SEWA BANK'S
HOUSING MICROFINANCE PROGRAM
IN INDIA

Shelter Finance for the Poor Series

Cities Alliance
Cities Without Slums

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ACKNOWLEDGMENTS

The Cities Alliance thanks Ms. Jayshree Vyas and her team at SEWA Bank for sharing their experience. Many thanks to the technical peer group that shaped the conceptual framework and oversaw the work of the Shelter Finance for the Poor Initiative. Its members include Mahlon Barash (Plan International), Robert Buckley (The World Bank), Yves Cabannes (Urban Management Programme, Latin America), Gil Crawford (International Finance Corporation), Franck Daphnis (CHF—Cooperative Housing Foundation), Bruce Ferguson (Inter-American Development Bank), Alison Paijit (United States Agency for International Development), Douglas Pearce (CGAP—Consultative Group to Assist the Poorest), Elisabeth Rhyne and Warren Brown (ACCION International), and Mohini Malhotra (Cities Alliance Secretariat). Dorst MediaWorks provided editing services. The Shelter Finance for the Poor Initiative is funded by CGAP, IFC, USAID and Cities Alliance.

Many thanks to the authors of the report: Franck Daphnes, Kimberly Tilock, Matthew Chandy and Ingrid Fulhauber, and to The Cooperative Housing Foundation for preparing this case study.

Mohini Malhotra
Series Editor

2002

ACRONYMS/ABBREVIATIONS

ADB	Asian Development Bank
AMC	Ahmedabad Municipal Corporation
CGAP	Consultative Group to Assist the Poorest
GDP	Gross domestic product
HDFC	Housing Development Finance Corporation
HUDCO	Housing and Urban Development Corporation
MFI	Microfinance Institution
MHT	Mahila Housing Trust
NGOs	Nongovernmental organizations
RBI	Reserve Bank of India (for cooperative banks)
ROA	Return on assets
SEWA	Self Employed Women's Association
SHG	Self-help groups

TABLE OF CONTENTS

INTRODUCTION: SHELTER FINANCE FOR THE POOR

From shacks in the shantytowns of Lima, Peru, to tin-roofed mud huts in the slums of Gujarat, India, insecurity of tenure and uneven income streams force the poor to build their homes tentatively, one wall at a time.

Yet the poor lack access to financial institutions and financial products tailored to the way they build. This, despite the fact that in so many developing cities around the world a majority of the population lives in slums—60 percent of Nairobi's population, 82 percent of Lima's population—and that most housing is built informally and progressively.

The Cities Alliance launched the Shelter Finance for the Poor Initiative to focus on the still nascent practice of financial institutions providing housing loans to poor clients on commercially viable terms. These loans are distinct from mortgages in that they are typically not for the purchase or construction of new units, but rather for home improvement and progressive building. They are being offered as a new product line by a generation of financial institutions that built their success on providing working capital loans to the urban poor, and are now looking to expand and diversify their products. To date, few of these experiences had been viewed through the prism of scale, outreach and sustainability. This is the framework applied to the five case studies examined under this initiative. The cases include Mibanco in Peru, SEWA in India, FUNHAVI in Mexico; a wholesale fund facility in Ecuador, and the policy, legal, and regulatory environments in Kenya. A synthesis paper identifies emerging policy recommendations on taking housing finance for the poor to scale. All are accessible on www.citiesalliance.org.

This research initiative is a lateral learning partnership with five networks of finance and housing institutions: ACCION International, Cooperative Housing Foundation (CHF), Frontier Finance, Plan International, and the Mennonite Economic Development Agency. Additionally, the initiative has six development agency partners: Inter-American Development Bank, U.S. Agency for International Development (USAID), The World Bank, the International Finance Corporation (IFC), the Urban Management Programme (UMP), and the Consultative Group to Assist the Poorest (CGAP). The Shelter Finance for the Poor initiative is funded by Cities Alliance, CGAP, IFC, and USAID.

The intention is that these findings will advance best practices, inspire replication and adaptation, and increase the availability and affordability of shelter finance for poor households.

The following case study examines the work of the Self Employed Women's Association (SEWA) Bank, a lender providing small loans to homeowners in Ahmedabad, India. SEWA Bank is a cooperative bank; its lending capital comes from savings made by its members.

EXECUTIVE SUMMARY

Introduction

SEWA Bank was registered as a cooperative bank under the dual control of the Reserve Bank of India (RBI) and the State Government of Gujarat in May 1974. The Bank's initial capital came from the contributions of approximately 4,000 members, the vast majority of whom are very poor women belonging to the Self Employed Women's Association (SEWA), a Gujarat-based registered trade union established in 1972. **The bulk of SEWA's capital comes from its member's savings.** For the past few years, SEWA Bank also has received financing for its housing portfolio from the Housing and Urban Development Corporation (HUDCO) and the Housing Development Finance Company (HDFC). As of January 31, 2002, SEWA Bank's total outstanding portfolio was $2,274,866; of which, $913,086 (40 percent) was housing loans. The number of active loans stood at 9,129, of which 3,677 or (40 percent) was housing loans. With the exception of 2001 when financial self-sufficiency fell to 96 percent, SEWA Bank has experienced operating profits since 1998.

Perhaps the most salient aspect of SEWA Bank's operations is that there isn't a strict delineation between housing and non-housing loans. In fact, most of SEWA Bank's loans can be used for housing purposes. The Parivartan scheme (an alliance between SEWA Bank, the Ahmedabad Municipal Corporation, and other local NGOs) also deserves particular mention as an innovative partnership model for slum-upgrading. The objective of that program is to provide basic infrastructure (road, electricity, water) to people living in the hundreds of informal settlements that dot the Amhedabad landscape. The Ahmedabad Municipal Corporation contributes approximately 80 percent of the funds needed for the upgrading work. Beneficiary households are expected to contribute the remaining 20 percent – a amount they save with, or can borrow from SEWA Bank. SEWA Bank has used the Parivartan program to expand its client base beyond existing SEWA union members and sees it as an important part of future growth.

Background

With a population approaching six million, Ahmedabad is the sixth-largest city in India, and has experienced fast-paced growth during the last few decades, with its population increasing by about 22 percent between 1991 and 2001. Ahmedabad's economy has suffered from earthquakes, social unrest, and droughts, and as a result its poverty rate is above the national average. Residents there earn an average of $409 annually, and 34 percent of the population—as compared with just 21 percent for India as a whole—live below the poverty line. Given the rapid population growth, a stagnant economy, and the paucity of housing and basic services, the city has experienced the swift development of new slums, in which about two-fifths of the population now live.

The demand for shelter financing from slum dwellers is outstripping the supply of loans. Though they are numerous and varied, housing finance programs in Ahmedabad have not had a major impact on low-income households employed in the informal sector. Most banks do offer housing loans, but most do not offer it to the informally employed poor, even though the government requires that 10 percent of all lending go toward the "weaker sections" of the economy (i.e., the poor). Loans for this group can still be tens of thousands of dollars, with loan terms approaching 20 years—not the sort of loans that are likely to be the most effective in improving the living conditions of the area's poor. As a result, the economically active poor who work in the informal sector remain underserved, having to rely on savings and informal moneylenders for financing.

The bank of the Self Employed Women's Association (SEWA), created in 1974 by the members of the SEWA trade union, is the largest microfinance provider in Gujarat. SEWA Bank is also one of only two nongovernmental institutions offering housing finance to economically active poor people in Gujarat. But with a current loan portfolio under $3 million, even SEWA Bank's impact has been limited, and the unmet demand for housing finance remains quite large. Given reliable estimates that more than 90 percent of Indian women work in the informal economy and 41 percent reside in communities classified as slums, the potential female housing microfinance market is conservatively estimated at one million women in Ahmedabad.

How SEWA Works

Target Market

With the motto, "A Bank of Our Own," the members of the SEWA Trade Union originally created SEWA Bank as a financial institution dedicated to self-employed women in Gujarat. As such, its immediate potential clientele includes the approximately 400,000 women who belong to the SEWA Union. It is serving economically active poor women in Ahmedabad that cannot access the formal financial sector, a market conservatively estimated at one million.

The Product

SEWA's main housing microfinance products do not significantly diverge from its microenterprise loans. The main difference consists in the fact that the client has up to 60 months to repay the loan amount, as opposed to 35 months for a microenterprise loan. SEWA Bank offers one major housing loan, the Paki Bhit (its principal housing loan). Other specific housing products such as the equitable mortgage loans for new home purchases, and infrastructure loans under the Parivartan slum-upgrading program represent only 4 percent of SEWA's housing loan portfolio. In reality, however, most of the other loans SEWA Bank offers may also be used for housing purposes. A SEWA Bank report to the Reserve Bank of India (RBI) estimates that fully half of all loans the Bank disburses are used for housing.

The maximum loan amount for an unsecured Paki Bhit loan is Rs. 25,000 (approximately $532) with an average loan size of Rs. 24,823 or $528 (based on 2002 data). In principle, SEWA will lend more than Rs. 25,000 for secured Paki Bhit loans based on the value of the pledged asset; however, in practice it has not lent more than this amount. Approximately half of the Paki Bhit loans are used for basic improvements such as wall, floor, or roof repair, and half are used for room additions including kitchen or bathroom additions. SEWA Bank does not require the loan amount to completely cover the cost of an improvement.

The nominal interest rate on Paki Bhit loans depends on the loan fund source. Paki Bhit unsecured loans are financed with funds from the Housing Development Finance Corporation (HUDCO) and have an interest rate of 14.5 percent, as mandated by HUDCO. Paki Bhit secured loans are financed with SEWA's own funds and carry an interest rate of 17 percent for loans Rs. 25,000 ($532) or less and 18 percent for loans more than Rs. 25,000.

Through the Parivartan scheme, which provides for the installation of roads, electricity, and water, The Ahmedabad Municipal Corporation provides Rs. 8,000 ($170) per participating household for slum upgrading. Participating households must provide a counterpart contribution of Rs. 2,000 ($42) for a total investment of Rs. 10,000 ($212). The participating families may borrow their counterpart contribution from SEWA Bank or use SEWA Bank's facilities to save the required amount. Given the time it takes to bring a particular project from the planning phase to the construction phase, most clients are able to save the required amount instead of taking a loan. SEWA Bank has used the Parivartan program to expand its client base beyond existing SEWA union members and sees it as an important source of future growth.

SEWA also differentiates between its secured and unsecured housing loans. Secured loans are backed by assets, such as jewelry or a lien on the client's fixed deposits held at SEWA Bank. Unsecured loans are backed by a lien on the client's demand deposits with the bank and guarantors. Once a loan is approved, the client must provide a guarantee. The guarantor typically comes in at the time of the signing of the loan documents. The guarantor must provide a copy of his or her identification card and a proof of income. The loan officer reviews the guarantor and may seek additional approval from the accountant or managing director. SEWA encourages and prefers women to have their name added to the property title or stamp paper.

Delivery Methodology

The average amount of time between a loan application and its disbursement is five days, and is as little as one to two days for repeat clients (unless the applicant's previous loan was for business or consumer purposes, in which case SEWA will undertake a more formal evaluation).

Typically, unless a loan is secured, clients must establish a savings record with SEWA before taking a loan. In rare cases, clients can obtain a loan without prior participation in a savings program if they are members of the bank and can produce adequate collateral. A client can make savings deposits through a variety of methods. She may go directly to SEWA Bank, pay the mobile collection unit (which travels to the communities SEWA serves once a week), or pay at one of six satellite offices. Most clients save at least four to six months to be eligible for a loan.

Follow-up Methodology

Approximately one month after the loan is disbursed, a loan officer conducts a site visit to verify loan use. If a client is found to be using a HUDCO-financed Paki Bhit loan for another purpose, her interest rate is increased to 17 percent. On the other hand, if a client decides to use a business loan for housing purposes, the interest rate is not reduced to 14.5 percent.

Payments are considered late if the full monthly payment is not made. SEWA accepts partial payments. However, the partial payment is considered as a late payment and tracked as such. If a client misses a payment, the bank officials visit the client. After two missed payments, a late notice listing the amount due is sent to the client and her guarantor(s). After three missed payments, a second notice is sent to the client and her guarantor(s). Often, SEWA will telephone the guarantor instead of sending a notice. Once the loan exceeds the 60-month repayment period, a third notice is sent by registered mail to the client and the guarantor informing them that if loan is not paid, legal action will be taken. SEWA has only taken approximately 200 clients to court.

Sustainability and Outlook

Financial Analysis

A financial analysis of SEWA Bank reveals a mature organization that has reached full financial self-sufficiency, but one whose outstanding portfolio does not match its formidable potential. Highlights of the financial findings are as follows: Please note that the following figures apply to the totality of SEWA's portfolio, and not to its housing portfolio. SEWA does not disaggregate its financial statements based on loan products.

- **Arrears:** Based on SEWA's calculation of arrears, 12 percent of the total portfolio is past due and 8 percent of the housing portfolio is past due.
- **Return on Assets (ROA):** At year-end 2001, SEWA Bank's return on assets, which expresses the organization's net operational income as a function of its total assets, stood at 10 percent, compared with 13 percent for the three prior years.
- **Portfolio Yield:** Portfolio yield was 16 percent. This ratio describes the organization's annual financial income (interest payments from clients, commissions, and arrears penalties) as a percentage of its annual average outstanding portfolio. The yield is therefore a function of the effective rate clients pay, adjusted upwards by penalties and downwards by annual losses.
- **Profitability:** SEWA has experienced net operating profits since 1998, with the exception of 2001, when operating losses amounted to just over $28,000. Over the past five years up to 2001, SEWA Bank's level of operational self-sufficiency has been 250 percent to 300 percent. A similar level of sufficiency is expected for the year ending 2002. In terms of financial self-sufficiency, SEWA Bank has been consistently above 100 percent, with the exception of 2001, when the ratio was 96 percent. Financial self-sufficiency occurs when portfolio yield is able to cover total operating costs, including the cost of capital.
- **Efficiency:** SEWA Bank's administrative and operational efficiency indicators are excellent. Administrative efficiency (the sum of administrative costs as a percentage of the average adjusted loan portfolio) in 2001 was 15 percent, up only 1 percent per year over the previous two years. Likewise, its operational efficiency was very good, registering 44 percent in 2001. The operational efficiency ratio, it should be noted, has been steadily declining over the past five years, perhaps because of increased follow-up on delinquent payments.
- **Capitalization:** The recommended capital adequacy ratio for cooperative banks in India is 7.5 percent. By comparison, SEWA Bank's capital adequacy ratio for 2000 and 2001 was around 27 percent. This implies that SEWA is overcapitalized and is poised for growth. A second indicator of SEWA Bank's financial capacity is its credit-to-deposit ratio, which stood at 43 percent and 33 percent at year-end of 2000 and 2001, respectively. This indicates that SEWA already possesses the capital to significantly expand its loan portfolio.

Conclusion

This assessment brings to light several additional findings that may be useful to the future stewardship of SEWA Bank's housing microfinance initiatives.

First, SEWA Bank's available financial reports describe an institution that is financially sound. However, when evaluators did a performance analysis, they found the process of sifting through financial information unduly cumbersome. More orthodox methods for calculating loan interest rate, arrears, and for setting loan repayment period would lead to greater accountability and simplify financial reporting. Writing off loans on a regular schedule (or, alternatively, preparing a set of adjusted financial statements reflecting a "cleaned-up" portfolio) would help external analysts understand SEWA Bank in the context of other well-known microfinance institutions worldwide.

Second, SEWA Bank is well-positioned to increase the size of its outstanding portfolio. Management is well aware of this situation and is planning a major growth drive over the next five years. SEWA can grow its portfolio not only by expanding the current client base, but also through better marketing of SEWA Bank's full product range to its existing clientele. As the institution grows, it will need to further modernize its back-office operations and automate several key financial tracking and monitoring functions.

Third, SEWA's housing loan amounts are not based on the cost of the proposed home improvement. Rather, clients receive a preset amount that may exceed or fall short of the amount needed to complete the improvement. This practice is contrary to what many institutions that offer housing microfinance services believe to be an acceptable practice. Assuming client affordability, SEWA Bank should evaluate whether it makes more sense to peg the loan amount to the client's request.

Fourth, although the relationship between the Bank and HUDCO may be useful from a political perspective, the cost of capital on HUDCO-financed loans is higher than what SEWA Bank pays for client deposits, and the interest rate is lower than what it charges clients for non-HUDCO housing loans. Given SEWA Bank's low credit-to-savings ratio, it should assess whether its relationship with HUDCO is altogether positive.

Fifth, SEWA Bank needs to track its arrears in a more systematic manner. For instance, tracking portfolio at risk (and not just the actual amount in arrears) might provide management with a more complete picture of future losses and help the Bank take remedial action.

Sixth, the Parivartan scheme—an alliance of SEWA Bank, the Ahmedabad Municipal Corporation (AMC), the Mahila Housing Trust (MHT), and other local NGOs—deserves particular mention for its innovation and its potential contribution to strategies for slum upgrading worldwide. Having established a relationship with participating families, SEWA Bank management believes that these families will be good candidates for future home improvement loans—especially if these families are able to pay for the Parivartan-related improvement through the savings program.

Hopefully, by taking these observations into account, SEWA Bank's operations may continue to improve the lives of India's poorest, providing affordable financing for one of the most basic human needs.

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1 THE HOUSING CONTEXT IN INDIA

1.1 Demographic and Economic Context

The city of Ahmedabad—home of the Self Employed Women's Association (SEWA) Bank—is in the northwest Indian state of Gujarat. With a population exceeding 5.8 million, Ahmedabad is the largest city in Gujarat and the sixth-largest city in the country. Ahmedabad has experienced fast-paced growth during the last few decades, increasing by about 22 percent between 1991 and 2001. Naturally, this has led to increased population density—718 persons per square kilometer—resulting in a lack of housing and basic services, and the development of new slums. About 41 percent (approximately 2 million) of the city's population resides in slums and *chawls*—communities constructed by mill owners to house their workers. Unlike other cities in India, almost 90 percent of the slums and *chawls* in Ahmedabad are located on privately owned properties.

Gujarat experienced mild economic growth of 2.2 percent in 2001. The overall performance of the economy has been hurt by the impact of an earthquake in 2001, social unrest, droughts, increasing energy prices, depreciation of the rupee, and the general global economic slowdown. GDP per capita in Gujarat is $409, which has remained virtually unchanged over the last few years in real terms. Inflation is 3.8 percent (as of 2001), up from 3.4 percent in 2000. For Ahmedabad proper, the inflation rate was 3.9 percent, slightly higher than the 2001 national average.

The poverty rate in Ahmedabad exceeds the national average. The poverty level was 34.4 percent in 1993-94, and has remained relatively constant since. This compares to a 21 percent rate for India as a whole over the same period.

1.2 Overview of Affordable Housing Finance Sector in India

India faces a housing shortage that is particularly severe among low-income populations. This shortage is especially acute in Gujarat where, aside from SEWA Bank, no private or public institutions have developed financially viable and affordable housing finance options for poor households. The Asian Development Bank (ADB) estimates that India's housing shortage is as high as 40 million units, suggesting that more than 200 million people are living in chronically poor housing conditions or on the streets.[1] The ADB argues a primary cause of the shortage is the lack of housing finance options for the low-income households that account for over 90 percent of the housing need.

Despite the recent liberalization of the financial sector and policy and regulatory reform, very few financial institutions cater to the housing needs of low-income households and even fewer institutions have developed financial products that fall under the rubric of housing microfinance. While a myriad of public and private institutions are involved in low-income housing finance, these institutions primarily offer long-term mortgage loans for home purchases and construction

[1] Asia Development Bank web site: http://www.adb.org/Documents/Profiles/LOAN/30204013.ASP.

(although there are some providers that offer home improvement loans). The repayment periods are generally up to 20 years with interest rates typically ranging between 9 and 13 percent depending on the loan amount and repayment term. Borrowers are required to pay a down payment of 10 to 30 percent of the appraised value and have legal title to the property. Consequently, poor households, especially those in the informal sector, cannot access these lenders.

Numerous NGOs, self-help groups, microfinance institutions and other community-based organizations in India play an important role in helping the poor to save their earnings and to access credit (although not necessarily for housing purposes), however their efforts tend to be dwarfed by the need. In Ahmedabad the only institutions that have a strong community base and are involved in housing finance are SEWA Bank and SAATH, a local grassroots NGO. SAATH provides housing finance only to clients of the Parivartan slum-upgrading program described in further detail later in this assessment. As such its scope is very limited. SEWA Bank is the only institution that provides housing finance at a meaningful scale.

The following sections will provide a brief review of public and private housing finance providers in Gujarat.

1.2.1 Public Sector Housing Finance

Many public sector institutions are involved in low-income housing finance in India; however, few have developed programs that reach the poor and/or are suited to the way poor households build. Urban development, land-use regulation, and housing fall under the jurisdiction of state and municipal governments. The national government can pass legislation, but state governments have discretion over enforcement. The national government's real influence rests with resource allocation. The government exercises firm control in all categories of financial institutions, specifically those that deal with housing finance. According to a report prepared by the Asian Development Bank in 1999, about 92 percent of India's banking sector is under state control, and almost all of these institutions offer housing loans.

Because there are no legally mandated structures at the local level, local governments enjoy a tremendous amount of flexibility in setting up and executing affordable housing strategies. As such, housing policies and solutions vary greatly among the different states. In most cases, a state housing board is responsible for coordinating housing policy interventions. In some municipalities a municipal corporation is created to carry out housing policies. The Ahmedabad Municipal Corporation (AMC) is recognized throughout India as a leader among such agencies, particularly in tackling habitat-related problems such as slum-upgrading and housing finance for the poor. The most notable of slum-upgrading initiatives is the Parivartan program.

The two main national housing providers are the Housing and Urban Development Corporation and National Housing Bank. For the most part, these institutions are second-tier lenders for housing finance.

Housing and Urban Development Corporation (HUDCO)

HUDCO, an arm of the federal government, was established in 1970 with the principal purpose of financing infrastructure development, particularly for low- and middle-income households. HUDCO provides loans for home purchases, construction, improvements and urban development programs through state and local governments, cooperative societies, private builders, and social organizations. HUDCO structures its housing finance schemes to reach a range of low-income households including households with incomes of less than $53 per month. Over 50 percent of HUDCO's financing is for households with incomes of less than $117 per month.

One of HUDCO's main projects seeks to increase access of low-income households to market-based housing finance. HUDCO provides debt capital to housing finance institutions that is then lent on to low-income households. This project is supported by a loan from the Asian Development Bank. SEWA has received a loan from HUDCO under this project.

HUDCO NIWAS

HUDCO NIWAS is HUDCO's retail lending organization, with offices throughout the country, including in Ahmedabad. HUDCO NIWAS' Individual Housing Finance Scheme offers loans for home purchases, improvements, and land purchases. Loan amounts are up to $10,638, with interest rates at 11 percent for loans up to $1,064. Loans are secured by mortgage. In addition, borrowers must provide cash security, the form of a fixed deposit, with an approved deposit-taking institution.

The National Housing Bank (NHB)

NHB is a wholly owned subsidiary of the Reserve Bank of India established in 1988 to narrow the gap between demand for and supply of housing in the country. The principal objective of the NHB is to promote housing finance institutions at the local and regional levels through financing and other supporting activities. In terms of increasing the capital base of housing finance institutions, NHB uses a variety of mechanisms including guaranteeing debt, making direct investments, and underwriting the securities of these institutions. NHB also serves as the regulatory body for housing finance institutions.

1.2.2 Private-sector Housing Finance

As stated above, private sector housing finance providers and commercial banks typically do not serve the informally employed—the clientele that SEWA Bank serves. The housing loans offered by these institutions are typically for the purchase of a complete home secured by a legal title clear of any liens.

The government tries to encourage commercial banks to serve low-income markets. The Reserve Bank of India (RBI) requires that—with the exception of Regional Rural Banks[2]—40 percent of all commercial bank lending activity be made to the "Priority Sector" which includes housing in

[2] Regional Rural Banks (RRB) were established in 1975 to provide low-cost financing and credit facilities to the rural masses. As of March 1997, there were 196 RRBs. However their asset levels are minimal, and in 1997 comprised less than 2 percent of total assets within the banking industry.

addition to agriculture, education, small business and microenterprise. To ensure that low-income earners within the Priority Sector have access to credit, the RBI requires that 25 percent of all bank Priority Sector lending, or 10 percent of net bank credit, be made to "Weaker Sections." Weaker Sections under the Priority Sector include small and marginal farmers, artisans and cottage industries, certain castes and tribes, and self-help groups. With respect to housing finance, commercial banks can achieve their Priority Sector targets through "direct" or "indirect" housing finance transactions. The chart below highlights the various loans that satisfy Priority Sector lending requirements within the housing finance sector. The impact on housing, however, is minimal.

TABLE 1. COMMERCIAL BANKS' LENDING TO PRIORITY SECTOR

Direct Finance	Indirect Finance
1. Loans up to Rs. 500,000 ($10,638) in rural areas for home construction. 2. Loans up to Rs. 100,000 ($21,276) in urban areas for home construction. 3. Loans up to Rs. 50,000 ($1,064) for repairs and upgrades in urban or rural areas.	1. Financing to NGO lending programs for home construction, slum clearance, and rehabilitation of slum dwellers up to Rs. 500,000 per loan. 2. Refinancing of NGO loans for reconstruction, slum clearance or rehabilitation of slum dwellers up to Rs. 500,000 per loan. (Requires NHB approval). 3. All investments in bonds issued by NHB or HUDCO exclusively for financing of housing, irrespective of the loan size per dwelling unit.

Housing Development Finance Corporation Limited (HDFC)

HDFC is one of the largest housing loan providers in India with 67 branches across the country including Ahmedabad, and $25.5 million in capital. According to HDFC, it commands a 55 percent market share of housing finance. HDFC offers deposit and credit services to individuals and institutions for home purchases, construction, and improvements. SEWA Bank has received a HDFC loan, which it lends to its clients.

In terms of its individual loans, HDFC mainly serves middle and lower middle-income households. To borrow, clients must be formally employed or business owners with audited financial statements and have legal title to the property.

In 1986 HDFC and the Aga Khan Fund for Economic Development established GRUH Finance Limited, a private finance company, to provide home construction, purchase and improvement loans to low-income and underserved populations in India. However, GRUH has come to serve the same clientele as HDFC and now directly competes with HDFC.

1.2.5 Housing Microfinance Market Summary

As the above section shows, in Gujarat affordable housing finance programs, while numerous and varied, have not had a major impact on low-income households employed in the informal sector. SEWA Bank is the only formal financial institution that specifically targets this market—and with a current loan portfolio under $3 million, even SEWA Bank's impact has been limited. As a result, the economically active poor working in the informal sector remain underserved, having to rely on savings and moneylenders (loan sharks) for financing. These moneylenders charge on average 10 percent per day. Despite the lack of access to long-term financing, the economically active poor do manage to build—albeit incrementally—making the construction trade one of the most active throughout the state.

The potential market for housing microfinance market in India is immense. Given SEWA Bank's estimate that more than 90 percent of Indian women work in the informal economy, and assuming that 41 percent reside in communities classified as slums, the potential female housing microfinance market can conservatively be estimated at one million women in Ahmedabad alone. Only a fraction of this market is being served.

1.3 Legal, Regulatory, and Land Issues

Unlike other areas of India, most of the informal settlements in Gujarat are on private land. In Ahmedabad, almost 90 percent of slums and *chawls* are located on privately owned land. Very few of the informal settlement residents have full title to their property; most either rent from absentee landlords (who may or may not have legal rights to the property), or have some documentation other than title to demonstrate their land rights. In some cases the residents are member of a cooperative or trust, which holds the title to the land and leases subplots to its members.

Most of the settlements on private land have sprung up through encroachment. Some settlements have resulted from the Land Ceiling Act of 1976 that forced large private landholders to sell off portions of their land that exceeded a specified limit. Under this act, 'excess' land was to be redistributed to the landless, but many private owners sold off large tracts of land to middlemen. The middlemen subdivided the land and allowed migrant workers to live on these plots without any clear title. In some cases, the settlements have evolved out of land allocated by the government after natural calamities such as earthquakes or floods. Usually, these temporary settlements become permanent, as the government is unable to evict the residents because of political pressure. Some of these are legalized though *pattas*, a written record of land rights to government land. The government may sell or donate *pattas* to the land user. *Pattas* may be inherited but cannot be transferred.

1.3.1 Land Security

There are four main ways to demonstrate land rights in India, three of which can be used to access bank financing. In terms of legal rights, the strongest is possession of land title, followed by possession of a lease and licenses. In addition to the forms listed below, municipal and state governments will often provide notice against eviction, providing some sort of land security. In Ahmedabad, the municipal government provided residents of informal settlements rights to land for ten years. This right provides the land user with sufficient security to improve their housing. Listed below are the four forms of land holding.

Title deed: Also known as freehold.
Leasehold: Gives the holder a pre-established number of years to use the property. The lease may be for land, superstructure, or both. Leaseholds may be mortgaged.

Licenses (to cooperative societies): The title deed is held by cooperative, not the individual residents, who may have papers that demonstrate their registration with the cooperative and thereby a right to their property. In some cases, the cooperatives provide leases to the individual members/residents. Residents can use their share certificate and lease to demonstrate property ownership and mortgage.

Stamp paper: Paper used in the sale of a property (even if the seller does not necessarily have full title to the property) that is signed by a notary or government official. These papers confirm the transfer of the structure and the date of the transaction. The paper has no legal validity. A duty is payable on the stamp based on the purchase price of property as indicated in the purchase agreement. The stamp duty payable typically ranges from 8 to 10 percent of the market value of property. The stamp duty is payable at the state government's office and is applicable to all properties.

2 HOUSING FINANCE AT SEWA BANK

2.1 Overview

SEWA Bank was registered as a bank under the dual control of the RBI and the state government of Gujarat in May 1974. The Bank's initial capital came from the contributions of approximately 4,000 members of the Self Employed Women's Association (SEWA), a Gujarat-based, registered trade union that was established in 1972. SEWA Bank is a cooperative bank; its lending capital comes from savings made by its members. Over the past few years, SEWA Bank has received financing from the HUDCO and from HDFC. As of January 31, 2002, SEWA Bank's total outstanding portfolio was $2,274,866, and 40 percent of this was accounted for by housing lending.

SEWA Bank is one of approximately 100 institutions comprising what can be called the "SEWA Network." The SEWA Network is a group of legally independent organizations that share a common history, are loosely linked through board memberships, and work to improve the lives of self-employed women in India. The Network operates in six broad functional areas: 1) organizing, notably including the SEWA Trust; 2) financial services, notably including SEWA Bank; 3) income generation, including approximately 85 cooperatives; 4) health and housing services, notably including the Mahila Housing Trust; 5) capacity building and training, notably including the SEWA Academy; and 6) policy change.

With the motto, "A Bank of Our Own," the members of the SEWA Trade Union originally created SEWA Bank as a financial institution dedicated to and managed by self-employed women in Gujarat. The Bank's board is comprised of directors of the other SEWA institutions and SEWA Bank members.

The Bank's potential for growth is great. Its immediate potential clientele includes the approximately 400,000 women belonging to the SEWA Union. As stated above, the number of economically active poor women in Ahmedabad who cannot access formal financial sector is conservatively estimated at 1 million. In terms of capital, the Bank is heavily capitalized with a credit-to-savings ratio of 33 percent.

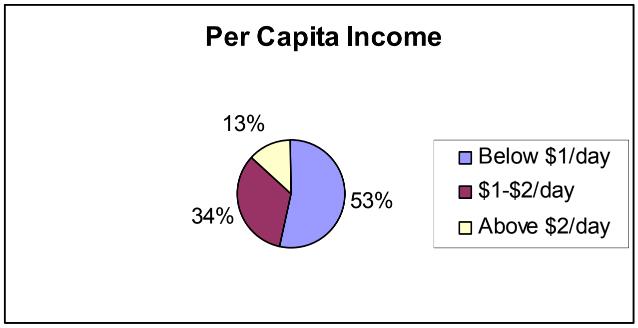
2.2 Clientele

SEWA Bank's clientele are poor, self-employed women who mainly work in the informal sector. A recent study conducted by AIMS[3] on working class women in Ahmedabad identified the following characteristics of SEWA Bank clients:

[3] Chen, Martha Alter, Ph.D., and Snodgrass, Donald, Ph.D. Managing Resources, Activities, and Risk in Urban India: The Impact of SEWA Bank, Assessing the Impact of Microenterprise Services (AIMS) project. Washington, DC: Management Systems International, 2001.

Income: SEWA Bank clients are very poor, with 87 percent of the women sampled living on less than $2 per day. The average annual income was Rs. 42,557 ($906).[4] SEWA borrowers had higher average household incomes than saver households, which in turn earned more average income than non-SEWA Bank members.

CHART 1.



Employment: Virtually all clients work in the informal sector as micro-entrepreneurs, dependent sub-contractors, or casual laborers, in that order. (See Table 2.)

TABLE 2.

SEWA Bank Clients by Employment (sample average)	
Microentrepreneurs	41%
Dependent Sub-Contractors	36%
Casual Laborers	22%
Salaried Jobs	1%

Debt: Like most women in Ahmedabad, SEWA clients maintain high levels of debt—roughly 27 percent of household income. The study found that borrowers use SEWA Bank to increase their outstanding debt, rather than to pay off loans from other sources.

Savings: While total savings is quite small among poor households, SEWA Bank clients have two to three times as much savings as non-clients and hold most of these funds in SEWA Bank. "No one in the sample seems to have much to do with banks other than SEWA Bank, either as a source of credit or as a savings vehicle."[5]

Vulnerability: SEWA Bank clients as well as most of the working poor are susceptible to a variety of financial shocks that interrupt normal income flows or necessitate extraordinary expenditures. A 1999 study of SEWA's clients found that 71 percent of woman questioned experienced at least one significant financial shock over a two-year period. Their main physical asset is their house, which often also serves as their place of business.[6]

[4] Exchange rate used is RS 47 to 1US$.
[5] Chen and Snodgrass.
[6] Ibid.

2.3 Product Description

SEWA Bank is a full service financial institution offering a range of credit, savings, and health and life insurance products. In terms of credit, the Bank offers a number of general purpose loans to meet the various financing needs it its clientele. The loans are primarily individual loans with interest rates of 17 percent per annum. SEWA also operates self-help groups (SHG) in rural areas of Gujarat, but these loans comprise a small share of the bank's overall loan portfolio. Table 3 provides a summary of the loans offered. The Bank does not necessarily advertise the different loan types. In general, Bank staff make the loan type determination when clients come in to fill out their loan documentation.

TABLE 3. LOAN PRODUCT OVERVIEW

Loan Type	Desciption	Loan Use	May Loan Be Used For Housing	Maximum Loan Amount (in rupees)	Repayment Term	Interest Rate	Security
Daily	Loans are repaid on a daily basis	All purposes	Yes	4,000	15	18%	Unsecured
Secured		All purposes	Yes	No maximum amount	15	2% above the interest rate on fixed deposits	Secured by lien on fixed savings
Fixed Deposit Overdraft	Fixed Line of Credit	All purposes	Yes	85% of fixed deposit savings	15	2% above the interest rate on fixed deposits	Secured by lien on fixed savings
Cash Credit	Line of Credit secured by jewelry or other assets	All purposes	Yes	No maximum amount	15	17%	Secured
Un-Secured		All purposes	Yes	25,000	35	17%	Unsecured
Sanjivani	Targets unemployed mill workers	Business	No	25,000	35	17%	Secured or unsecured
URJA	Fixed assets loan to improve enegy and human labor efficiency	Fixed assets	No	25,000	35	17%	Unsecured
Panprakash	Parivartan slum upgrading loan	Housing	Yes	1,600	35	17%	Unsecured
Hypotecation	Vehicle Loan	Vehicle Purchases	No	70% of vehicle invoice	35	17%	Secured
National Savings Certificate	Loan against national savings certificate value	All purposes	Yes	70% of national savings account	35	17%	Secured by lien on National Savings Certficiate
Gold Loan	Loan backed by jewelry	All purposes	Yes	up to 80% of the appraised value	35	17% below 25,000; 18% over 25,000	Secured
Paki Bhit	Dedicated Housing Loan Product	Housing	Yes	25,000	60	14.5% for HUDCO financed loans otherwise 17%	Secured or unsecured
Equitable Mortgage	Purchase of new home. Loan disbursed to seller.	Housing	Yes	up to 80% of the property value	60	18%	Secured

The main distinguishing factors among the different loan types offered are the repayment term and guarantee requirements. The Bank offers short, medium and long-term loans with maximum repayment terms of 15 months, 35 months and 60 months respectively. In terms of guarantee requirements, SEWA Bank offers secured and "unsecured" loans. Secured loans are backed by assets (such as jewelry or liens on the client's fixed deposits held at SEWA Bank). Unsecured loans are backed through liens on the client's demand deposits at SEWA Bank and guarantors. Typically the client's savings deposits must be at least 35 percent of the loan amount. The exact amount, however, depends on the client's economic situation, and on her guarantors, and the loan review committee determines the amount of the lien. The number of guarantors required depends on the loan amount. For loans of Rs. 10,000 ($213) or less one guarantor is required, and that individual may be a family member. For loans of more than Rs. 10,000, two guarantors are required, one of which must be formally employed. Most of the formally employed guarantors are government workers. The maximum loan amount for unsecured loans is Rs. 25,000 ($532). Secured loans can be larger, although most loans do not exceed Rs. 25,000. A client may only have one outstanding loan at a time.

SEWA Bank does have three dedicated housing products. The principal loan product is the Paki Bhit, which is discussed in greater detail below. SEWA also offers an equitable mortgage loan for new home purchases, secured by land titles, and the Panprakash loan that is offered to participants in the Parivartan slum-upgrading program discussed in greater detail in Section 2.7.2. These latter two loans represent less than 4 percent of the housing loan portfolio. The Bank created the Paki Bhit loans in response to clients, who want to improve their living conditions and were using business loans for housing purposes. The Paki Bhit, and equitable mortgage loan the have 60 month repayment terms to reflect the higher costs and, according to SEWA Bank, the less productive nature of housing.

While there are dedicated housing products, most of the loans offered by SEWA may be used for housing purposes. In fact, according to a SEWA Bank report to the RBI, 50 percent of the loans disbursed are used for housing purposes. The three dedicated housing loans comprise only 21 percent of loans disbursed. Loans that may be used for housing purposes include the secured, unsecured, gold loan, NSC, fixed draft, over draft, and cash credit. In theory the daily loan may also be used for housing purposes but given the repayment terms it is unlikely that this is the case.

2.3.1 Paki Bhit Loan Amount

The maximum loan amount for an unsecured housing loan is Rs. 25,000 ($532). As stated earlier SEWA will lend more than Rs. 25,000 for secured housing loans but in practice it has not.

The amount lent is based solely on the client's repayment capacity. Repayment capacity is based on a number of factors including a client's savings pattern, living conditions, family size, and past loan payment performance (if applicable), total family income (including income security and type and source of employment), and cost of the improvement. However, SEWA relies mainly on the applicant's savings patterns and the loan offhand holder's assessment (a "hand holder" is essentially a case manager) to determine repayment capacity. SEWA does not require that the loan amount cover the cost of a completed improvement. According to the loan officer, "if the cost of the proposed improvement is greater than the applicant's repayment capacity the client has to use personal savings, or by borrow from family or a moneylender."

The types of improvements financed range from major improvements such as room additions to minor improvements such as plastering and tiling. According to the loan officer, approximately half of the loans are for improvements such as wall, floor, or roof repair, and half are used for room additions, however these are only estimates as SEWA does not systematically track how clients use their housing loans.

It appears that most Paki Bhit clients ask for and are given the maximum loan. Based on 2002 data, the average loan size disbursed is Rs. 24,823 or $528, up from Rs. 15,703 ($334) in 2001. However, the cost of minor improvements range from $25 to $100 and the average cost for major improvements such as room additions cost approximately $383.

2.3.2 Paki Bhit Interest Rates and Fees

The interest rate on Paki Bhit loans depends on the loan fund source. Paki Bhit unsecured loans are financed with HUDCO funds and have an interest rate of 14.5 percent.[7] Paki Bhit secured loans are financed with SEWA's own funds. The interest rate is 17 percent for loans Rs. 25,000 ($532) or less and 18 percent for loans more than Rs. 25,000.

SEWA Bank uses a unique method of calculating interest on its loans. Monthly loan payments are based on 5 percent of the original loan amount. The payments are applied fully to principal every month of the quarter. Interest fees are assessed quarterly. Interest is calculated on the ending principal balance of each month and the actual number of days between the loan payments. The total interest owed is added to the principal balance for the following quarter.

Table 4 provides a sample payment schedule for a Rs. 25,000 loan at 14.5 percent interest. The monthly payments are Rs. 1,250 ($26.60) with a final payment of Rs. 1,189.47 ($25.31). If the payments are made according to the schedule, the loan will be paid off in 23 months. The resulting effective rate is 14.15 percent.

[7] As per the agreement with HUDCO, SEWA's gross financial margin cannot exceed 4 percent on loans financed with this fund source.

TABLE 4. ILLUSTRATIVE INTEREST RATE CALCULATION[8]

Orignial Loan Amount (rupees)	**25000**
Monthly Pmnt. as % of Original Principal	**0.05**
Nominal Interest Rate	**14.50%**
Effective Rate	**14.15%**

	Monthly Payment	Principal Balance	Interest Assessed
Month 0		$25,000.00	
Month 1	$1,250.00	$23,750.00	
Month 2	$1,250.00	$22,500.00	
Month 3	$1,250.00	$22,090.16	$840.16
Month 4	$1,250.00	$20,840.16	
Month 5	$1,250.00	$19,590.16	
Month 6	$1,250.00	$19,077.38	$737.22
Month 7	$1,250.00	$17,827.38	
Month 8	$1,250.00	$16,577.38	
Month 9	$1,250.00	$15,958.02	$630.64
Month 10	$1,250.00	$14,708.02	
Month 11	$1,250.00	$13,458.02	
Month 12	$1,250.00	$12,728.32	$520.30
Month 13	$1,250.00	$11,478.32	
Month 14	$1,250.00	$10,228.32	
Month 15	$1,250.00	$9,384.36	$406.05
Month 16	$1,250.00	$8,134.36	
Month 17	$1,250.00	$6,884.36	
Month 18	$1,250.00	$5,922.11	$287.75
Month 19	$1,250.00	$4,672.11	
Month 20	$1,250.00	$3,422.11	
Month 21	$1,250.00	$2,337.39	$165.28
Month 22	$1,250.00	$1,087.39	
Month 23	$1,087.39	$0.00	

Other fees assessed depend on the loan amount.[9] These fees include:

Document fees: Rs. 40 ($0.85) for loans up to Rs. 5,000 ($106) and Rs. 60 ($1.28) for loans more than Rs. 5,000.

Stamp fees: Rs. 110 ($2.34) for unsecured loans more than Rs. 5,000 ($106). There is no fee for loans Rs. 5,000 or less.

Insurance: Prior to January 2002, SEWA required all loan clients to have insurance.[10] However, SEWA has temporarily suspended insurance as a requirement and is reviewing its insurance structure. The expectation is that another SEWA entity will administer insurance services, but it is unclear whether future clients will be required to have insurance.

These fees as well as any membership fees (described below) are taken out of the approved loan amount. There are no late fees per se. Since interest is calculated on a daily basis, clients who pay late must pay interest on those days past due. And since interest is capitalized every three months,

[8] The effective rate calculation does not include fees. The rational for this was that many of the fees are nominal, depend on previous loans (e.g., membership fees and shares), or are changing such as insurance.

[9] These fees apply to all SEWA loans.

[10] SEWA would require the client to open a fixed savings insurance account and deduct the amount required for that account from the loan amount. The interest earned on the account was to cover the insurance premium.

clients who pay late may end up paying interest on interest, a *de facto* late fee. However, for this to take place the client would have to miss several payments.

2.3.3 Paki Bhit Repayment Period

The repayment term on the Paki Bhit loan is 60 months regardless of the loan amount. However, the monthly payment is based on 5 percent of the original loan amount.[11] Consequently, if a client pays 5 percent of the original loan amount monthly she will pay off her loan in less than 60 months. The 5 percent payment amount is also used to determine arrears. Loans are considered late when a client pays less than a 5 percent payment. However a client is considered in default if the loan extends beyond the allotted 60 months.

2.4 Eligibility Criteria

SEWA Bank has few eligibility requirements for loans. To be eligible to participate in the housing loan program, an applicant must fulfill the following requirements:

Land Security: In theory, property ownership is not required for a housing loan. SEWA prefers that an applicant have legal rights to the property and asks borrowers to document that right either through stamp papers or title. Whereas SEWA encourages and prefers women to have their name added to property title or stamp paper, this is not a requirement. Originally SEWA did require that the title deeds or stamp papers be transferred into the borrower's name. However, the applicant's husbands or fathers were reluctant to have their name replaced on the housing document. The Bank realized that it would serve far fewer people if it had fast to this requirement and chose to 'err' on the side of greater accessibility. Most Paki Bhit borrowers (and clients who use other SEWA loans for housing purposes) do not have their name on the land security document.

Security: Housing loans can be secured or unsecured.[12] The loan security requirements are the same as for other loans. The majority of the housing loans are unsecured.

Savings[13]: Unless a loan is secured, clients are required to establish a savings record with SEWA before taking a loan. The savings is used as security on the loan, and as a proxy for capacity-to-pay. The importance of savings has diminished, however. Originally, borrowers had to save 12 months before receiving a loan and SEWA would lend twice the amount that the borrower had saved. However, SEWA subsequently found that this amount was not sufficient and that their clients were going to moneylenders to make up the difference. Now, there is no set requirement for the length of time a client must save or the amount of money a client must save (although the general rule is 6 to 12 months). Clients can save for as little as four to five months and be eligible for a loan. A client can make her savings deposits through a variety of methods. She may go

[11] According to SEWA's loan policies, the monthly repayment amount for housing loans should be 3 percent of the original loan amount. However because the monthly repayment for other loan types is 5 percent, housing loans are typically calculated at 5 percent as well. Interestingly, if the monthly payments were calculated at 3 percent the loan would extend beyond 60 months.
[12] Again, unsecured loans are financed using HUDCO funds.
[13] Savings and membership requirements apply to all SEWA Bank loans.

directly to SEWA Bank, pay the mobile collection unit (which travels to the communities SEWA serves once a week), or pay at one of the six satellite offices.

Membership: Clients must become a member of SEWA Trade Union and SEWA bank to receive a loan unless they are able to meet the requirements for a secured loan. In addition, a client must have shares in the bank equal to 5 percent of the loan amount. If the loan is greater than past loans, the applicant must pay the difference between the amount of shares she already has purchased and 5 percent of the approved loan amount. The annual membership fee for SEWA trade union is Rs. 5. The cost per SEWA bank share is Rs. 11.

In the case of secured loans, the applicant does not have to be a member of SEWA Trade Union or SEWA Bank and, instead, can be a nominal member of SEWA Bank. The cost to be a nominal member is Rs. 5 per loan. This cost structure is expected to change in the near future. The RBI recently informed SEWA Bank that nominal members should pay 2.5 percent of the loan amount for each loan they take through SEWA.

2.4.1 Required Paperwork

All SEWA Bank loan applicants, including housing loans, must provide the following documentation:

- A photograph of the applicant;
- Proof of residence, which can be verified by election card, utility bill (although most women are not listed on these bills), ration card (the most common), or rent certificate;
- A savings book (if applicable); and
- Proof of income—the applicant must demonstrate income either by providing a verifiable report of business income, which is typically determined through the applicant's inventory or income or, in the case of the employed, a pay stub;
- An estimate of the cost of improvements from a construction worker or material supplier. SEWA Bank requires that the cost estimate be in the name of the borrower.

2.5 Service Delivery

Once an applicant becomes a member and meets the necessary savings requirements, the average amount of time separating a loan application from its resulting dispersal is five days, and is as little as one to two days for repeat clients (unless the applicant's previous loan was for business or consumer purposes, in which case SEWA will undertake a more formal evaluation).

SEWA's credit delivery process entails the eight main steps outlined below.

2.5.1 Filling Out Forms

SEWA has one loan application for all of its loan products. SEWA staff determines the appropriate loan product based on the proposed loan use and client background in the loan application. Since most of SEWA's clientele is illiterate, SEWA provides a loan application writing service. The application writer guides the applicant through the loan application and writes down her responses. Applicants may access this service either at SEWA Bank or at one of its satellite offices. The hand holders also help clients complete the loan application. On average, the application process takes 15 minutes.

2.5.2 Verification/Assessment

Once a loan application is completed, the local hand holder visits the applicant to assess her business, economic standing, and living conditions. The hand holder also uses the visit to verify loan application information, and writes her findings on the loan application. The assessment may include an adjustment to the requested loan amount. The amount that the hand holder recommends is typically what is approved. This assessment typically lasts 30 minutes.

2.5.3 Loan Review Committee

The loan review committee meets at least once a week and will meet more often depending on the number of applications. The loan review committee consists of the loan officer, at least one board member, the manager, the chief accountant, and the managing director. The loan review committee determines the loan amount, unless it is a secured loan. In that case, the chief accountant can approve the loan. The Board of Directors signs off on all approved loans.

2.5.4 Guarantor Review

For unsecured loans, the client must provide a guarantee once a loan is approved. The guarantor typically comes in at the time of the signing of the loan documents. The guarantor must provide a copy of his or her identification card and a proof of income. The loan officer reviews the guarantor and may seek additional approval from the accountant or managing director.

2.5.5 Document Signing and Loan Disbursal

Once the guarantor has been approved, the client and her guarantors sign all of the loan documents. These include a promissory note, a managing director’s form (akin to a loan contract), a stamp paper, and a lien form that gives SEWA the right to withdraw loan payments from the client’s savings account should the client default. Once the documents are signed a loan account is opened in the client’s name and the client is presented with a payment passbook. If the client has a savings account with SEWA, her loan is deposited in her savings account. Otherwise the money is disbursed to the client. This process takes on average 30 minutes.

SEWA Bank disburses the loan funds directly to the client. However, based on conversations with the managing director, the Bank would like to move to a system of disbursing loan funds to material suppliers and construction workers to ensure that the funds are used for the intended purpose.

2.5.6 Loan Payments

Clients do not have set payment dates. Loan payments are due between the 1st and the 10th of each month. Loan payments can be made at the SEWA bank, its satellite offices, or can be given directly to the hand holders.

Payments are considered late if the full monthly payment is not made. SEWA Bank accepts partial payments. However, the partial payment is considered a late payment and tracked as such. If a client misses a payment, the bank officials visit the client. After two missed payments, a late notice listing the amount due is sent to the client and her guarantor(s). After three missed payments, a second notice is sent to the client and her guarantor(s). Often, SEWA will telephone the guarantor instead of sending a notice. Once the loan exceeds the 60 month repayment period, a third notice is sent by registered mail to the client and the guarantor informing them that if loan is not paid, legal action will be taken. SEWA Bank has only taken about 200 clients to court out of the tens of thousands of clients it has lent to. According to the loan officer, the legal process is very cumbersome and lengthy. Moreover, SEWA would rather work with a client than take the client to court.

2.5.7 Client Follow up

Approximately one month after the loan is disbursed the hand holder conducts a site visit to see if the housing loan was used for housing purposes. If a client is found to be using a HUDCO-financed Paki Bhit loan for another purpose, her interest rate is increased to 17 percent. Otherwise there is no penalty for using a loan for another purpose.

2.6 Parivartan Scheme

The Parivartan scheme—an alliance of SEWA Bank, the Ahmedabad Municipal Corporation (AMC), the Mahila Housing Trust (MHT), and other local NGOs—deserves particular mention for its innovation and its potential contribution to strategies for slum upgrading worldwide. Through the Parivartan program, SEWA Bank is using a variation of its housing microfinance as well as a savings programs to help poor households contribute to a wider slum-upgrading program. The objective of that program is to provide basic infrastructure (road, electricity, water) to people living in the hundreds of informal settlements that dot the Amhedabad landscape. AMC, through its own resources (general municipal revenues and financing from the World Bank) contributes approximately 80 percent of the funds needed for the upgrading work. Beneficiary households are expected to contribute the remaining 20 percent. The Mahila Housing Trust, a housing-focused NGO that is also a member of the SEWA network, works with AMC to sign up households living in eligible communities and to instruct them on their roles and financial responsibilities in the program.

Once a community has agreed to join the Parivartan program, SEWA Bank markets its savings and Parivartan loan (model on the Paki Bhit loan) to participating households. AMC provides Rs. 8,000 ($170) per household, and the participating families must provide a counterpart contribution of a Rs. 2,000 ($42). Families can either borrow this sum from SEWA Bank or use the Bank's savings services to accumulate their contribution. Given the time it takes for AMC to bring any particular project from the planning phase to the construction phase, most clients are able to save the required amount.

SEWA Bank has used the Parivartan program to expand its client base beyond existing SEWA Union members and sees it as an important part of future growth. Having established a relationship with participating families, SEWA Bank management believes that these families will be good candidates for future home improvement loans—especially if these families are able to pay for the Parivartan-related improvement through the savings program.

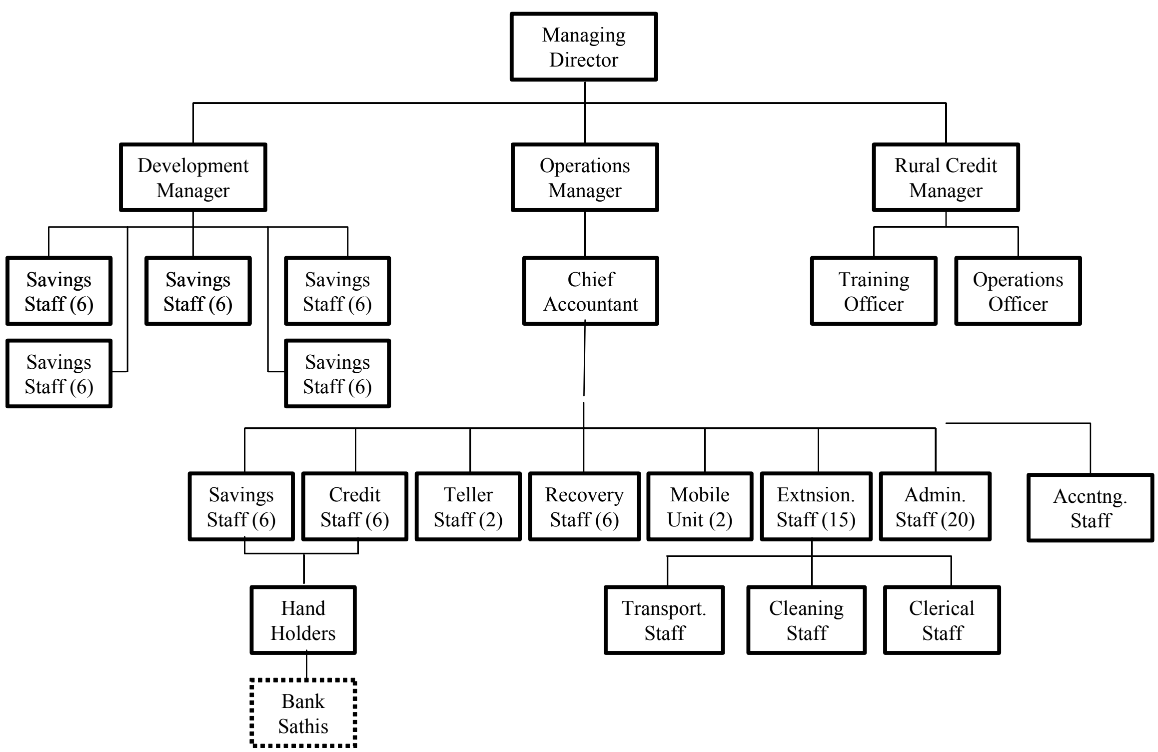
The Parivartan program has only been implemented on a pilot basis so far, with only 17 communities and approximately 3,400 household and 20,000 people benefiting. The capacity of MHT to increase its capacity to serve the more than 250 slum pockets targeted by the second phase of the program remains to be demonstrated. Unlike SEWA Bank, which receives payment under the form of loan interest and fees for its participation in the Parivartan Program, MHT has yet to develop a fee for services structure that will allow it to grow beyond the current pilot phase (for which MHT has received USAID support). The Board of MHT and the wider SEWA network have made increasing the management, technical, and financial capabilities of MHT one of their key mid-term priorities.

2.7 Management and Staffing

SEWA Bank has approximately 75 to 80 full time employees. Nominally, the Bank divides its staff into four units, each reporting to an operations manager, who in turn reports to the managing director. In reality, the interaction among units and reporting lines is much more fluid than it appears on the organization chart depicted in Figure 1. This fluidity provides the opportunity for increased interaction among staff members and helps create a positive, collegial atmosphere. It is also potentially a cause for some concern, since SEWA Bank seeks to grow in size and efficiency. As the institution grows, it will also need to further modernize its back-office operations and automate several key financial tracking and monitoring functions.

The four units, as portrayed by the managing director, are: 1) an Operation Unit, responsible for financial services; 2) a Development Unit, responsible for special initiatives (including housing); 3) a Rural Credit Unit; and 4) an Accounting Services Unit.

FIGURE 1. ORGANIZATIONAL CHART



2.7.1 Roles and Responsibilities of Credit Staff

SEWA Bank administers its housing loans along with its other loan products. The loan department has four main positions: hand holders, banksathis, recovery officers, and one loan officer.

Hand Holders: Hand holders are the front-line staff of the institution. They are responsible for client outreach, managing and building the capacity of the banksathis (community leaders), assessing client business and living conditions, verifying loan application information, collecting loan payments and savings, and following up with clients whose loans payments are in arrears. The concept of hand holders was introduced in 2000 in response to increasing arrears. Formerly, SEWA had limited front-line staff. Clients had to go to SEWA Bank or satellite office to make loan payments and savings deposits. There are currently 14 hand holders. Each hand holder works with an average of four banksathis, and oversees between 1,500 and 2,000 clients. Hand holders are paid a flat salary, and their performance is evaluated based on the number of loans past due, their recovery rate, and number of loans disbursed. Given the rising arrears, greater emphasis has been placed on recovery.

Banksathis: Banksathis (literally "friend of the bank") are community leaders who represent SEWA at the local level. They assist the hand holders in community outreach, by assessing client character, and through savings and loan payment collection. SEWA formalized the banksathi concept in 1999. The banksathis typically are longtime members of the SEWA trade union and SEWA bank. The banksathis are not SEWA employees. Up until 2000, the banksathis worked on a volunteer basis. In 2000, SEWA started paying the banksathis honoraria of 1 percent of savings collected and 3 percent of loan payments collected to encourage savings and loan payment collections. There are currently 40 banksathis. Each banksathi oversees an average of 500 clients.

Recovery Officers: While the hand holders and banksathis are responsible for loan collections, the recovery officers track all loan payments and provide the hand holders with information on clients in arrears. There are six recovery officers.

Loan Officer: There is only one loan officer. The loan officer works at the bank and is responsible for overseeing the loan application process, including verifying that loan applications are complete, and reviewing the guarantors' backgrounds. The loan officer is also a member of the loan review committee and reviews an average of 40 loan applications per day.

3 PERFORMANCE AND VIABILITY ANALYSES OF SEWA

3.1 Performance Analysis

3.1.1 Loan Portfolio and Portfolio Quality

As of January 31, 2002, SEWA Bank's total outstanding portfolio was $2,274,866; of this amount, $913,086 (40 percent) was for housing loans. The number of active loans stood at 9,129, of which 3,677 (40 percent) were housing loans. The number of new housing loans disbursed decreased significantly between 2000 and 2001, and picked up again in 2002.

As stated above, several of SEWA Bank's loan products may be used for housing purposes. Table 5 highlights the various loan products that the Bank uses for housing.[14] As of January 31, 2002, 52 percent of all housing loans were financed through four loan products that are specifically designated for housing: Panprakash, Paki Bhit Unsecured (HUDCO), Paki Bhit Secured, and Equitable Mortgage Loan. The remaining 48 percent were financed through other general purpose loan products.

TABLE 5. LOAN PRODUCTS USED FOR HOUSING

Arrears Analysis for SEWA Housing Loans as of January 31, 2002					
Loan Type	Percent of Total Portfolio	Percent of Housing Portfolio	Delinquency	Portfolio at Risk	Loans Past Due
Total Portfolio	**100%**		**26%**	**36%**	**12%**
Housing Portfolio	**40%**	**100%**	**23%**	**40%**	**9%**
Dedicated Housing Loans	21%	52%	4%	7%	0%
Panprakash Loan	0.01%	0.01%	7%	100%	0%
Pakibhit Un Secured loan (Hudco)	19.55%	48.7%	4%	15%	0%
Equitable Mogaged Loan	1.34%	3.3%	0%	0%	0%
Pakibhit Secured loan	0.09%	0.2%	0%	0%	0%
Other Loans Used for Housing	19%	48%	44%	69%	20%
Secured Loan	0.76%	2%	18%	19%	0%
FD/OD Loan	0.57%	1%	24%	26%	0%
Un Secured Loan	16.12%	40%	49%	53%	22%
Gold Loan	1.34%	3%	17%	44%	17%
Staff Loan	0.20%	0.5%	0%	0%	0%

SEWA Bank's practice of calculating loan repayments based on 5 percent of the amount lent, regardless of the loan term, is a likely contributor to the apparently poor performance in arrears. The data, as highlighted in the Table 6, suggests that clients are aware of the actual loan term and many take the full 60 months to pay off their loans, registering delinquent payments throughout the life of the loan. SEWA Bank's high portfolio at risk is likely due in large part to this phenomenon.

[14] For this analysis, SEWA was able to provide hard data for the dedicated housing loan products. Estimates were used to determine the distribution and arrears data for non-dedicated loans. Refer to Appendix 1 for more details.

Client performance on the dedicated housing loans, however, demonstrates acceptable levels of arrears, which is not the case for the other loans utilized for housing.

Table 6 provides further evidence that SEWA Bank clients are in general repaying their loans within the designated loan term, but fall into arrears through delinquent or partial payments.

TABLE 6. DELINQUENT HOUSING LOANS

Loan Type	Delinquent Payments as a Percent of Loans Outstanding for SEWA Housing Loans as of January 31, 2002							
	1 to 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	120 to 1 Year	> 1 Year & < 3	> 3 years & < 5	> 5 Years
Loan Term: 15 months	0%	0%	0%	27%	73%	0%	0%	0%
Loan Term: 35 months	0%	0%	0%	1%	8%	50%	39%	2%
Loan Term: 60 months	1%	2%	3%	3%	36%	49%	6%	0%
Total	0.3%	0.4%	1%	2%	12%	48%	35%	2%

SEWA Bank does not write off bad debts. The reasons are two-fold. First, as opposed to commercial banks that are required to write off bad debts, cooperative banks are not encouraged to do so by the Reserve Bank of India. In order to write-off a loan, a cooperative bank must request authorization from the cooperative bank regulatory authority. Second, as a cooperative bank, its clients (and therefore borrowers) make up the Board of Directors. The Bank's management does not like to send the message, through its client-dominated board of directors that bad loans are written off.

TABLE 7. BAD DEBT AS PERCENTAGE OF RESERVES

Porfolio Analysis:	1998	1999	2000	2001	31-Jan-02
Bad and Doubtful Payments as % of Reserve	68%	70%	79%	138%	90%
Overdue and Bad & Doubtful Payments as % of Reserve	252%	351%	299%	328%	258%

As demonstrated in Table 7, with the exception of 2001, SEWA Bank is adequately provisioning for bad debt according to the guidelines set forth by the RBI. However, it does not provision for overdue payments, and when these are added to past due loans, reserves appear inadequate. It is debatable whether or not SEWA Bank ought to provision fully for delinquent payments, given their policy to stipulate higher payments and shorter repayment periods than the actual loan term. The recommendation would be for the Bank to modify the manner in which it calculates loan payments, basing them on the actual loan term. Arrears could then be adequately tracked, and provisioning could be carried out based on CGAP standards.

3.1.2 Profitability

At year-end 2001, SEWA Bank's return on assets (ROA) stood at 10 percent, compared with 13 percent for the three prior years (see Table 8). As of January 31, 2002, ROA stood at over 500 percent; but this number is misleading given that its fiscal year ends on March 31, at which time SEWA Bank makes important final adjusting entries. The most important of these are dividends paid to members, provisions for bad debt, and the depreciation expense. Operational self-sufficiency (the percentage operating income to operational costs) has been between 250 to 300 percent from 1998 to 2001, and a similar ratio is expected for the year ending 2002. Financial self-sufficiency ratios (the percentage operating income total operating expenses, including capital costs and in-kind contributions) are consistently above 100 percent, with the exception of 2001, when the ratio was 96 percent.

TABLE 8. PROFITABILITY

	1998	1999	2000	2001	31-Jan-02
Return on Assets	13%	13%	13%	10%	8%
Operational Self-Sufficiency	261%	256%	304%	297%	507%
Financial Self-Sufficiency	112%	115%	110%	96%	153%
Portfolio Yield	16%	18%	17%	16%	13%

Based on a strict application of the recommended CGAP methods, SEWA Bank has experienced net operating profits since 1998, with the exception of 2001, when operating losses amounted to just over $28,000. (It is important to note, however, that during 2001, the Bank celebrated its 25th anniversary, and while reserves were drawn down to cover the expenses related to this event, and though the analysis made every effort to segregate the associated costs and revenues, it may well be that not all were identified and relegated to non-operational expenses.) However, it would appear that the largest contributor to this loss is a significant increase over the previous year in interest expense paid on deposits (up 21 percent) and a decline in interest and fee income on loans (down 9 percent). This mirrors overall market conditions, which squeezed yields between interest rates paid on deposits and interest rates charged on loans. The Bank's portfolio yield has ranged between 16 and 18 percent for the past four years.

SEWA Bank finances part of its housing lending with a loan from HUDCO. As of January 2001, its outstanding debt to HUDCO stood at just over $500,000. The interest rate on that loan is fixed at 10.5 percent. The Bank's overall cost of funds on deposits was only 8 percent in 2001 (rates range between 4 percent on demand deposits and 10.5 percent on long-term fixed deposits). The spread on HUDCO loans is only 4 percent compared with the 8 percent for loans financed through its own deposits[15]—a reality which may be providing incentive for SEWA Bank to continue to finance nearly 50 percent of its housing loans from its own funds. Given the Bank's low credit-to-savings ratio, SEWA Bank should assess whether its relationship with HUDCO is financially worthwhile.

[15] HUDCO requires SEWA to charge only 4 percent above the interest rate on SEWA's loan from HUDCO, which results in an interest rate of 14.5 percent on housing loans financed with HUDCO funds compared with the 17 or 18 percent it charges on all other loans.

The managing director acknowledges that the HUDCO loan makes little financial sense but the Bank feels that from a political perspective it is important that they keep this capital. Interestingly, as seen above, arrears are only a minor issue for loans made with specialized housing products (financed in large part with HUDCO funds), whereas they are a significant problem for the other loan products.

TABLE 9. EFFICIENCY

EFFICIENCY	1998	1999	2000	2001	31-Jan-02
Administrative Efficiency		13%	14%	15%	8%
Operational Efficiency	32%	35%	42%	44%	42%
Total Administrative Cost Per Active Loan	$30	$32	$33	$33	$17
Personal Costs* as a % of Total Administrative Costs	27%	28%	21%	20%	20%
SOLVENCY					
Equity Multiplier	7.5	8.4	10.4	14.0	8.7

TABLE 10. SEWA CONSOLIDATED INCOME STATEMENT

Values in US$	1998	1999	2000	2001	31-Jan-02
Operating Income					
Interest and fee income from loans	305661	364673	322151	293212	243694
Income from other finance servcies	0	0	0	0	96
Income from investments	294751	336553	497220	482434	552109
Total Operating Income	600412	701226	819370	775646	795899
Operating Expenses					
Interest expense on deposits	297548	290435	358520	434766	274643
Interest and fee expense on loans	6257	16449	51040	77584	45050
Loan loss provision	0	27537	67564	29922	42553
Interest loss provision					
Personnel	143128	170997	157411	161517	105558
Other administrative expense	87053	102610	112056	100081	51402
Total Operating Expenses	533985	608028	746591	803869	519206
Net Operating Profit (Loss)	**66426**	**93198**	**72779**	**-28222**	**276694**
Non-operational Income					
Cash donations	0	0	0	35432	0
Other non-operational income	9452	8736	23009	80045	4570
Non-operational Expenses					
Non-operational expenses	33293	49470	41897	47641	33419
Total Consolidated Profit (Loss)	**42585**	**52464**	**53890**	**39613**	**247845**

TABLE 11. SEWA CONSOLIDATED BALANCE SHEET

Values in US$	1998	1999	2000	2001	31-Jan-02
Assets					
Cash	114,088	162,590	232,693	381,769	384,590
Long-term investments	2,194,674	3,247,708	3,927,735	5,520,256	9,277,721
Loan Portfolio	2,095,693	2,091,192	2,015,343	1,950,563	2,274,866
Allowance for bad debts	(81,759)	(105,885)	(168,803)	(194,842)	(233,250)
Allowance for uncollectable interest	(38,830)	(38,212)	(63,851)	(93,562)	(91,571)
Other short-term assets	314,743	182,686	368,905	354,432	426,165
Net fixed assets	360,367	336,624	298,140	286,474	260,136
Total Assets	4,958,976	5,876,703	6,610,163	8,205,090	12,298,657
Liabilities					
Deposits	3,684,700	4,097,941	4,694,296	5,828,734	9,500,194
Short-term liabilties	358,843	473,503	622,524	796,382	757,451
Long-term liabilites	256,238	605,416	655,120	993,782	629,475
Total Liabilities	4,299,781	5,176,860	5,971,940	7,618,898	10,887,120
Equity					
Net worth*	659,195	699,843	638,222	586,193	1,411,537
Liabilities + Net worth	4,958,976	5,876,703	6,610,163	8,205,090	12,298,657

*Net Worth is calculated as Paid in share capital + Reserve funds + Accumulated net profit

3.1.3 Efficiency

SEWA Bank's administrative and operational efficiency indicators are excellent (see Table 9). The ratio for administrative efficiency in 2001 was 15 percent, up one point per year over the previous two years. Likewise, its operational efficiency was very good, registering 44 percent in 2001. Operational efficiency, however, has been steadily declining. A working hypothesis for this increase is that the Bank is dedicating increasingly more time and expense in following up on delinquent payments.

3.2 Comparative Analysis

SEWA Bank is the only major financial services provider in Gujarat offering housing loans to low-income populations. As a cooperative bank, it is part of the formal banking system, and as such it must operate with a minimum capital requirement of 7.5 percent. The Bank's capital adequacy ratio for 2000 and 2001 was around 27 percent.[16] Moreover, its deposit ratio was 43 and 33 percent in 2000 and 2001 respectively. This implies that SEWA Bank is overcapitalized for its current lending levels, and, given the level of potential demand, is poised for major growth.

It is worthwhile noting that 100 percent of SEWA's loans are issued to the Weaker Sections (see section 1.2.2) well above the RBI minimum requirement of 10 percent. This compares with an eight percent average for all banks in Gujarat. Moreover, SEWA Bank's average housing loan size is \$528, compared with \$4,190 for all banks in Gujarat. This suggests that it is reaching low-income groups much more than other banks.

[16] As a cooperative bank, its accounting methods do not isolate equity. For the purpose of this analysis, share capital, reserve funds, and accumulated net profits were aggregated to determine the institution's equity.

TABLE 12. PORTFOLIO OVERVIEW

Values in US$

	1998	1999	2000	2001	31-Jan-02
SEWA Bank Loan Portfolio					
All Loans					
Total number of active loans	7,562	8,529	8,145	8,021	9,129
Total loan portfolio	2,095,693	2,091,192	2,015,343	1,950,563	2,274,866
Total amount in arrears	205,660	371,875	504,386	639,081	602,548
Payments overdue within loan term	150,340	297,610	371,731	369,832	392,172
Payments overdue beyond loan term	55,319	74,265	132,654	269,249	210,376
Average outstanding loan amount	277	245	247	243	249
Percent portfolio past due	10%	18%	25%	33%	26%
% Portfolio w/ pmts overdue within loan term	7%	14%	18%	19%	17%
% Portfolio w/ pmts overdue beyond loan term	3%	4%	7%	14%	9%
Housing Loans					
Number of Loans Disbursed for Housing	n/a	n/a	1,799	1,360	1,488
Total valued disbursed	n/a	n/a	634,294	464,266	785,887
Average loans disbursed	n/a	n/a	353	341	528
Number of active housing loans	3,415	4,067	3,794	3,339	3,677
Outstanding housing loan portolio	1,068,470	1,062,107	935,005	819,000	913,085
Percent of Portfolio dedicated to Housing loans	51%	51%	46%	42%	40%
Payments in Arrears	74,117	128,998	157,247	234,565	239,574
Average outstanding loan amount	313	261	246	245	248
Percent of Housing Portfolio in arrears	7%	12%	17%	29%	26%
Percent of Total arrears due to arrears in Housing	4%	6%	8%	12%	11%

TABLE 13. BENCHMARKING

Benchmarking				
Indicators	**All Banks**	**SEWA 2000**	**SEWA 2001**	**Calculation for SEWA**
Minimum Capital Requirement		**$242,091**	**$239,547**	0.75 x (Loans - Loan Loss Reserve) x 0 0.8
Regional Rural Bank	$1,063,830			
Cooperative Bank = 7.5 CAR - for SEWA (2000)	$138,491			
- for SEWA (2001)	$131,679			
Return on Assets		**13%**	**10%**	Operating income / Average total assets
All Banks (2000)	11%			
Public Sector Banks (2000)	10%			
Ratio of Operating Expenses to Op Costs		**91%**	**104%**	Operating expenses / Operating costs
All Banks (2000)	78%			
Public Sector Banks (2000)	85%			
Ratio of Provision to Non Performing Assets		**48%**	**35%**	Loan Loss Reserve / Payments considered bad and doubtful
All Banks (2000)	2%			
Public Sector Banks (2000)	70%			
Capital Adecuacy Ratio		**27.7%**	**26.7%**	(Share Capital + Reserve Funds + Net Profit) x .08 [to adjust for market risk] / (Loan portfolio - Allowance for bad debts)
Basil Accords	8%			
Cooperative Banks	7.5%			
All Banks (2000)	11.4%			
Public Banks (2000)	5.7%			
Credit to Deposit Ratio		**43%**	**33%**	Loan Portfolio / Deposits
All Banks in Gujarat State (2001)	47%			
Rural Regional Banks Northeast Region (2001)	48%			
District Cooperative Banks Northeast Region (2001)	71%			
Laons to weaker sectors as % of all loans		**100%**	**100%**	Weaker sector includes small and marginal farmers, artisans, village and cottage industries (loans less than Rs. 25,000; scheduled castes and tribes and self-help groups, among others.
Minimum requirement of all banks	10%			
All Banks in Gujarat state (2001)	8%			
Housing Loans			**$913,085**	Data for Jan 31, 2002
All Banks in Gujarat State (Sept 2001) Housing Scheme	$151,861,702			NHB Housing Scheme and Golden Jubilee Rural Housing Scheme
Number of Housing Loans			**3,914**	Data for Jan 31, 2002
All Banks in Gujarat State (Sept 2001)	36,240			NHB Housing Scheme and Golden Jubilee Rural Housing Scheme
Average Housing Loan Size			**$528**	Data for Jan 31, 2002
All Banks in Gujarat State (Sept 2001)	$4,190			NHB Housing Scheme and Golden Jubilee Rural Housing Scheme

3.3 Affordability Analysis

Assessing the affordability of housing loans from the point of view of SEWA Bank's clients is challenging. In large part, the difficulty lies in the method that it uses to calculate loan payments—5 percent of the principal—that operates alongside its policy to inform clients of the actual loan term—60 months for dedicated housing loans and 35 months for the general-purpose unsecured loan. Table 14 highlights the monthly payments for various loan amounts based on the estimated cost of a particular improvement. The first column calculates payments based on SEWA Bank's standard method (5 percent of principal). Assuming timely payments, loans are paid off in 23 months, netting an effective interest rate of 14.15 percent. The second column is provided as an alternative: it assumes that payments are calculated based on the actual 60 months that clients are told they have in order to repay a housing loan. An interest rate of 17 percent was chosen in order to demonstrate that even at a higher interest rate, higher loan amounts are more affordable since monthly payments would be lower.

Table 14. Home Improvement Monthly Payments

Sample improvements		14.5% Nominal interest rate Payments based on 5% of principal On-time repayment over 23 months Effective interest rate: 14.15%	17% Nominal interest rate Payments based on 60 equal payments On-time repayment Effective interest rate: 16.63%
Improvement	Est. Cost	Monthly Payment	Monthly Payment
Wall repair	$24.51	$1.25	$0.62
Roofing	$57.29	$2.85	$1.41
Plastering	$110.30	$5.50	$2.73
Kitchen addition	$148.09	$7.40	$3.67
Toilet addition	$161.70	$8.10	$4.02
Room addition	$382.98	$19.15	$9.50
Maximum loan	$531.91	$26.60	$13.19

Additionally, SEWA Bank serves clients who fall in various income ranges. Table 15 calculates maximum loan payments for five different income ranges based on a maximum of 25 percent of average monthly household income.

Table 15. Maximum Loan Payments

Monthly Household Income Ranges	Average Monthly Income	Max Monthly Payment @ 25% of Monthly Income	Income / Payment Capacity
Less than $21	$10.64	$2.66	**1**
$22 -$ 64	$42.55	$10.64	**2**
$64 - $128	$95.74	$23.94	**3**
$129 - $255	$170.23	$42.56	**4**
$256 - $383	$319.16	$79.79	**5**

Table 16 demonstrates loan affordability for various housing-related needs, including wall repair, roofing, plastering, kitchen addition, bathroom addition, room addition, and for the maximum loan amount of Rs. 25,000 ($532), estimating an average costs for each. If a loan is affordable, the chart lists a “Yes.” For example, clients with an income and debt capacity level of “One” and above can afford to take out either loan for wall repair. The same client could not afford the 14.5 percent, 24-month loan for new roofing, but could afford a 60-month loan at 17 percent. Only clients in the “Three” and above income and debt capacity level can afford a loan for a room addition. Clients in the lowest income ranges are most sensitive to interest rates and loan terms.

Table 16. Loan Affordability

Home Improvement Loan Affordability for various Income / Payment Capacity Levels														
Improvement: Cost:	Wall Repair $25		Roofing $57		Plastering $110		Kitchen Addition $148		Bathroom Addition $162		Room Addition $383		Maximum Loan $532	
Nominal Rates: Term in months:	14.5% 23	17% 60	14.5% 23	17% 60	14.5% 23	17% 60	14.5% 23	17% 60	14.5% 23	17% 60	14.5% 23	17% 60	14.5% 23	17% 60
Income / Payment Capacity Levels														
1	Yes	Yes	**No**	Yes	**No**	Yes	**No**	**No**	**No**	**No**	**No**	**No**	**No**	**No**
2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	**No**	Yes	**No**	**No**
3	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	**No**	Yes
4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

This analysis can also be useful in thinking about the effects that SEWA Bank’s loan payment calculation might have on arrears. In most cases, especially for the lower loan amounts and for clients with lower income and debt level capacities, the affordability analysis demonstrates that loan term and interest rate levels have an effect on affordability. Moreover, the lower the monthly payment, the more affordable the loan. For example, in the case of a 14.5 percent loan for wall repair, the monthly loan payment based on 23 equal monthly payments is $1.25. This would represent 46 percent of the client’s maximum capacity to pay; alternatively, based on a 60-month repayment period for a 17 percent loan, her monthly payments would represent only 23 percent of her maximum capacity to pay. The hypothesis is that this client would choose the “more affordable” payment and quickly run into arrears knowing she has 60 months to pay off the loan. Because SEWA Bank does not charge late fees and calculates interest on a declining balance, the effective interest rate paid by the client will remain the same whether or not she runs into arrears.

CONCLUSION

This assessment, based on detailed interviews and a thorough review (and sometimes an informed interpretation) of SEWA Bank's available financial reports, describes an institution that is both visionary and financially sound. SEWA Bank has been a pioneer in the field of housing microfinance. It has been one of the first major MFIs in the world to acknowledge that microfinance clients use loans for a variety of purposes, including housing. As a result, the Bank has developed various housing microfinance services, including the Paki Bhit and the Parivartan support loan.

SEWA's main housing microfinance products do not significantly diverge from its microenterprise loans. The main difference consists in the fact that the client has up to 60 months to repay the loan amount, as opposed to 35 months for a microenterprise loan. The longer repayment period reflects the higher costs and, according to SEWA Bank, the less productive nature of housing. The maximum loan amount for an unsecured housing loan is Rs. 25,000 ($532). The amount lent is based solely on the client's repayment capacity. SEWA does not require that the loan amount cover the cost of a completed improvement. The types of improvements financed range from major improvements such as room additions to minor improvements such as plastering and tiling. Based on 2002 data, the average loan size disbursed is Rs. 24,823 or $528, up from Rs. 15,703 ($334) in 2001. However, the cost of minor improvements range from $25 to $100 and the average cost for major improvements such as room additions cost approximately $383.

The Parivartan scheme (an alliance between SEWA Bank, the Ahmedabad Municipal Corporation, and other local NGOs) also deserves particular mention as an innovative model for slum-upgrading strategies worldwide. The objective of that program is to provide basic infrastructure (road, electricity, water) to people living in the hundreds of informal settlements that dot the Amhedabad landscape. AMC, through its own resources (general municipal revenues and financing from the World Bank, notably) contributes approximately 80 percent of the funds needed for the upgrading work. Beneficiary households are expected to contribute the remaining 20 percent. SEWA Bank has used the Parivartan program to expand its client base beyond existing SEWA Union members and sees it as an important part of future growth. Having established a relationship with participating families, SEWA Bank management believes that these families will be good candidates for future home improvement loans—especially if these families are able to pay for the Parivartan-related improvement through the savings program.

SEWA Bank is well positioned to increase the size of its outstanding portfolio. Management is well aware of this situation and is planning a major growth drive over the next five years. Portfolio growth can be a function of expanding the current client base or can result from better marketing of SEWA Bank's full product range to its existing clientele. As the institution grows, it will also need to further modernize its back-office operations and automate several key financial tracking and monitoring functions.

Sifting through financial information for the purpose of performance analysis was at times challenging. More orthodox methods for calculating loan interest rate, penalties on arrears, and for setting loan repayment periods would lead to greater accountability and simplify financial reporting.

Writing off loans on a regular schedule (or, alternatively, preparing a set of adjusted financial statements reflecting a “cleaned-up” portfolio) would help outsiders understand SEWA Bank in the context of other well-known MFIs worldwide. Further, SEWA Bank’s method for setting its interest rate, repayment period, and arrears penalty differs from standard methods used by other well-known MFIs, and the findings of this assessment suggest that adjusting its policies in these areas would lead to greater simplicity, accountability and transparency.

Housing microfinance clients do not typically receive the loan amount they request. Rather, they receive a preset amount that can exceed or fall short of that needed amount. This practice is contrary to what many institutions offering housing microfinance services (including CHF and its affiliates) believe to be an acceptable practice. Assuming client affordability, SEWA Bank should evaluate whether it makes more sense to peg the loan amount to the client’s request or to an agreed-upon compromise.

SEWA Bank needs to track its arrears in a more systematic manner. Tracking portfolio at risk, for instance, (and not just the actual amount in arrears) might provide management with a more complete picture of future losses and help it take remedial action. Arrears also appear to be high; this could be a function of both the Bank’s tracking methods and of its “flexible” repayment methodology. SEWA Bank will need to pay close attention to the growth and management of its Parivartan loan, as the SEWA Network steps up its slum-upgrading partnership with the AMC and the World Bank.

APPENDIX

Detailed charts showing methods used for estimating the housing portfolio and arrears data.

Arrears for All SEWA Loans Report to 31st Jan. 2002 (Dollars at US$1=Rs.47)							
Loan Type	Loan Purpose	Percent Purpose Housing (estimated)	Number Outstanding	Total Outstanding	Number with Payments Overdue	Amount of Payments Overdue	Amount of Payments Overdue beyond Loan Term
Max Loan Term: 15 months			**$1,126.00**	**$317,220.35**	**$196.00**	**$62,282.71**	**$0.00**
Secured Loan	All	10%	$863.00	$171,940.63	$163.00	$31,018.41	$0.00
Daily Loan	All	0%	$134.00	$7,440.13	$0.00	$0.00	$0.00
FD/OD Loan	All	10%	$128.00	$129,348.64	$33.00	$31,264.30	$0.00
Cash Credit Loan	All	0%	$1.00	$8,490.96	$0.00	$0.00	$0.00
Max Loan Term: 35 months			**$5,853**	**$1,480,311**	**$2,722**	**$523,440**	**$210,376**
Unsecured Loan	All	41%	$3,695.00	$886,233.35	$1,974.00	$435,836.53	$178,581.04
Gold Loan	All	10%	$1,045.00	$305,145.81	$456.00	$50,915.38	$19,718.40
Sanjivani Unsecured Loan	Business	0%	$809.00	$200,654.21	$244.00	$26,591.26	$12,076.83
Staff Loan	All	10%	$151.00	$44,728.19	$0.00	$0.00	$0.00
Salary Deduction Loan	All	10%	$73.00	$23,723.23	$9.00	$833.88	$0.00
Nsc Loan	All	10%	$39.00	$14,703.50	$16.00	$6,731.01	$0.00
Urja Loan	Fixed Assets	0%	$29.00	$3,846.44	$18.00	$2,432.93	$0.00
Panprakash Loan	Housing	100%	$5.00	$116.15	$5.00	$99.13	$0.00
Sanjivani Secured Loan	Business	0%	$4.00	$548.47	$0.00	$0.00	$0.00
Hypothication Loan	Vehicle	0%	$3.00	$611.30	$0.00	$0.00	$0.00
Max Loan Term: 60 months			**$2,150**	**$477,335**	**$315**	**$16,825**	**$0**
Pakibhit Unsecured loan (HUDCO)	Housing	100%	$2,130.00	$444,771.14	$315.00	$16,825.47	$0.00
Equitable Mortgaged Loan	Housing	100%	$14.00	$30,523.49	$0.00	$0.00	$0.00
Pakibhit Secured loan	Housing	100%	$6.00	$2,040.77	$0.00	$0.00	$0.00
				$0.00			
Total			**$9,129**	**$2,274,866**	**$3,233**	**$602,548**	**$210,376**

**Amounts are estimates based on average loans outstanding

Loan Type	Arrears for all SEWA Loans (Dollars at US$1=Rs.47)						
	1 day to 1 Year					>1 - 3 yrs.	>3 - 5 yrs.
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	120 dys to 1 yr		
Loan Term: 15 months	**0**	**0**	**0**	**16,861**	**45,422**	**0**	**0**
Secured Loan	0	0	0	14,616	16,403	0	0
Daily Loan	0	0	0	0	0	0	0
FD/OD Loan	0	0	0	2,245	29,019	0	0
Cash Credit Loan	0	0	0	0	0	0	0
Loan Term: 35 months	**1,900**	**1,972**	**3,028**	**3,582**	**52,099**	**250,482**	**196,995**
Unsecured Loan	730	1,141	1,560	2,053	33,147	218,625	170,515
Gold Loan	1,139	803	1,355	869	10,198	16,832	15,129
Sanjivani Unsecured Loan	4	28	82	42	1,622	12,737	11,351
Staff Loan	0	0	0	0	0	0	0
Salary Deduction Loan	12	0	28	0	537	257	0
Nsc Loan	0	0	0	619	6,112	0	0
Urja Loan	15	0	0	0	476	1,942	0
Panprakash Loan	0	0	3	0	5	90	0
Sanjivani Secured Loan	0	0	0	0	0	0	0
Hypothication Loan	0	0	0	0	0	0	0
Loan Term: 60 months	**228**	**299**	**511**	**565**	**6,041**	**8,161**	**1,020**
Pakibhit Unsecured loan (HUDCO)	228	299	511	565	6,041	8,161	1,020
Equitable Mortgaged Loan	0	0	0	0	0	0	0
Pakibhit Secured loan	0	0	0	0	0	0	0
Total	**2,128**	**2,272**	**3,539**	**21,008**	**103,562**	**258,644**	**198,015**

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