



Swarna Pragati Housing Microfinance

Scaling up inclusive housing finance in India

Executive Summary

Hong Kong & Tamil Nadu, India | Feb – Mar 2017

Introduction



GLP participants on the 50th Global Leaders Programme in the town of Sirkhali in Tamil Nadu

The **Global Institute For Tomorrow (GIFT)** is an independent Hong Kong-based think tank and executive education provider focused on advancing a deeper understanding of global issues.

The **Global Leaders Programme (GLP)** is GIFT's internationally-recognised two-week executive education programme rooted in Asia which combines intellectual rigour, a beyond-classroom methodology and an output-driven approach to leadership development.

In February and March 2017, professionals from a global set of companies and organisations joined the 50th GLP, applying their business experience and problem-solving skills to propose a new business model to expand access to inclusive housing loans in rural India.

In partnership with **Swarna Pragati Housing Microfinance (SPHM)**, a pioneer in the use of social collateral in housing loans, GLP participants produced a business plan to support SPHM's vision of reaching one million loans over the next 10 years.

Through field-research, stakeholder interviews and site visits, participants gained deeper insights into India; the challenges faced by low-income households to access housing solutions and the formal financial sector; and the opportunities for SPHM to tap into India's significant rural housing market estimated to reach US\$80 billion by 2022.

The following pages are an **Executive Summary** of the business plan. More detailed analysis can be found in the full report which is available upon request.

The global housing challenge

The right to adequate housing, inscribed within the United Nations' Declaration of Human Rights, is recognised as absolute, similar to the right to health or education. Access to housing goes beyond the physical structure of four walls and a roof. It satisfies the need for subsistence by offering shelter and a sense of security. It is central to a "household's functionality and productivity, social harmony and the development of health and sustainable economy", and provides a sense of dignity and pride.

In Asia, housing remains one of the most pressing issues, where more than 500 million still live in slums. Demographic shifts, combined with poor or non-existent land ownership policies and insufficient resources has resulted in a surge of slum creation and further deterioration of living conditions.

Given the scale, the need for adequate and affordable housing presents significant business opportunities for the private sector, especially for developers, investors and financial institutions.

1.6

Billion people globally will live in substandard housing by 2025



By 2050, 66% of the world population is projected to be urban

10

Million people die each year from conditions related to inadequate housing



Construction market to meet housing shortage estimated at US\$200 billion annually

India's Housing Sector

Despite the challenges in cities, poverty remains primarily a rural problem, where the housing shortage is still grossly overlooked. Amongst India's total housing shortage of **113 million housing units**, approx. 65 million homes are required in rural areas, mostly amongst Economically Weaker Sections (EWS) and Low Income Groups (LIG).

The main issues preventing low-income rural households from accessing conventional housing in India include a lack of official land titles; a lack of credit history and income documentation; unsuitable length and size of traditional mortgages; and the high costs of collection, administration and delivery of direct loans.

Sustainable business models that are scalable and can meet the paying capability of low-income households in rural areas are required.



RURAL HOUSING IN INDIA

65 million: total housing need in rural areas

Market for rural housing market estimated at **US\$80 billion by 2022**

Only **19%** of rural population living in *pucca* houses (strong structures)

87% of homes in villages lack access to sanitation

Project Partner: Swarna Pragati Housing Microfinance

Swarna Pragati Housing Microfinance (SPHM) is a microfinance institution established in Maharashtra, now headquartered in Chennai. It was set up in 2011 by Ramesh Kumar, former Chief General Manager at the State Bank of India (SBI) and Charman of NABARD's National Committee on Rural Habitat.

SPHM is a pioneer in the provision of incremental housing finance to rural low-income families to support their aspirations of building a new home, or repairing their existing house. SPHM targets rural customers who cannot access conventional financial products and services for home improvements.



SPHM's pioneering approach to inclusive finance

To reduce **servicing costs that are typically high**, SPHM partners with NGOs and local MFIs to source clients and collect loan repayments from SHGs. This approach significantly lowers delivery costs and increases SPHM's customer base without inflicting high direct marketing costs.

Consequently, the lending rate can be kept slightly below that of MFIs (23% vs 25-26%).

Partnership
with local
microfinance
institutions

A major impediment to the acquisition of a housing loan is the **lack of official land titles**. Many low-income villagers have owned their land for generations. Community-recognised institutions can help legitimise claims to land that have been long tenured by a household.

SPHM issues paralegal documents recognised by communal ownership institutions, that are themselves recognised by regulatory bodies.

Paralegal
mortgage
schemes to
establish land
tenure

The **length and size of traditional mortgages are typically unsuitable for low-income families**. Dividing a house into smaller modules allows the customer to finance one or several modules in shorter and multiple financing cycles.

This is better suited to families' payment capabilities, and to the unpredictable nature of their incomes.

Incremental or
modular
housing
finance

Social collateral
based on a
group approach
to housing
finance

Individuals working in the informal sector typically **lack credit history and income documentation** and are regularly denied access to a housing loan from conventional housing finance providers.

SPHM lends to members of Self-Help Groups (SHG) whose credit rating is established by the collective repayment rate of the local SHG. This model provides social collateral which encourages members to pay on time.

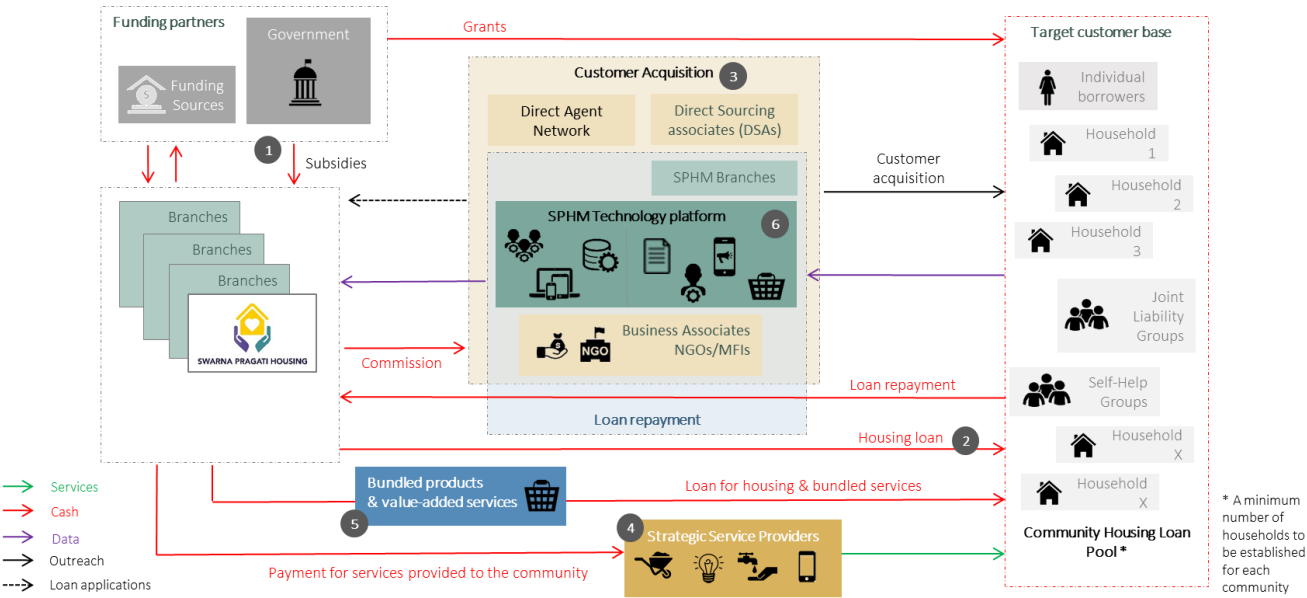
What is incremental housing?

Housing in the developing world is a process. Families might replace a dirt floor with a clean, hard surface. They might reinforce the walls or the roof to prevent water from seeping through the cracks when it rains. This method of improving housing one step at a time is called "incremental" or "progressive building" and accounts for up to 90 percent of residential construction in the developing world. Families build their homes bit by bit as needs change and resources become available.

Habitat for Humanity (2014)

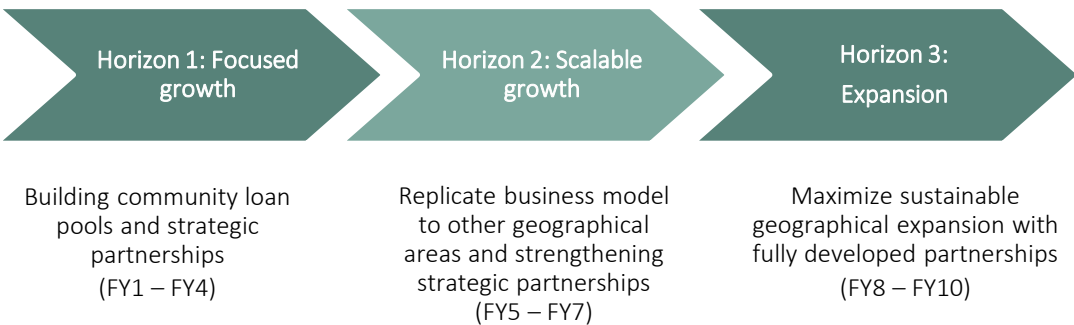
Proposed business model

For it to reach its target of one million loans over the next 10 years, SPHM must consider a new business approach that can build on its successes to date and enable it to scale-up its operations. Key areas of the proposed business model include: a community housing loan pool to support the cost-effective servicing of loans; the use of technology to streamline operations and increase its marketing outreach; and key partnerships to support an integrated solution approach.



- 1 SPHM will continue to leverage its relationships with funding partners for capital and target to expand its sources of funding. As a selected “contractor” SPHM receives subsidies from the government for the provision of housing loans to low-income rural households.
- 2 Loans will now be dispersed to Community Housing Loan Pools only, which can be used for maintenance/repairs, extensions, sanitation and new homes.
- 3 Customer recruitment will use existing recruitment partners, direct agent network, and its new technology platform. Incentives will be paid to customer acquisition partners.
- 4 The loan will also include strategic services such as construction, awarding one larger contract to a construction partner to reduce costs for the entire loan pool.
- 5 As part of the Community Housing Loan Pool, Bundled Products are also available as part of the loan to meet the individual needs of customers.
- 6 Loan repayment as well as customer account management can be more easily managed through the technology platform, and important data can be collected and analysed.

Expansion plan



Community Housing Loan Pool

A community loan pooling model is a necessary next step to enable SPHM to service loans cost effectively and reach scale more efficiently.

The benefits of a community housing loan pool include:

- Lower construction costs. Bulk orders of building materials and a collective fee for construction services can be applied to a community of families requiring new construction or repairs
- Lower operational costs. SPHM can deploy targeted marketing campaigns in a single vicinity, and service loans efficiently (loan applications, answer customer queries, collect monthly repayments, etc.) and introduce key service providers to assist with construction, sanitation, etc.
- Any savings gained can be returned to the borrower through lower interest rates.
- Although loans are pooled together, the housing loans continue to be available to individual borrowers, as well as members of Self Help Groups and Joint Liability Groups.



Key strategic partnerships

SPHM will attract key service providers, especially construction companies, that can execute well-managed construction services in a professional and effective manner. The Community Housing Loan Pool can also attract infrastructure developers and apply for the development of improved sanitation facilities, roads and electrification. Partners specialised in healthcare, insurance, household saving schemes, etc. and wishing to reach the millions of low-income customers living in rural areas could partner with SPHM for the delivery of additional value-added services and support SPHM’s efforts of becoming an integrated solution provider.

Partners for bundled products and value-added services

Education	Healthcare
Social Services	Wedding plans
Home care	Business loans & savings
Insurance	Funeral services

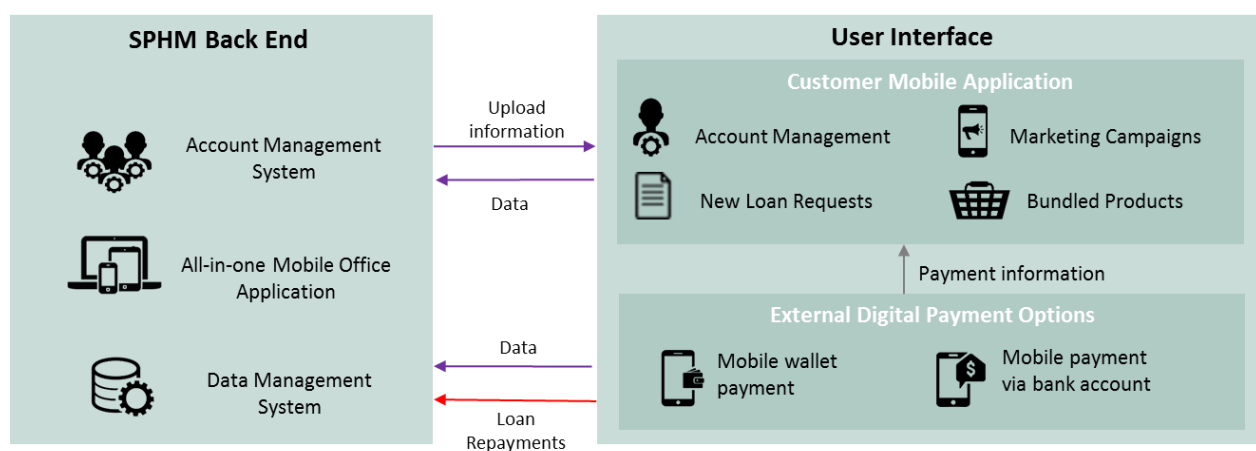
Strategic Service Providers

Construction
Energy
Sanitation
Technology

Mobile technology platform

Going forward, and in order to manage the projected one million accounts, SPHM will need an integrated technology solution and platform to connect to manage its operations and processes, as well as its marketing and outreach to customers. Key features of the platform would include:

- An **Account Management System** to push account updates, promotions and other information and messaging directly to the customer via SMS. An **All-in-one Mobile Office Application** will enable SPHM to service clients in the field. The system will include new loan application and data entry directly into SPHM's central processing centre via smartphones and tablets, instant scanning and uploading of documentation, etc.
- A **Data Management System** will inform SPHM about customers' preferences, repayment patterns, preferences for products, etc., which will enable it to be more responsive adaptable to the market.
- A **customer mobile Application** will allow users to manage their accounts, apply for new loans and view loan statuses and receive services and promotions directly via SMS.



Sales and marketing

SPHM's Sales & Marketing strategy will support the company's drive to offer a differentiated and integrated solution to home and community development and will be centered on the following:

- **Brand Strategy** to renew and strengthen the brand of SPHM. The suggested logo will contribute to building SPHM's corporate identity as an international brand. It is simple, balanced and easily recognisable.
- **Mobile offices** will conduct advertising campaigns, help raise brand awareness amongst SPHM's target customer base, and service loans directly in the villages.

For customer acquisition, SPHM will strengthen its existing relationships with NGOs, MFIs and self-help groups, but also recruit and train direct sales agents who would receive a commission for every successful loan application.



SWARNA PRAGATI HOUSING



Financial Projections

SPHM’s expansion plans and new focus on an integrated home financing model present an excellent opportunity for investors who wish to create significant impact on building a more inclusive housing financing sector in India and support SPHM’s target of reaching one million new loans over the next 10 years.

Focus for investors and business stakeholders will be on Return on Equity and Return on Assets to assess the financial health of the company, which are projected to be 24% and 5% in Year 10 respectively.

The key indicator of the effects of economies of scale in SPHM’s business is the lowering of the interest rate on their debt, which is assumed to decrease by 3% over 10 years from 15% to 12%. The ability for SPHM to further lower this will depend on its ability to i) secure additional capital from local sources, ii) access global capital markets and international lenders such as The World Bank and large social impact funds, and iii) receive support from the national government to strongly guarantee SPHM’s loans.

Lowering of its cost of capital can be transferred to its customers via lower borrowing rates. To support the fast growth, it is recommended that all profits in the first 10 years be reinvested back into the company to strengthen its capital position and pay down debt to control its gearing levels (the debt to equity ratio is projected to drop to 3.48 by Year 10). Investors can only realise returns by selling their stake but will not receive yield via dividends.

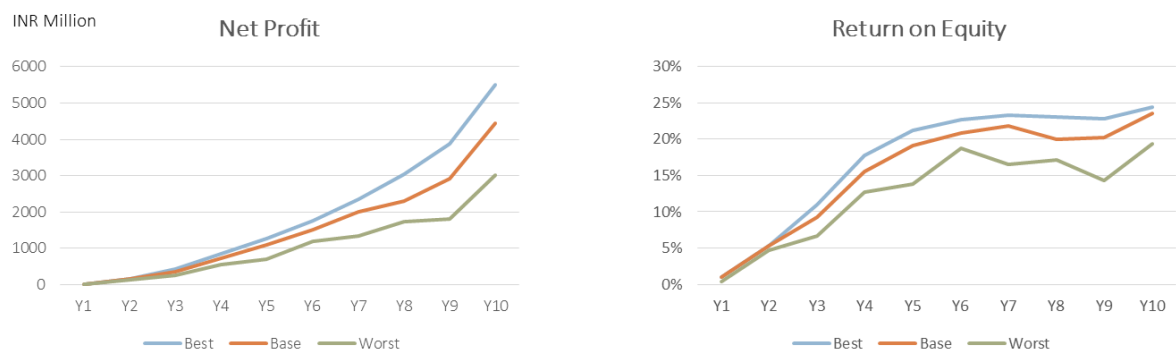


Photo credit: Daniel Naegele



For more detailed analysis and the key assumptions, please refer to the comprehensive report.

Social Impact

The proposed business model would enable SPHM to build on its existing model for housing finance, and support its effort of achieving scale, and the construction of millions of homes, which would have far reaching socio economic benefits to individual families and their communities. These include:

- A greater sense of safety, pride, dignity and belonging, improved healthcare and sanitation outcomes, and a higher chance of increased school attendance;
- Community participation and engagement for decisions related to building/repairing of homes and the potential building of public services;
- The provision of additional benefits and value added services to the community, such as insurance, healthcare, education programmes, wedding saving plans, etc. that can collectively raise the quality of living of the community.
- Economies of scale achieved by the community housing loan pool will decrease costs of borrowing and additional benefits such as insurance.



For more information on the Global Leaders Programme please contact GIFT at enquiry@global-inst.com

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