5. Photographs (as applicable).
6. A photocopy of bank statement for the last six months.

**Self-employed/Businessman**

1. A brief introduction of Business/Profession.
2. Balance Sheet, Profit and Loss account and statement of income with Income Tax returns for the last 3 years certified by a CA.
3. A photocopy of Advance Tax payments (if applicable).
5. A photocopy of Registration Certificate for deduction of Profession Tax (if applicable).
6. Bank statements of current saving accounts for the last 6 months.
7. A photocopy of Certificate of Practice (if applicable).
8. A photocopy of any bank loan (if applicable).
9. A photocopy of the first and last pages of the Ration card or a copy of PAN/Telephone/Electricity Bills.
10. A photocopy of LIC policy (if applicable).
11. A photocopy of investments (FD Certificates, Shares, any other fixed asset).

**If the flat is purchased from a builder**

1. Original copy of your agreement with the builder.
2. 7/12 extract or property register card of the land under construction.
3. Index II extract of your agreement with the builder.
4. Copy of N.A. permission for the land from the collector.
5. Search and title report (with the details of documents) for the last 30 years.
6. Development agreement between the owner of land and the builder.
7. Copy of order under the Urban land Ceiling Act.
8. Copy of building plans sanctioned by the competent authority.
9. Commencement certificate granted by Corporation / Nagar Palika.
10. Building completion certificate (if available).
11. The latest receipts of taxes paid.
12. Partnership deed or memorandum of association of the builders firm.
If the flat being purchased is in Cooperative Housing Society

1. Original share certificate of the Society.
2. Allotment letter from the society in your name.
3. Copy of the lease deed, if executed.
4. Certificate of the registration of the society.
5. Copy of the byelaws of the society.
6. No objection certificate from the society.
7. 7/12 extract or property register card in the society’s name.
8. Copy of N.A permission for the land from the collector.
9. Search and title report (with the details of documents) for the last 30 years.
10. Copy of order under the Urban Land ceiling Act.
11. Copy of the building plans sanctioned by the competent authority.
12. Commencement certificate granted by Corporation / Nagar Palika.
13. The latest receipts of taxes paid.

If constructing in Own Land

15. Original sale deed of land and extract of Index II
16. 7/12 extract or property register card in your name.
17. Copy of N.A. permission for land from the collector.
18. Search and title report (with the details of documents) for the last 30 years.
20. Copy of the building plans sanctioned by the competent authority.
22. The latest receipts of taxes paid.
23. Estimate of cost of construction certified by the architect.
ANNEXURE 5: FORMAL APPROVING SYSTEM

Building approval system in India assures quality and safety by adhering to the IS Codes for structural safety and the National Building Code for quality of a sustainable habitat. These codes lay down the norms, NBC lays the ground for the State/ULB to formulate building byelaws and the IS codes gives standards for safety.

![Diagram: Components for a good quality safe house construction](image)

The formal approval process makes the registered professional service provider (Architect, Engineer etc.) liable to follow the IS codes and ensures safety, whereas the ULB with its approval system makes way for adhering to the NBC, usually through local municipal building bye-laws.

![Diagram: The formal municipal approval process](image)

Though the formal system ensures safety and good quality of house, there are loopholes in the structure by which houses are built without approval or even without consultation with the Formal Professional Service Providers (e.g. Architects/Engineers). Though the statutory regulations are in place, the target group for this study resides in dense neighborhood and it has been observed that despite some of the settlements lie in typologies where the formal approval system is officially in place (i.e. resettlement colonies), self-construction (with no sanction of plans) is still the main practice. The main problem is the lack of access to professionals that EWS and LIG dwellers have and the limited size of the units that make the potential fees for professionals unattractive. Lack of enforcement is finally the factors that permit construction of sub standards housing across typologies and India.
# ANNEXURE 6: BASELINE INFORMATION OF CURRENT LENDING BY INCOME RANGE & SOURCE, LOAN ACTIVITY AND SECURITY

Sample Data Collected from 10 HFCs

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Category</th>
<th>Loan Size (in Rupees)</th>
<th>Up to 50000</th>
<th>50001 to 100000</th>
<th>100001 to 300000</th>
<th>300001 to 500000</th>
<th>500001 to 1000000</th>
<th>Over 1000000</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td>EWS: Up to Rs.60000</td>
<td>0.83</td>
<td>7.15</td>
<td>38.45</td>
<td>33.27</td>
<td>89.64</td>
<td>142.74</td>
<td>312.08</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LIG: Rs.60001 to Rs.120000</td>
<td>2.07</td>
<td>16.49</td>
<td>539.98</td>
<td>219.34</td>
<td>61.82</td>
<td>119.36</td>
<td>959.06</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LIG+: Rs.120001 to Rs.180000</td>
<td>1.52</td>
<td>10.50</td>
<td>309.75</td>
<td>651.80</td>
<td>444.97</td>
<td>108.51</td>
<td>1527.05</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>4.42</td>
<td>34.14</td>
<td>888.18</td>
<td>904.41</td>
<td>596.43</td>
<td>370.61</td>
<td>2798.19</td>
</tr>
<tr>
<td><strong>Income Source</strong></td>
<td>Salaried</td>
<td>4.26</td>
<td>31.64</td>
<td>737.97</td>
<td>970.41</td>
<td>1220.97</td>
<td>1646.84</td>
<td>4612.09</td>
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</tr>
<tr>
<td></td>
<td>Non Salaried ITR</td>
<td>0.34</td>
<td>3.51</td>
<td>195.94</td>
<td>330.00</td>
<td>638.45</td>
<td>1850.32</td>
<td>3018.56</td>
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</tr>
<tr>
<td></td>
<td>Non Salaried Non ITR</td>
<td>0.09</td>
<td>1.73</td>
<td>70.52</td>
<td>68.73</td>
<td>90.10</td>
<td>68.99</td>
<td>300.16</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>4.69</td>
<td>36.88</td>
<td>1004.43</td>
<td>1369.14</td>
<td>1949.52</td>
<td>3566.15</td>
<td>7930.81</td>
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<tr>
<td><strong>Purpose of Loan</strong></td>
<td>Purchase</td>
<td>0.87</td>
<td>16.89</td>
<td>748.06</td>
<td>978.43</td>
<td>1126.50</td>
<td>867.14</td>
<td>3771.38</td>
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<tr>
<td></td>
<td>Construction</td>
<td>1.24</td>
<td>7.63</td>
<td>209.68</td>
<td>355.88</td>
<td>773.99</td>
<td>2461.57</td>
<td>3844.13</td>
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<tr>
<td></td>
<td>Upgrade</td>
<td>2.64</td>
<td>12.93</td>
<td>63.06</td>
<td>39.58</td>
<td>33.90</td>
<td>160.39</td>
<td>315.30</td>
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<tr>
<td><strong>Total</strong></td>
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<td></td>
<td>4.75</td>
<td>37.45</td>
<td>1020.80</td>
<td>1373.89</td>
<td>1934.39</td>
<td>3489.10</td>
<td>7930.81</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>Mortgage</td>
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<td>37.47</td>
<td>1022.06</td>
<td>1385.23</td>
<td>1961.74</td>
<td>3518.36</td>
<td>7929.69</td>
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<tr>
<td></td>
<td>No Mortgage</td>
<td>0.01</td>
<td>0.01</td>
<td>0.07</td>
<td>0.12</td>
<td>0.67</td>
<td>0.24</td>
<td>1.12</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>4.84</td>
<td>37.48</td>
<td>1022.13</td>
<td>1385.35</td>
<td>1962.41</td>
<td>3518.60</td>
<td>7930.81</td>
</tr>
<tr>
<td><strong>Bad Loans</strong></td>
<td></td>
<td>0.24</td>
<td>1.12</td>
<td>13.92</td>
<td>14.80</td>
<td>19.08</td>
<td>57.88</td>
<td>107.04</td>
<td></td>
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</tbody>
</table>