

CREDIT CONNECTIONS

Meeting the Infrastructure Needs of the Informal Sector through Microfinance in Urban India



UNDP -
World Bank
**Water and
Sanitation
Program**

South Asia Region

This report describes the 'Action Research' component of the study on 'Meeting Infrastructure Needs of the Informal Sector through Microfinance in Urban India'.

The Action Research component was designed to complement the four case studies of existing microfinance institutions providing credit for water supply and sanitation to poor women in the informal sector and to explore the practical requirements of microcredit for infrastructure. Action Research was carried out between December 1998 and April 1999.

**Gujarat Mahila
Housing SEWA Trust**



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Action Research: Introduction

The main objective of the Action Research was to:

Develop a prototype housing and infrastructure finance department model with appropriate accounting, reporting and loan evaluation systems for financial institutions disbursing credit to poor women in the urban informal sector in India.

The Action Research was undertaken in two phases. Phase I of the Action Research component of this initiative was undertaken by working in partnership with SEWA Bank, Ahmedabad. Phase II involved the development of the prototype model, based on the findings of Phase I. The methodology and findings of the Action Research should provide useful pointers to microfinance institutions around the country, on how to approach the establishment of specialized infrastructure and housing services.

Rationale for the Action Research

There are a growing number of emerging microfinance institutions in urban India that are facilitating poor communities to access improved shelter and services through the provision of small-scale credit. These include credit to pay for water connections, handpumps, electricity connections, construct toilets and upgrade homes. Interestingly, microfinance institutions are increasingly emerging in new partnerships involving municipalities, poor communities and various other partners such as non-governmental organizations and donor agencies involved in slum upgradation projects. Loans for community or individual on-site infrastructure purposes are a fairly new area in India. Pilot projects involving community participation along with an element of the consumer's own cash contribution (proportion of capital costs and

100 percent maintenance costs) have shown high success rates in providing improved infrastructure to poor consumers. Four examples of such success stories are documented in the Field Notes attached.

Field-level interviews have clearly demonstrated that demand for credit is very high amongst the informal sector poor. With increasing demand at the grassroots for better shelter and services, small-scale loans accessed from microfinance institutions are an effective facilitating tool. However, microfinance institutions face a variety of institutional problems in accessing adequate funds for on-lending to poor communities. Some of these are highlighted in the Issues Paper which is also enclosed.

Besides the existing problems in accessing adequate funds, microfinance institutions also face another major difficulty. Due to the fact that shelter-related and

infrastructure loans are a new, emerging sector coupled with the extremely high field-level demand for such loan types, grassroots institutions are often unable to cope with the growth in the sector. Housing and infrastructure loans are characterized by longer repayment terms and are usually of a relatively higher volume, as compared to income generation or consumption loans. This necessitates access to bulk re-finance from mainstream finance institutions for on-lending. Traditional collateral such as land title deeds are also largely unavailable within the informal sector, due to lack of legal land tenure.

Despite these distinguishing characteristics, most microfinance institutions have not yet developed a specialized system for housing and infrastructure loans. They have mostly been administered via the same systems that are applicable to other loan types. Given the specific characteristics of

this loan segment, as well as the growing size of the sector, it was deemed useful to develop a prototype housing and infrastructure loan department as an Action Research component to this study.

Methodology

The Action Research initiative was conducted in two phases:

Phase I: Housing Finance Needs Assessment Survey

Prior to tackling the main objective of designing a specialized system for housing and infrastructure loans, a market survey to clearly understand the housing and infrastructure loan market that exists among the target clientele of the micro-financing institution is required.

The results of such a survey may be used in designing an appropriate, demand-responsive loaning system and to develop appropriate loan products with realistic terms and conditions attached.

Accordingly, a Needs Assessment Study on the 'Housing Finance Needs of Women in the Informal Sector, Ahmedabad City' was undertaken with the cooperation of SEWA Bank. Full details of the Study along with an analysis of the main findings are elaborated upon in the section entitled 'Action Research: Phase I'.

Microfinance institutions wishing to carry out similar studies in other cities may find the methodology and format of the survey a useful guide.

Phase II: Design of Prototype Housing and Infrastructure Loan Department

Following an analysis of the results of the market survey, a specialized housing and infrastructure loan department for financing institutions supplying credit to women in the urban informal sector was developed.

Full documentation of the new system, job responsibilities of the related personnel and copies of the various forms to be used within the loaning system are detailed in the following section entitled 'Action Research: Phase II'.

This model has been developed along with full documentation so that it may be pre-tested, refined and eventually replicated by microfinance institutions.



Needs Assessment Study of the Housing and Infrastructure Finance Needs of Women in the Informal Sector, Ahmedabad

Introduction

This section of the report describes Phase I of the Action Research: a market survey of the housing and infrastructure finance needs of poor women in the informal sector. The survey was designed and completed with the help of SEWA Bank, Ahmedabad.

Objectives

- To assess the housing and infrastructure finance needs of poor women in the informal sector in Ahmedabad city. Issues such as the specific purpose of taking housing or infrastructure loans, the desired loan repayment period and whether the cost of credit is more important or access to credit is more important to women in the informal sector, will be addressed.
- To provide information to SEWA Bank, on the potential market that exists for housing and infrastructure loans within its target and existing loan clientele.
- To specifically examine the effect of housing and infrastructure loans on the income levels of home-based workers.

Research Team

The research study including preparation of the questionnaire and analysis of data was coordinated by Smita Ghatate, Consultant, SEWA Bank, Ahmedabad.

The field work was undertaken and coordinated by the field workers of SEWA Bank.

The study took four months for completion, ending in March 1999.

Use of Pre-tested Questionnaire

A structured questionnaire was prepared and pre-tested at the field level. Necessary modifications were made before the final survey was undertaken. In addition, field-level informal interviews with the respondents were also carried out.

Annexure 1 contains a reproduction of the questionnaire used for the survey.

Sample Base

In order to get a reasonable sample base, 150 respondents were interviewed for the needs assessment study. Of these, 90

women had previously taken housing, infrastructure or income generation loans from SEWA Bank, for amounts varying from Rs 5,000 to Rs 10,000. Thirty women sampled were from three specific areas of Ahmedabad, namely Sanjay Nagar, Sinheshwari Nagar and Meldi Nagar. All three areas are participants of the Slum Networking or Parivartan Program¹. Thirty women residing in the same localities as the Board of Directors of SEWA Bank, but yet to open accounts at the Bank, were also selected for the survey.

Findings of the Survey

This section contains relevant tables and related analysis, summarizing the findings of the survey. The findings are organized under five main categories:

1. General Information
2. Current Housing and Infrastructure Status
3. Housing and Infrastructure Loan Details
4. Unmet Housing and Infrastructure Needs
5. The Effect of Housing and Infrastructure Loans on the Productivity of Home-based Workers

¹The ongoing Ahmedabad Parivartan Program brings basic infrastructure services to the slums of Ahmedabad for on-site upgradation, in an affordable and sustainable way. The delivery and cost sharing mechanism is through a unique public-private-community partnership. For more details, refer to the publication entitled *Ahmedabad Parivartan*, UNDP-World Bank and Sanitation Program – South Asia, 1999.

Findings of the Survey

I. General Information

Main Occupation of Respondents

Main Occupation	No. of Respondents	% of Respondents
Vendor ²	40	27
Home-based worker ³	50	33
Labor and services ⁴	30	20
Housewife ⁵	12	8
Others	18	12
Total	150	100

Distribution of Respondents by Individual Monthly Income

Individual Monthly Income (Rs)	No. of Respondents	% of Respondents
0	10	7
<300	5	3
301-600	28	19
601-900	22	15
901-1,100	30	20
1,101-1,300	12	8
1,301-1,500	20	13
1,501-1,700	01	1
1,701-1,900	01	1
>1,901	21	13
Total	150	100

Distribution of Respondents by Monthly Household Income

Monthly Household Income (Rs)	No. of Respondents	% of Respondents
<500	1	1
501-1,000	6	4
1,001-1,500	12	8
1,501-2,000	26	18
2,001-2,500	11	7
2,501-3,000	17	11
3,001-3,500	20	13
>3,501	57	38
Total	150	100

Distribution of Respondents by Number of Persons Living in Household

No. of Persons	No. of Respondents	% of Respondents
1-2	5	3
3-4	37	25
5-6	50	33
7-8	41	28
9-10	17	11
Total	150	100

²Vendors include door-to-door saleswomen as well as stationary vendors (based in marketplace) of vegetables, fruits, fish, etc.

³Includes *bidi* rollers, *agarbatti* makers, crafts workers, *papad* rollers, etc.

⁴Includes maidservants, ragpickers, construction workers and other daily wagers.

⁵20 percent of respondents included non-clients of SEWA Bank. All the housewives interviewed belonged to this sample sub-section.



Analysis: General Information

One-third of the women surveyed are home-based workers for whom their home is also their workplace and warehouse. Particularly for these women, access to infrastructure, including water and electricity is very important as they are often primary factors of production.

Vendors are another common category, comprising 27 percent of the women interviewed. These women vend a variety of products including fruits, vegetables, cooked food products, etc. They

are either door-to-door vendors within designated areas, or stationary vendors based in a particular marketplace.

Providers of labor and services, including domestic servants, daily wagers and construction workers, make up the third category of occupation amongst the women interviewed (20 percent).

Ninety-two percent of the women interviewed were engaged in income generation activities in the informal sector. Eight percent were housewives. None of those in the housewife category were clients of SEWA Bank.

The majority of the women

(84 percent) earn Rs 1,500 per month or less. In 88 percent of cases, the total household income is between Rs 1,500-3,500 per month. This suggests that most of the women interviewed are substantial contributors to their total family income, generating between 45-100 percent of the monthly family earnings through their individual efforts.

The average household size is five to six persons (33 percent of the families). In relation to their total monthly household income, nearly 100 percent of the respondents are living below the poverty line⁶.

⁶According to the Planning Commission of India, the all-India urban poverty line for 1996-97 is defined as those with a monthly per capita income of Rs 353.44 or less. This figure is calculated on the basis of daily calorific requirements along with an added percentage for 'other needs' and updated annually in line with inflation. The latest update was undertaken in 1996-97.

Findings of the Survey

II. Current Housing Status

Distribution of Respondents by Area in which Current House is Located

Type of House	No. of Respondents	% of Respondents
Society ⁷	13	9
Chawl ⁸	76	51
Chhapura ⁹	35	23
Others ¹⁰	26	17
Total	150	100

Distribution of Respondents by Type of Current House Construction

Type of Current House Construction	No. of Respondents	% of Respondents
Kuchcha ¹¹	45	30
Semi-pucca ¹²	64	43
Pucca ¹³	41	27
Total	150	100

House Ownership Details

Details	No. of Respondents	% of Respondents
Ownership with clear title	37	25
Informal ownership ¹⁴	74	49
Rented house	39	26
Total	150	100

Distribution of Respondents by Number of Rooms in Current Shelter¹⁵

No. of Rooms	No. of Respondents	% of Respondents
1	112	74
2	25	17
3	10	7
>4	3	2
Total	150	100

Number of Respondents whose Houses have Special Purpose Spaces (includes covered and uncovered spaces)

Type of Space	No. of Respondents	% of Respondents
Separate kitchen	54	36
Open space	8	5
Workshed	6	4
Storage room	5	3
Not applicable	87	58

Distribution of Respondents by Existing Infrastructure Facilities in Current Shelter

Type of Infrastructure	No. of Respondents	% of Respondents
Own bathroom	62	41
Own toilet	83	55
Own water connection	107	71
Own sewer connection	122	81
Internal electricity in home	126	84

⁷Society: Regular colony containing full, individual infrastructure facilities.

⁸Chawl: Slum containing *kuchcha* or semi-*pucca* houses, with limited individual and some collective infrastructure facilities.

⁹Chhapura: Slum containing only *kuchcha* houses with very basic, collective infrastructure facilities.

¹⁰Others include staff quarters, *mohalla* etc.

¹¹*Kuchcha*: Mud walls and floor with thatch/tiled roof.

¹²Semi-*pucca*: Mud and brick walls and floor, with asbestos/tiled roof.

¹³*Pucca*: Bricks and concrete; sometimes with asbestos roof.

¹⁴Informal ownership refers to settlers squatting on government owned land for 10 to 15 years (or beyond); they do not possess any legal land ownership documents.

¹⁵Covered toilet and covered kitchen are each considered to be separate rooms.

Analysis – Current Housing Status

The base-line survey found 75 percent of the respondents currently living in *kuchcha* or semi-pucca one-roomed houses, located in slums. A total of 34 percent of the women surveyed have a separate kitchen. Only 9 percent of the respondents reported that they lived in a 'formal' society or a colony. It is interesting to observe that all of these women were residents of Sanjay Nagar or Sinheshwari Nagar, where the Parivartan Program has been completed. With the provision of comprehensive infrastructural facilities, residents now feel that they are no longer living in a slum, but in a regularized 'society'.

Only 27 percent of residents have pucca, two- to three-roomed houses.

Half the families surveyed did not possess any clear land

ownership documents, although they had been living in the same house for 10 to 15 years (and beyond). Most of the land was either government or privately owned open spaces, on which migrant workers had built their homes.

Twenty-six percent of the women surveyed lived in rented accommodations, although all wished to have a home of their own in the future.

Lack of space is a very real problem, as is evident from the fact that besides a basic room, 58 percent of the respondents do not have any other 'special purpose' spaces, such as a kitchen, shed or any open space to work in. Forty-one percent had their own bathroom, while 55 percent reported that they had access to their own toilet. Those that had their own sewer connection to the city mains (majority of slums have these), have built pour-flush model (water-borne system) toilets. Of

those residents that are not connected to the main city sewerage network but have built their own toilets, the majority have built twin-pit pour-flush latrines.

In terms of infrastructure, approximately 71 percent have their own water connection. However, they only have access to two hours of water flow per day, as it is released from the Corporation at designated times. Although 81 percent have sewer connections to their home, only 55 percent have built their own toilets. Lack of space, money, adequate water for operating a toilet or technical know-how is responsible for the fact that all those with sewer connections have not been able to construct their own toilets as yet. A significant proportion of respondents (84 percent) have electricity connected to their house, although the majority of these connections are illegal due to lack of land tenure.



Findings of the Survey

III. Housing and Infrastructure Loan Details

Distribution of Respondents Aware of SEWA Bank's Housing and Infrastructure Loans

Aware of Housing and Infrastructure Loans	No. of Respondents	% of Respondents
Yes	131	87
No	19	13
Total	150	100

Source of Awareness about Housing and Infrastructure Loans Available from SEWA Bank

Source	No. of Respondents	% of Respondents
Employees of SEWA Union	36	24
Employees of SEWA Bank	42	28
SEWA Bank Board of Directors	30	20
Members of SEWA Union	23	15
Not aware of SEWA Bank loans	19	13
Total	150	100

Distribution of Respondents by Total Number of Loans taken from SEWA Bank

Total Number of Loans	No. of Respondents	% of Respondents
0	31	21
1	48	32
2	35	23
3	14	9
4	7	5
> 4	15	10
Total	150	100

Distribution of First Loans from SEWA Bank by Purpose

Purpose of Loan	No. of Respondents	% of Respondents
Housing or infrastructure	60	40
Working capital for own business	38	25
To buy equipment for own business	13	9
Consumption loan	8	5
No loan	31	21
Total	150	100

Effect of First Loans on Increased Earnings¹⁶

Increased Earnings after Taking First Loan	No. of Respondents	% of Respondents
Yes	50	33
No	69	46
No loan	31	21
Total	150	100

Comparison of First Loans by Amount Requested and Amount Sanctioned

Loan Amount (Rs)	No. of Respondents	No. of Loans Sanctioned
Less than 5,000	40	71
5,001-10,000	31	33
10,001-15,000	6	4
15,001-20,000	7	1
20,001-25,000	23	10
More than 25,001	12	0
No loan	31	0
Total	150	119

Sources of Additional Funds to Supplement First Loan and Rate of Interest Paid¹⁷

Sources of Additional Funds	No. of Respondents	Monthly Rate of Interest Paid (%)									
		0	1	1.5	2	2.5	3	3.5	4	>4	
Own savings	4	4									
Moneylenders	4						1		2	1	
Friends/relatives	19	10		1	2		4			2	
Others	3	1	1							1	
Total	30	15	1	1	2		5		2	4	

¹⁶ It was difficult to obtain accurate answers, as many respondents found it hard to remember and quantify whether the first loan they had taken from SEWA Bank, had led to increased earnings for them.

¹⁷ Only 30 of 150 respondents sought additional funds to supplement their first loan from SEWA Bank; 100 percent of them had taken loans for house/infrastructure upgradation/repair.

Analysis – Housing and Infrastructure Loan Details

The majority (87 percent) of women surveyed are aware that SEWA Bank disburses housing and infrastructure loans. The most common sources of information for community groups about SEWA Bank's loans are employees of SEWA and SEWA members themselves.

There is a well-proportioned spread among the women interviewed, of those who have taken no loans (21 percent), to those who have taken more than four loans from SEWA Bank (10 percent). Fifty-five percent of the latter are long-term account holders with SEWA Bank who have been customers for over 15 years. The majority of the women interviewed, however, had taken either one or two loans from SEWA Bank.

More than half the first loans taken from SEWA Bank by the women interviewed were for housing or infrastructure upgradation purposes. The accuracy of this statistic is reinforced by the fact that over 52 percent of SEWA Bank's total loans are disbursed for housing or infrastructure-related needs. Only 7 percent of first loans were for consumption purposes, applied for in times of crisis such as death, illness or marriage. The balance 43 percent of all first loans were taken for income generation or asset creation.

Historically, when microfinance institutions begin disbursing small-

scale credit, their experience is that first loans are usually demanded for consumption or income generation activities. SEWA Bank's increasing track record of facing very high demand for infrastructure and/or housing loans as the first loan, demonstrates a shift in the priorities of poor communities. Access to better housing and infrastructure through own contribution (facilitated by housing and infrastructure-related credit) is a fast-growing market for SEWA Bank.

Fifty of the women interviewed (33 percent) said that they had experienced an increase in earning levels following utilization of their first loan. These 50 women were all of the home-based workers included in the survey. Thus, this survey conclusively proves that housing and infrastructure is a productive asset and that there is a 100 percent correlation between increased facilities or better housing and a rise in income levels.

More than half the women (60 percent) wanted amounts ranging from Rs 2,000-10,000 for their first loan. This reinforces the belief that there is a substantial demand for small-scale credit (up to Rs 10,000), as people themselves are responsible enough to assess their own repayment capacity limitations.

Especially amongst the older members of SEWA Union included in the survey, a total of 35 percent of the women surveyed demanded Rs 15,000-25,000 for their first loan.

On the other hand, in line with prudential lending norms, SEWA Bank assessed each applicant's loan repayment capacity and the majority of first loans sanctioned were only up to Rs 10,000. The maximum first loan amount was Rs 25,000 – only 8 percent of women interviewed were sanctioned the maximum available.

The women surveyed were asked to provide details of any additional funds taken from external sources to supplement their first loan amount. This served as a benchmark for SEWA Bank to understand the main sources of funding besides itself, available to its members. Only 30 women, that is 25 percent of the women who had taken a loan from SEWA Bank, had found the amount sanctioned inadequate and had to supplement it from external sources. Of these, 63 percent reported that relatives or friends had provided them with additional loans, while 13 percent used their own savings. Half of the loans from relatives or friends were interest-free, but the other half had to pay interest rates of between 24 to 48 percent per annum. Thirteen percent also resorted to borrowing from moneylenders in order to complete the job for which the loan was originally taken. This is significant as loans from money lenders carry a range of interest of between 36-48 percent per annum – much higher than the current market interest rate ranging from 17 percent (SEWA Bank) to 20 percent.

Findings of the Survey

IV. Unmet Housing and Infrastructure Needs

Interest Rate at which Respondents are Willing to Borrow

Annual Interest Rate	No. of Respondents	% of Respondents
12%	60	40
18%	85	56
30%	1	1
No response	4	3
Total	150	100

No. of Respondents who Want Future Housing or Infrastructure Loans

Want Future Loan	No. of Respondents	% of Respondents
Yes	138	92
No	12	8
Total	150	100

Unmet Needs – Distribution of Respondents by Purpose of Future Housing or Infrastructure Loan¹⁸

Purpose	No. of Respondents	% of Respondents
Repair walls	51	34
Repair roof	24	16
Repair floor	41	27
Add room	37	25
Build terrace	44	29
Add bathroom	52	35
Add toilet	30	20
Water connection	06	4
Sewer connection	05	3
Connection for home electricity	03	2
Build/buy new house	25	17

Distribution of Respondents by Future Infrastructure Needs in Current House¹⁹

Infrastructure Needs	No. of Respondents	% of Respondents
Bathroom	86	57
Toilet	52	35
Water connection	29	19
Sewer connection	22	15
Electricity connection	24	16

Distribution of Respondents by Loan Amount Required to Meet Future Housing and Infrastructure Needs

Loan Amount (Rs)	No. of Respondents	% of Respondents
0-5,000	12	8
5,001-10,000	5	3
10,001-15,000	3	2
15,001-20,000	11	7
20,001-25,000	22	15
>25,000	97	65
Total	150	100

Analysis – Unmet/Future Housing and Infrastructure Needs

The unmet needs for housing and infrastructure finance among the women interviewed were assessed by asking respondents whether they wanted housing and/or infrastructure-related loans from SEWA Bank in the near future. If so, they were asked the specific purpose of the loan and acceptable interest rates that they would be willing to pay for credit.

An overwhelming 92 percent of the women stated that they had demand for future housing or infrastructure-related loans. Nearly all of them (96 percent) expressed a willingness to pay interest rates of between 12-18 percent per year which is a realistic demand in line with market rates of interest. This confirms that the poor are not demanding highly subsidized credit, a common misconception. The women surveyed reported that they were fully aware that it was unsustainable for an institution like SEWA Bank to provide loans at cheaper than market rates.

¹⁸Multiple responses arising from multiple unmet needs.

¹⁹Multiple responses arising from multiple future needs.

They also gave a higher priority to access to timely and efficient credit rather than focusing on the absolute cost of credit, as long as the cost was reasonable.

Most agreed that in comparison to other sources of credit (mainly moneylenders), the interest rate charged by SEWA Bank was fair and reasonable.

The specific unmet housing and infrastructure needs of the women interviewed covered a wide range, including various aspects of house repair – walls, roof, floor (50 percent) and house additions consisting of room and terrace (54 percent). Infrastructure upgradation loans – including the addition of a toilet, bathroom, water, electricity and sewer connections – were demanded by a substantial number of respondents. This again highlights the significant level of demand for infrastructure-related loans, which is a relatively new phenomenon. Only 25 of the women surveyed reported that they wished to take loans in the future from SEWA Bank to buy or build a new house.

When specifically questioned about their future infrastructure needs, a majority of the women expressed a need for water- and sanitation-related services including building a bathroom, toilet, water and sewer connections. Only 16 percent reported that their main need was to get their own electricity connection. This also serves to highlight that the water supply and sanitation sector is highest in people’s priorities. As such, SEWA Bank could significantly help these

women by designing specific water supply and sanitation loan products. In addition, a technical agency such as Mahila Housing SEWA Trust would have to play the intermediary role of engaging the municipality to facilitate the water supply and sanitation provision, upon payment by the consumer.

When asked the amount of credit they required in order to meet future housing or infrastructure-related needs, the

majority of women (87 percent) reported higher amounts ranging from Rs 15,000 to over Rs 25,000. A substantial 65 percent of the women stated they needed over Rs 25,000 in loans to satisfy their unmet housing and infrastructure-related needs. Of course, they did not wish to access one loan for such a large amount, but several smaller loans in future, to meet their composite shelter-related needs.

Findings of the Survey

V. The Effect of Housing and Infrastructure Loans on the Productivity of Home-based Workers

Number of Respondents who Use their Home as a Workplace

Use their Home as Workplace	No. of Respondents	% of Respondents
Yes	50	33
No	100	67
Total	150	100

Distribution of Part of Home Used as Workplace

Part of Home	No. of Respondents	% of Respondents
Room	30	60
Kitchen	7	14
Open space near house	8	16
Workshed	2	4
Storage room	1	2
Others	2	4
Total	50	100

Distribution of Home-based Workers that have Taken a Housing or Infrastructure Loan from SEWA Bank

Taken Housing or Infrastructure Loan	No. of Respondents	% of Respondents
Yes	31	62
No	19	38
Total	50	100

Amount of Increase in Monthly Income following Receipt of Housing or Infrastructure Loan

Increase in Monthly Income (Rs)	No. of Respondents	% of Respondents
0-100	14	28
101-200	9	18
201-300	10	20
> 301	17	34
Total	50	100

Distribution of Home-based Workers that Want to Take Future Housing or Infrastructure Loans from SEWA Bank

Need Future Home Upgradation or Infrastructure Loan	No. of Respondents	% of Respondents
Yes	47	94
No	3	6
Total	50	100



Analysis – The Effect of Housing and Infrastructure Loans on Productivity of Home-based Workers

This special section of the survey focused on studying the impact of housing and infrastructure loans on home-based workers. This was of particular interest to SEWA Bank, as one of its three main client groups are women who work from home.

As reported earlier, the survey covered 50 (33 percent) women who were home-based workers. Sixty percent of them used their room (75 percent of total women surveyed lived in one-roomed shelters) as their workplace – in addition to it being their living and sleeping space, kitchen and storage room.

Over half (62 percent) of the home-based workers surveyed had taken a housing or infrastructure loan from SEWA Bank. Significantly, all of them saw a rise in their monthly income following shelter or infrastructure-related upgradation, in the range of Rs 100 to over Rs 300 per month. An overwhelming 94 percent said that they had need for future home upgradation or infrastructure loans from SEWA Bank.

Action Research: Phase II

This section of the report describes Phase II of the Action Research, which involved the design of a prototype housing and infrastructure loan department. The model is applicable to financial institutions that wish to meet the housing and infrastructure-related credit needs of poor women in the urban, informal sector. The prototype is based on the premise that individual loans are disbursed on the basis of a combination of completed individual application forms and field visits to each potential loanee's home to assess her genuine need for the loan and her loan repayment capacity.

Following the results of Phase I, two important decisions were made regarding the proposed new system:

- It was decided that since most housing upgradation loans to the informal sector poor are used for a variety of integrated purposes, often including an infrastructure component such as getting a

water or electricity connection or building a toilet and an additional room out of the same loan, it would be more efficient to merge housing and infrastructure loans. It was established that in the perception of the target clientele, the differences between loans for on-site infrastructure versus loans for housing upgradation, were not very clear – so to separate these loan types was deemed unnecessary and impractical.

- The importance of the position of the field worker within the loan system, especially in order to ensure high repayment rates, was identified as a key role. This is especially true for organizations disbursing individual loans, that do not rely on social or peer pressure through group formation, to ensure high loan repayment. The close interaction between the field worker and loan clients, through pre-loan sanction and post-loan utilization site visits to the client's home was identified as an

important requirement within the overall system. This also meant that limiting debt:income ratio formulae need not be imposed in order to determine the extent of loan that may be sanctioned. Instead loan amount decisions would be taken to suit individual loan repayment capacities, based on individual circumstances.

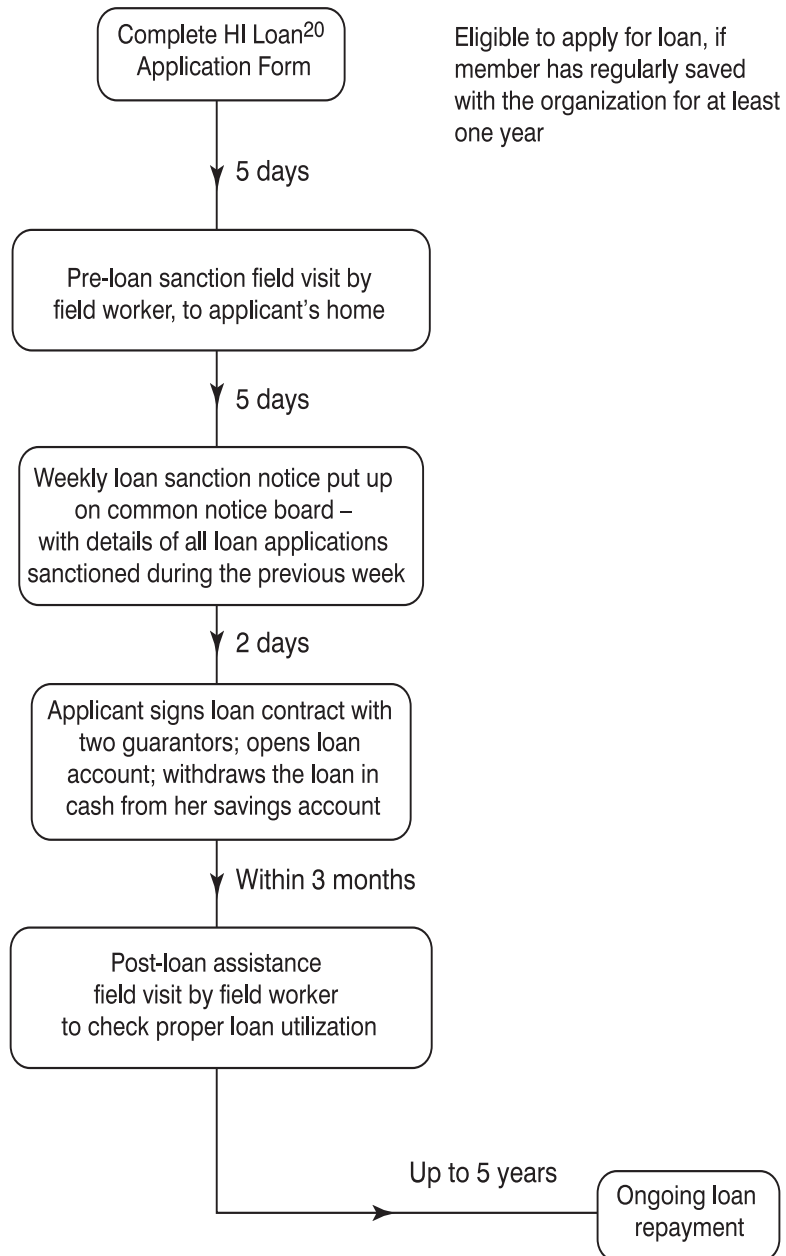
In addition to a specialized housing and infrastructure loans department, two complementary activities are also recommended:

- Development of a centralized building supplies raw material outlet, so that loanees have easy access to materials at a reasonable cost. Instead of cash payments, appropriate loan utilization may be promoted by the issuance of 'materials vouchers,' which can be redeemed by clients at the materials centre.
- Technical assistance in housing design, low-cost technologies, cost estimation, building supervision etc.



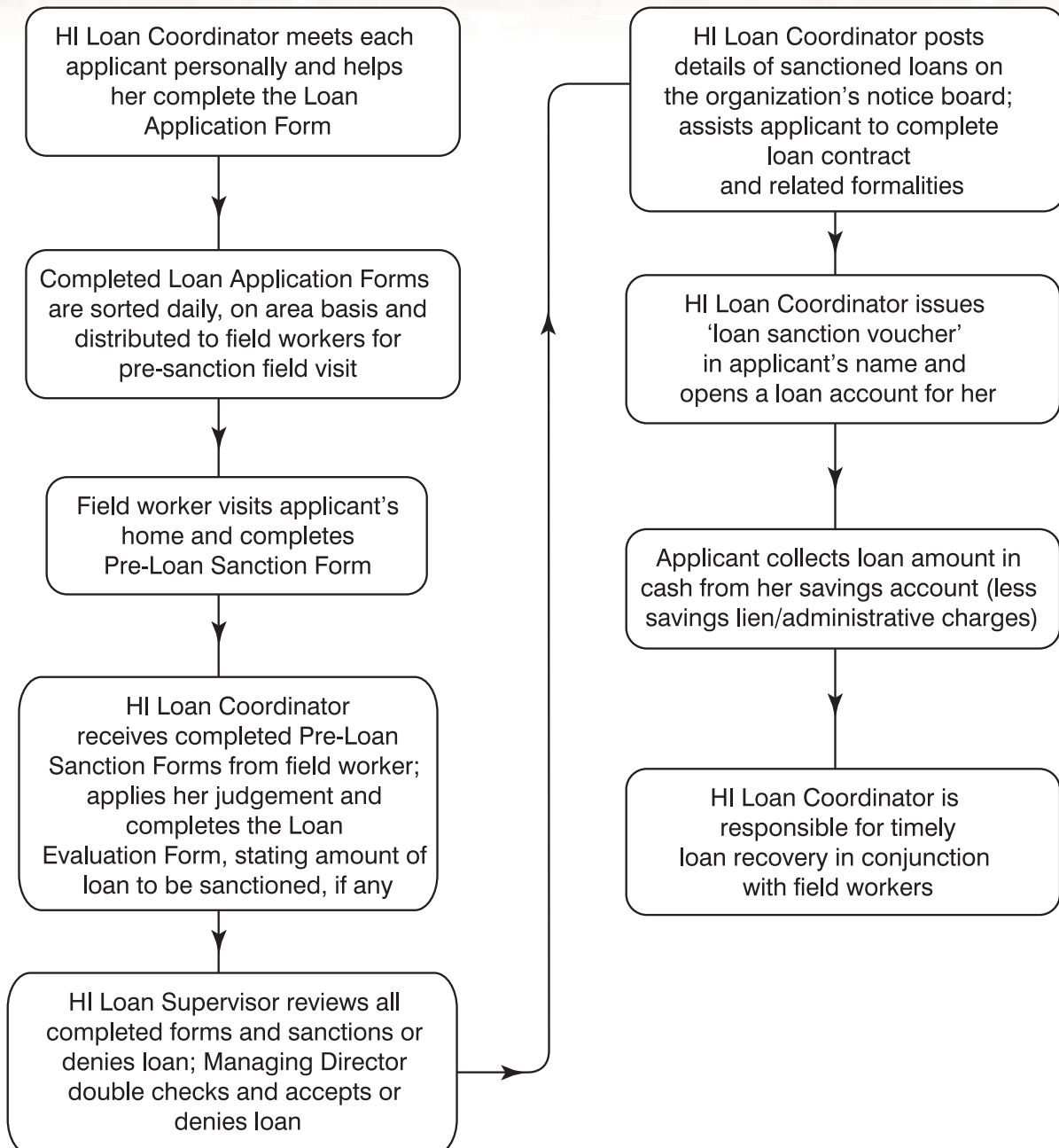
Proposed Loan Process Map – External (for Clients)

Proposed Loan Process Map – External (for Clients)



²⁰HI Loan: Housing and/or infrastructure loan.

Proposed Loan Process Map – Internal (for Housing and Infrastructure Department Personnel)



Proposed Housing and Infrastructure Loan System

Proposed Personnel

The following staffing pattern is proposed to cover a projected workload of 25-30 daily field worker home visits to the loan applicant's house. Each team of two field workers visits 12-15 homes per day in order to assess whether loans are to be sanctioned and to ensure appropriate end-use of the loan. With significant increases in the volume of business, subsequent adjustments could be made to staffing levels.

- 4 x Field workers (two teams of two field workers each)
- 2 x Housing Coordinators
- 1 x Housing Supervisor

Job Responsibilities

4 x Field Workers (Two Teams Covering Designated, Separate Areas)

Prior to a loan being sanctioned, the field workers will go on a pre-loan sanction assistance visit to the applicant's home and complete the 'Pre-loan Sanction Form'.

Within three months of the loan being sanctioned, the same team will go for a post-loan utilization visit to the applicant's home and complete the 'Post-loan Sanction Form' to ensure appropriate utilization of the loan in line with the purpose stated in the Loan Application Form.

The field workers will also make loan recovery home visits if loan

repayments are outstanding by more than three months.

Field workers will assist clients in opening bank accounts, collect repayments and facilitate loans for housing and infrastructure purposes.

2 x Housing Coordinators

They will be based at the organization head-office counter for five days per week and go on field visits to keep in close contact with their loan clients, on one fixed day per week.

The Coordinators will complete the 'Housing Loan Application Form', following a personal interview with the client, at the head-office. They will also complete 'Loan Evaluation Forms', deciding whether to accept or refuse a loan and justify each decision.

They will disburse the loan sanction voucher to the applicant, after completion of all formalities including the completion of all the loan-related journal entries in the Bank's records.

The Coordinators will monitor loan recovery and coordinate the field workers' recovery visits to applicants' homes and issue standard repayment reminder letters.



They will correspond with mainstream housing finance institutions such as HUDCO and HDFC regularly and be responsible for submitting quarterly progress reports along with loan repayments to them (if re-finance has been accessed from these organizations).

They will be responsible for overseeing all shelter-related partnership projects, including regular liaison with the urban local body, technical support agency etc.

1 x Housing Supervisor

Accepts or refuses loan applications based on:

- (a) Loan Application Form;
- (b) Pre-Loan Sanction Form; and
- (c) Loan Evaluation Form.

Overall responsibility for overseeing housing and infrastructure loans.

Proposed Housing and Infrastructure Loan System

Pre-loan Sanction

- Completion of Loan Application Form by Housing Coordinator, following personal interview with the applicant.
- Completed Application Forms sorted by area on a daily basis and handed over to the field workers for home visit.
- Field workers complete Pre-loan Sanction Form following their visit to the applicant's home, and submit it to the Housing Coordinator.

Loan Approval/Refusal

- Housing Coordinator completes the Loan Evaluation Form, based on an interview with loanee and other documentation.
- Housing Supervisor receives copies of applicant's file containing all completed forms and sanctions or refuses loan.
- Managing Director double checks and sanctions or refuses loan.
- Housing Coordinator posts sanctioned applicant's names on the organization's public notice board.

Loan Disbursement

- Applicants come to Housing Coordinator along with two guarantors to sign the loan contract, and are given a copy of the 'Housing Loan Rules and Regulations'.
- Housing Coordinator issues a loan sanction voucher with the loan amount clearly written on it.



- Housing Coordinator opens a loan account for the applicant and posts the necessary journal entries including the insurance premium; she updates the loan account every quarter.
- Loanee collects her loan in cash from the cashier.

Post-loan Utilization

- Housing Coordinator gives a list of daily loans disbursed to field workers.
- Field workers visit the applicant at her home and complete a Post-loan Sanction Form detailing loan utilization, within one month of loan receipt.
- Housing Coordinator checks whether all the loans have been used for the purpose stated on the Application Form and accordingly posts a quarterly interest rebate of 4 percent. If not, she imposes the necessary penalties (see Annexure 6).

Loan Recovery

- The loan recovery department

generates housing loan progress reports every month and passes these repayment reports to the Housing Coordinator.

- Standard letters requesting payment of installments that are due are issued for loans that are one to three months overdue.
- Repayments that are more than three months overdue are notified to the area field worker for a home visit in order to investigate the cause behind the delayed repayments; the field workers and Housing Coordinators jointly monitor repayments closely.

Annexures 2-5 contain copies of the various forms designed for use by the prototype Housing and Infrastructure Loan Department.

Annexure 6 contains the proposed 'Rules and Regulations' regarding housing and infrastructure loans. A copy of these regulations should be provided to all loan clients and explained to them by the Housing Loan Coordinator at the time of loan application.

Annexure 1

Structured Questionnaire Used for 'Housing and Infrastructure Finance Needs Assessment Survey' (Ahmedabad City) – Market Research

General Information

Name:

Main occupation:

- Vendor
- Home-based worker (specify)
- Crafts worker
- Bidi* roller
- Construction worker
- Others (specify)

Supplementary occupation:

- Vendor
- Home-based worker (specify)
- Crafts worker
- Bidi* roller
- Construction worker
- Others (specify)

Current income (Rs per month):

- Of the woman
- Of the family

Size of the household:

- Adult: M F
- Children: M F

Type of the current shelter:

- a. (i) Society
- (ii) *Chawl*
- (iii) *Chhapura*
- (iv) Footpath
- (v) Others (specify)
- b. (i) *Kuchha*
- (ii) Semi-pucca
- (iii) Pucca

How many rooms are there in the current shelter?

Do you have any of the following:

- (i) Toilet
- (ii) Separate kitchen
- (iii) Kitchen garden
- (iv) Workshed
- (v) Storage room

Do you use your home as a workplace? If so, how and which part of your home?

Do you or anyone in your family own the house in which you are presently living?

- Yes
- No

If not, what rent do you pay and what collateral did you give?

If you are occupying common land, have you ever faced threats of eviction?

Do you plan to buy a plot of land for housing?

- Yes
- No

If yes, when?

Do you plan to buy or build your own house?

- Yes
- No

How much savings do you have with SEWA Bank (if any)?

How long have you been saving with SEWA Bank?

- (i) Less than one year
- (ii) One year
- (iii) Two years
- (iv) More than two years

Loan Details

Year and month that current loan was made available from SEWA Bank, if any:

Purpose:

Amount required:

Amount sanctioned:

Total amount spent on this episode:

Has this loan increased your earnings in any way? If so, by how much per month?

Source, amount and rate of interest charged, on excess amount spent (besides loan):

	Amount (Rs)	Rate of Interest (%)
Self	<input type="checkbox"/>	
Moneylender	<input type="checkbox"/>	
Friends and relatives	<input type="checkbox"/>	
Others	<input type="checkbox"/>	

How long did it take to get the loan from SEWA Bank, after applying for it?

Repayment status:

- Fully paid up
- Currently repaying
- Default

How did you know about the loans available from SEWA Bank?

Do you know that SEWA Bank also gives loans for housing and infrastructure?

Do you want a housing or infrastructure loan?

- If so, why?
- For how much?
- If not, why not?

Did anybody from SEWA Bank visit your house before sanctioning your first loan?

Did you face any difficulties in getting the loan?

Did you need any guarantors for the loan? Was this a problem?

Housing History

Where did you live before this house?

Have you ever borrowed for housing or infrastructure from any source?

Is getting access to credit more important, or the cost of credit more important to you?

What is the highest rate of interest you would pay for a housing or infrastructure loan?

What is inadequate about your current shelter? Do you want to expand or add any infrastructure to it?

If you use your home as a workplace, what improvements would you want so that your productivity could rise?

If you are a home-based worker, have you ever taken a shelter-related loan? Can you describe how, if at all, this has increased your income in terms of higher daily productivity?

What are your infrastructure needs? Do you have access to water, sanitation and/or electricity?

Have any of your housing loan applications to SEWA Bank been rejected?

● If so, do you know why?

● If yes, give the following details:

Amount applied for:

Year of application:

Purpose:

Do you have any pending housing or infrastructure needs for which you need a loan?

Yes

No

Have you applied to SEWA Bank for this loan?

If no, are you planning to apply?

Have you applied to any other source?

Yes

No

● If yes, specify the source:

Annexure 2

Housing and Infrastructure Loan Application Form

(To be completed by loan applicant)

Personal Information

Name:

Address:

Age:

Marital status:

- Married
- Single
- Widowed
- Separated

Educational qualifications:

- Savings Account No:
- Total Savings: Rs

Family Details

Total number of family members:

- Loanee
- Spouse
- Children
- Other family members
- Total members

Occupation Details

Own occupation and monthly income:

Husband's occupation and monthly income:

Total family monthly income:

Do you own any of the assets/machinery used in your/your spouse's occupation?

Are the assets rented? If so, what is the monthly rental amount?

House Details

Type of house:

- Kuchha*
- Pucca*
- Semi-pucca*

Ownership/Legal tenure

- Own house
- Other's name (specify)
- Rented

If rented, what is the monthly rental?
If there is no ownership document, on whose land is the house located?

How many rooms:

- One
- Two
- Three
- More than three

Total area of house:

- 100 sq ft
- 100-200 sq ft
- 150-200 sq ft
- 201-300 sq ft
- More than 300 sq ft

Purpose of Loan

Purpose

- House repair
- House extension
- Infrastructure (specify)
- New house
- Others (specify)

Total cost estimate

Loan amount requested

Monthly repayment capacity

Loan History Information

Type of loan

- Secured
- Unsecured

Loan amount

Date of receipt and source of loan

Date of full loan repayment

Do you have any outstanding debts? If so, how much do you repay per month and what is the total amount due?

Do you own any other assets? Please describe.

I hereby declare that I have carefully read all the terms and conditions cited above and they are acceptable to me.

Signature of
Loanee

Signature of
Loan Coordinator

Date



Annexure 3

Pre-loan Sanction Form

(To be completed by housing loan field worker at the time of first site visit)

Name:

Address:

Type of current house:

- Society
- Chawl
- Chhapura
- Footpath
- Others (specify)

House type – walls:

- Bricks and cement
- Bricks and mud
- Thatching/wood walls
- Kuchcha with cement plastering
- Kuchcha (mud)
- Others

House type – flooring:

- Tiles
- Stone
- Cement and plaster
- Mud
- Others

House type – roofing:

- Cement/pucca
- Iron
- Asbestos
- Wood
- Tent
- Plastic sheet
- None
- Others

House type – windows:

- Wooden
- Metal/iron
- No window

Purpose of loan (specify):

Current housing and infrastructure need:

Total estimated cost:

Loan amount requested:

If cost estimate has been undertaken, by whom:

- Self
- Relative
- Mason
- Technical agency
- Others

Does the applicant want technical help with building/repairing the house/adding infrastructure? If so, exactly what help?

Does the applicant have a current loan outstanding with the savings and credit organization/any other debtor? If so, how much is due?

In your opinion, should the loan be sanctioned?

If yes, for what amount ?

If not, why not?

Any other remarks.

Field worker's Signature:

Date of Home Visit:

Annexure 4

Loan Evaluation Form
(To be completed by the Housing and Infrastructure Loan Coordinator)

Name of loan applicant:	Should the loan be sanctioned?
Does the applicant have regular savings with the savings and credit organization? Current balance in Savings Account:	If no, why not ?
Amount of loan requested:	Amount of loan to be sanctioned:
Does the applicant have any current loans outstanding with the organization?	What lien should be retained on the loan ? (Usually 20 percent of loan amount; if other amount, please explain why)
If so, is the loan application to be rejected?	Any other remarks?
Loan Amount Sanctioned	
Approval of Housing Coordinator	Signature Date
Approval of Housing Supervisor	Signature Date
Approval of Managing Director	Signature Date



Annexure 5

Post-loan Sanction Form

(To be completed within three months of loan receipt by housing loan field worker)

Name:

Address:

Date of receipt of loan from the savings and credit organization:

Loan amount received:

Stated purpose of loan at time of application:

Check receipts for materials and labor, if any?

Check: Yes No

In your opinion, has the loan been utilized as per the purpose stated to the organization?

Field worker's signature:

Describe the physical effect of the housing or infrastructure loan on the loanee's house or services available:

Before

After

If the loanee is a home-based worker, has the housing loan helped to increase her monthly income? If so, by how many rupees per month?

Check loanee's pass book for loan repayments

Are repayments on time?

If not, why not?

How many repayments are outstanding?

How does the loanee plan to repay the loan and clear her outstandings?

Any other comments:

Date:

Suggested Rules and Regulations for Housing and Infrastructure Finance Loans

(Maximum loan amounts, repayment terms, penalties, etc may be adapted by specific financing organizations)

1. Loans may be for any amount between Rs 1,000 and Rs 25,000.
2. Loans from the housing and infrastructure loans department must be used for the stated purpose only, including:
 - House repair/maintenance
 - House expansion, e.g. addition of rooms
 - Addition of infrastructure, e.g. electricity/water/toilet/drainage
 - To build a new house/buy a plot
3. All loans are repayable in five years.
4. An applicant is only eligible for a housing loan, if she has been saving REGULARLY with the organization for one year or more.
5. Only one loan per account holder is allowed at one time. This includes related accounts held by children or relatives of the account holder.
6. The interest rate charged on housing loans will be the same as that charged on all other loan types – currently 17 percent per annum. However, housing loans will get a rebate of 4 percent per annum, credited to the loanee's savings account on a quarterly basis.
7. If a loan is used for any purpose other than (2) above, the entire loan will attract a higher interest rate of 17 percent. In addition, a cash penalty will be charged (for example, between Rs 500 to Rs 1,000).
8. The organization will hold a lien (usually 20 percent) over the savings account of each loanee with an outstanding housing loan. When the loan is fully repaid after five years, the savings account will become operational again and the credited interest rebate may be withdrawn, in a lump sum.
9. House insurance will be mandatory for all housing loan beneficiaries. The organization will directly withdraw the insurance premium from the client's savings account.
10. Each applicant taking a first-time loan from the organization will be required to buy 5 percent of the loan amount in the form of shares in the organization. In addition, a transaction fee of Rs 40 (loans < Rs 5,000) or Rs 60 (loans > Rs 5,000) will be charged, along with a nominator fee of Rs 5 per guarantor. These charges will be directly debited from the loan amount.



For more information, please contact:

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