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Prospects and Problems of Housing Microfinance in India: Evidence from “Bhavanashree” Project in Kerala State

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Abstract

Housing problem in India is very chronic, particularly among the low income and such other marginalized groups who are beyond the reach of the formal institutional agencies for housing finance. Nearly the whole of the housing shortage in the country, as high as 99.84 percent, relates to the above underprivileged group. Hence, to address the ‘real housing problem’ in the country it is imperative that alternative models for housing finance, like microfinance in housing or housing microfinance (HMF) in short. Though HMF has been a quite successful tool in many parts of the world for addressing the housing problem of the poor and the marginalized, the same is yet to pick up considerable momentum in India. In the above context, this paper seeks to make an overall study of the HMF initiatives the world over, a more detailed study of the Indian scenario in this regard, and lastly to make an empirical study with reference to “Bhavanashree” – the HMF project of the poverty alleviation programme called “Kudumbashree” of the Government of Kerala. The paper suggests a few strategies for faster growth of HMF in India for rapid housing development in the country, and hence national economic development.

Keywords: Housing shortage, Low Income Housing, Housing Microfinance

1. Introduction

The ‘Real Housing Problem’ in India

Housing is one of the most primary human needs. Housing problem in India is very acute, particularly among the poor and other marginalized categories, in spite of the appreciable growth in institutional finance to housing in the ongoing reforms era. This is because, majority of the shelter-less population is beyond the reach of the formal institutional system for housing finance. In fact, as per the 11th Five Year Plan (2007-2012) estimates¹, as of 2007 viz. the end of the 10th Five Year Plan (2002-07), the total urban housing shortage in India has been 24.71 Million units. Furthermore, of this 24.71 Million units as high as 99.84 percent belongs to EWS (Economically Weaker Section) and LIG (Low Income Group) categories. The balance 0.16 percent alone relates to MIG (Middle Income Group) and HIG (High Income Group) put together. That is, 21.78 Million for EWS (88.14 per cent), 2.89 Million for LIG (11.70 per cent) and the balance 0.04 Million for MIG and HIG together (0.16 percent)². Besides the huge urban housing shortage as above, there is high rural housing shortage of 7 Million also.³ Thus, alternative financing models like microfinance is essential to address ‘the real housing problem’ in India.

In India, 'Housing for All' is a national priority. Housing is also a major instrument for economic development of a developing nation like India, because 'research has clearly demonstrated that in most regions housing has the potential of becoming an engine of economic growth because of its high yield on invested resources, a high multiplier effect, and a host of beneficial forward and backward linkages in the economy' (UN, 2000)⁴. Thus, for a developing nation like India, in a situation when the economy is adversely affected by the global financial slowdown, the significance of housing for kick-starting the recession-hit economy and hence ensuring its sustained growth need not be overemphasized. National Urban Housing and Habitat Policy 2007 (NUHHP) has officially recognized 'Affordable Housing for All' as its goal.⁵ In fact, NUHHP seeks to promote, sustainable development of habitat with a view to ensuring equitable supply of land, shelter and services at affordable prices to all sections of society. Given the huge amount of the housing shortage in India and also budgetary constraints of the Government, public sector efforts alone are not adequate to face the above challenge. Rather, a 'multi-stake holders' approach involving the other stakeholders like Private Sector, the Cooperative Sector, the Industrial Sector, Services/Institutional Sector, is very much essential.⁶ It is in the above situation that models like housing microfinance assumes vital significance in India for solving 'the real housing problem' as noted above.

2. Analytical Significance

In India, as the housing problem of the poor is very acute there is an urgent need for pro-poor models like HMF. As per the 11th Five Year Plan (2007-2012) estimates⁷, as of 2007 the total urban housing shortage in India has been 24.71 Million units of which as high as 99.84 percent belongs to EWS and LIG categories. Thus, the housing problem of the 99.84% percent of the urban shelter-less population (EWS and LIG) still persists and is by and large unsolved. Given the utmost significance of housing schemes for the low income masses representing over 99 percent of the total shelter-less in India, this study which seeks to suggest strategies to promote housing microfinance as a tool for tackling the housing problem of the poor, assumes cardinal significance. The study is particularly relevant when 'like all emerging economies, India too has been impacted by the crisis and by much more than what was expected earlier' (RBI, 2009b)⁸.

3. The Research Problem

Inclusive housing is a national priority in India. As such, there is an urgent need for alternative financing models like microfinance, because of the failure of the formal housing finance system in addressing the housing needs of the poor and other marginalized sections. In spite of the remarkable performance of microfinance sector in India, housing microfinance is yet to pick up momentum significantly notwithstanding the commendable performance a few institutions like, SEWA⁹. Previous studies in the field point to certain clear facts like, 'in just two decades, housing microfinance programs have attained a prominent position among organizations addressing the shelter needs of the urban and rural poor in many regions around the world' (Harvard, 2000)¹⁰. Thus, considering the not-so-encouraging status of housing microfinance in India, the research problem for the proposed study is: "Examining the exact nature of housing microfinance in India, its problems and prospects, and particularly deterrents to its growth, with a view to suggest suitable remedial strategies for its faster development; based on an empirical study of 'Bhavanashree' project of 'Kudumbashree' programme of Kerala Government".

4. Review of Literature and Research Gap

Mathur, G C (1980)¹¹ in his article entitled 'Housing the Poor', has analysed the underlying reasons for the housing shortage and the very slow pace of housing development in India. He has observed that to improve the housing conditions of the poor, it is essential to have a realistic approach in view of the

scarce resources and that the most effective strategy is to go for self-help to the possible extent, construction of houses in stages and provision of essential services, community facilities, public utilities. The vital significance of low cost houses for the rural and urban poor is highlighted.

Buckley, Robert M. (1996)¹² in his book 'Housing Finance in Developing Countries' has examined in detail the housing policy in developing countries, at a time when their systems have started facing unprecedented changes; particularly because of the wide-spread economic liberalisation the world over, and also in the backdrop of the failure of many centrally planned economies. He has pointed out the utmost significance of the role played by non-budgetary Government policies on the provision of housing.

Nair, Tara S. (1999)¹³ in her commentary 'Housing: The Missing Concerns' has pointed out that the unfortunate part of Indian housing scenario is the financial imprudence of the political leaderships in the country. She argues that the real gainers of the budgetary sops offered by the government are the urban middle class, middle-income housing projects and housing finance institutions; not the poor who really need housing finance.

Harvard University (HMF Report) (2000)¹⁴ has reviewed HMF initiatives of various countries in Asia, Latin America and Africa. The report has highlighted remarkable growth of HMF initiatives worldwide in the last two decades. It gives background information for those involved in (or planning to enter into) HMF activities.

Manoj (2004)¹⁵ in his paper 'Dynamics of Housing Finance in India' has systematically traced the growth and development of the housing finance India. The significance of housing to the economy, prospects of the industry, the risk factors and challenges to housing finance (along with suitable remedial strategies) are explained. It has been suggested that models like 'Grameen bank' of Bangladesh should pick up in India also for faster and inclusive housing development.

IFPRI (Research Paper) (2004)¹⁶ has pointed out that for scaling up 'Kudumbashree' the poverty alleviation programme of Govt. of Kerala (India), an enabling environment (viz. decentralization and concurrent devolution of finance) are essential.

National Urban Housing and Habitat Policy 2007 (NUHHP)¹⁷, is the Official policy on urban housing and habitat of the Ministry of Housing and Urban Poverty Alleviation, Govt. of India. It gives a detailed account of the status of urban housing in India, the problem of housing shortage etc. NUHHP seeks to promote sustainable habitat in the country and delineates specific areas of action and an action plan towards achieving 'Housing for All' – its ultimate goal.

IFMR (Research Report on HMF in India) (2007)¹⁸ discusses the potential of HMF in providing housing finance to the poor and also the risk factors involved in it. Using a demand assessment made at an MFI named ASP (based in Andhra Pradesh, India), the paper discusses as to as to how an MFI can design an HMF product as per the client's socio-economic status.

Manoj (2008)¹⁹ in his paper, "Learning from Cross Country Experiences in Housing: a Microfinance Approach" gives an overview of inclusive housing finance systems of various countries (like, social housing, public housing etc.). Based on global experiences and the Indian realities, the HMF model that is relevant in India is suggested.

Beacon for Hope (Research Report on HMF in Ghana) (2008)²⁰ has observed that HMF has significant capacity to speed up incremental building process and shortening the time for housing development. The impact of this new product at present has been observed to be abysmal because of the risk-averse nature of the suppliers.

Oommen (2008)²¹ has studied as to how far 'Kudumbashree', the poverty alleviation programme of Government of Kerala, has been successful in poverty alleviation and women empowerment and concluded that it has got "tremendous potential" in spite of its shortcomings. But, 'Bhavanashree' – the HMF wing of 'Kudumbashree' is not covered separately in this study.

Manoj (2009)²² in his book (Edited), "Emerging Technologies and Financing Models for Affordable Housing in India" gives a detailed picture of the emerging technologies for affordable housing in India and elsewhere in the world, and also the financing models for low cost housing. Technologies like gypsum load bearing walls and financing models like HMF are discussed.

4.1. Research Gap

It is observed that though there are many studies worldwide and in India on microfinance, those on HMF in particular are very scarce. Empirical studies on HMF in India are extremely rare, though in some MF studies HMF is just touched upon, like for instance Oommen (2008). In respect of the IFMR research (2007) also, the focus is on design of suitable products based on a demand assessment for HMF in Andhra Pradesh state. In this context, the proposed study seeks to bridge the above research gap by making a systematic study of the problems faced by a typical HMF in Kerala state in India viz. 'Bhavanashree' – the HMF initiative of 'Kudumbashree', the poverty alleviation programme of the Government of Kerala. Accordingly, based on the experience of the existing HMF initiatives, this paper seeks to suggest a suitable strategic framework for design, implementation and administration of typical HMF initiatives in the India, as 'Kudumbashree' in Kerala is fast becoming role model for the entire India.

5. Objectives of the Paper

- (i) To make an overall study of the housing microfinance initiatives the world over, their performance track record, trends and patterns including major problems;
- (ii) To critically study the extent and nature of housing problem in India, and to examine the need for alternative financing models for addressing the housing needs of the poor;
- (iii) To make an empirical study of the activities of 'Bhavanashree', the HMF project of the poverty alleviation programme called 'Kudumbashree' of the Government of Kerala, the salient features of its loan schemes, performance and deterrents to growth;
- (iv) To identify the major problems of the existing 'Bhavanashree' scheme, deterrents to its growth, and also to suggest suitable strategies for its fast and healthier growth.

6. Hypotheses of the Study

- (i) HMF portfolio of 'Kudumbashree' is getting only lesser significance vis-à-vis others.
- (ii) The main deterrent to the growth of 'Bhavanashree' is inadequacy of the prime security (viz. clear title to the land where house is to be built) which repels the bankers.
- (iii) Repayment rate of HMF loans is significantly lower than that of other MFI loans.
- (iv) 'Incremental housing' is the only practical way of housing development for the poor.

7. Utility of the Study

The findings of this study are expected to provide necessary information for rational decisions for those involved in HMF, those who plan to enter into HMF and also for government policies.

8. Methodology of Research and Data Collection

8.1. Universe of the Study

Though the study is regarding the HMF initiatives all over India, as the very title suggests the scope of the empirical investigation (field study) is limited to 'Bhavanashree' – the HMF wing of 'Kudumbashree' programme of Government of Kerala. Thus, Universe of the study is "the set of all 'Bhavanashree' units functioning under the 'Kudumbashree' programme in Kerala".

8.2. Sample Design

There are 14 districts in Kerala that together represent a total of 1999 panchayats²³. Though all these panchayats have CDSs (Community Development Societies) of 'Kudumbashree', only some of them are having 'Bhavanashree' units. Of the 14 districts, one typical district in the central part of Kerala (viz. Thrissur) is selected for this study based on convenience sampling methodology, as all the 14 districts have similar pattern of HMF activities and socio-economic profile. Of the 92 panchayats in Trissur district – all having CDSs of 'Kudumbashree', 50 have 'Bhavanashree' units. Of these 50 panchayats, 10 percent (ie. 5 panchayats) are selected based on intensity of 'Bhavanashree' operations as per the latest statistics (2009) available with the 'Bhavanashree' Officer (Asst. Co-ordinator) of the respective district (Trissur) level office of 'Kudumbashree'. Of these 5 panchayats, 20 percent of the beneficiaries are selected at random for data collection.

8.3. Data Collection – Primary and Secondary

Primary data is proposed to be collected using two separate Interview Schedules viz. (i) for the 'Bhavanashree' beneficiary selected, and (ii) respective bankers for the 'Bhavanashree' unit concerned. Primary data is collected from the existing HMF beneficiaries selected and also from the principal officers (Branch Manager/Credit officer) of the respective bankers of the HMF units. The problems and issues as well as suggestions from both ends are meticulously studied. Some data (particularly those relating to government policy) are collected principal officers (state and/or district level) of 'Bhavanashree'.

Secondary data are proposed to be collected from the publications of Reserve Bank of India (RBI), Indian Banks' Association (IBA), Indian Institute of Banking & Finance (IIBF), National Housing Bank (NHB) and National Building Organisation (NBO). International publications, like those of International Union of Housing Finance (IUHF), The Joint Center for Housing Studies (Harvard University), World Bank Group etc. are also to be used.

9. Global Experiences in Housing Microfinance and Low Income Housing

As microfinance initiatives are making rapid strides the world over, so do housing microfinance projects of microfinance institutions (MFIs). Housing microfinance (HMF) seeks to make housing finance accessible and affordable to the poor households who are often outside the reach of formal institutional intermediaries in housing finance. It is one of the growing portfolios of MFIs worldwide. Researches done by international agency USAID²⁴ in various countries have revealed the immense potential of HMF. The commendable performance of NACHU²⁵ (National Co-operative Housing Union) in Kenya, experience in Malawi (South Africa)²⁶ that underlines the significance of formation of co-operatives for group lending, experience of a Bolivian NGO (viz. PROA)²⁷, successful experience of Community Mortgage Programme²⁸ in Philippines, success of Grameen Bank²⁹ Bangladesh and SEWA³⁰ in India etc. are a few examples.

In China, the housing market was liberalized only during the late nineties. For people living in sub-standard living conditions (slums), a 'one-time' equity grants based on the market value of their existing housing are given to enable them to access mortgage instruments. Land leases are auctioned to developers to supply housing on a home ownership basis. Developers are provided incentives in the form of tax reductions or tax exemptions. Accordingly, China could develop more than 20 million housing units during the last five years.

Chile has pioneered in the up-front capital subsidy programme in 1977. This programme has eliminated all slums from Chilean cities. Here, on the supply side, social housing is built by the private sector. On the demand side, subsidies are given to poor families to increase effective demand for the private 'social' housing. Chile has set aside 05.8 % of its national budget for providing such subsidies.

In South Africa (along with Singapore, Cuba and Sweden) has got one of the best success stories in providing housing for the poor called social housing. Here minimum standards for housing and services have been laid out by the Government. A viable market for low-cost housing has been established through subsidy programme. This has been made possible through establishing partnership with housing institutions, communities, the private sector and NGOs. Accordingly, 1.4 million houses with secure tenure have been constructed in the last ten years for the poorest of the poor.

In Thailand, “The Baan Mankong” (meaning “Secure housing” in Thai) Program has channeled government funds through the Community Organizations Development Institute. Thai Government has earmarked a budget of about US\$ 470 million for the infrastructure subsidy and housing loan interest subsidy. This works out to US\$ 1650 per family. Accordingly, Thailand puts its existing slum communities (and their community networks) at the center of a process of developing long-term, comprehensive solutions to problems of land and housing.

Apart from the four global success stories (viz. China, Chile, Thailand and South Africa) in respect of urban housing poverty alleviation as discussed above, other glaring examples (that followed more or less similar pattern of participatory or partnership form of development) include Brazil, Egypt, Mexico, and Tunisia. In all these countries, the respective central government has been in the ‘driving seat’ in the implementation of inclusive policies for housing, land reforms and regularization. Some low-income or middle-income countries like Colombia, El Salvador, Philippines, Indonesia, Myanmar and Sri Lanka, have managed to prevent slum formation by anticipating and planning for growing urban populations by investing in low-cost and affordable housing.

In view of the above success stories, it may be noted that huge housing shortage (including slum formation and such other social evils) is a reflection not of market failure but of societal failure. The poor must have access to housing in homes they can afford. Since market forces will never provide housing that the poor can afford, and further market forces will never have the ability to do so until these masses cease being poor, it is up to government to take the initiative. The government can stimulate the creation of sustainable and affordable housing for the poor through the involvement of private sector. Reform measures in (i) the land (grant of land security to poor, reduced government interventions in land market), (ii) finance (down marketing housing finance, fiscal incentives to the private sector developers, micro-finance institutions), (iii) capital subsidies targeted subsidies in various forms (like, up-front subsidies to the poor, or through savings institutions, or to the developers). One of the key requisites for such initiatives to be successful is that of ensuring a governance system that is open, transparent and is able to implement the ‘rule of the law’ in its true letter and spirit.

10. Housing Situation in India: the Quantum and Nature of Housing Shortage

In spite of the fact that investment in housing is an important driver of economic development of any nation, in India housing finance remained as an activity that failed to occupy the key position that it deserved during the early days of planned development. Only during the late seventies there was any organized attempt to set up an institutional mechanism for the purpose of providing housing finance to the needy sections of the society. Furthermore, it was after one more decade (1988, to be specific) that a formal housing finance system emerged in India with the formation of National Housing Bank (NHB) in 1988. At that time nearly 80 percent of the housing stock in the country was financed from informal sources (RBI, 2009)³¹.

When NHB was formed in 1988 as a fully owned subsidiary of the RBI with a mandate ‘to operate as a principal agency to promote housing finance institutions and to provide financial and other supports to such institutions’ there were only about 400 housing finance companies (HFCs) in India, functioning as NBFCs (Non Banking Finance Companies) regulated by the RBI. These companies included many small ones with restricted or localized activities and also those engaged in construction / development but offering housing credit as well. The only exception in this regard has been HDFC (Housing Development Finance Corporation Ltd.) – the pioneer HFC in India and also the largest

among the HFCs in India ever since its inception in 1977. Housing sector has been given priority status by the Union Governments over the years and accordingly housing used to get substantial allocations in the various Plans, apart from quite a large number of fiscal and monetary incentives. In the late 1990s, after a major policy decision by the RBI, Commercial Banks (CBs) entered the retail housing finance arena very aggressively. In 2003 CBs have overtaken HFCs in incremental housing credit and have been leading the formal housing finance sector in India since then. The Tenth Plan (2002-2007) sought to promote housing sector in a big way. The current Eleventh Plan (2007-12) is also no exception. (Table I).

Table I: Investment for Housing during the various Plan periods.

(Amount in Rs. Crores)

Five Year Plan	Public Investment	Private Investment	Total Investment
First Plan (1951-56)	250	900	1,150
Second Plan (1956-61)	300	1,000	1,300
Third Plan (1961-66)	425	1,125	1,550
Fourth Plan (1969-74)	625	2,175	2,800
Fifth Plan (1974-78)	796	3,640	4,436
Sixth Plan (1980-85)	1,491	18,000	19,491
Seventh Plan (1992-97)	2,458	29,000	31,458
Eighth Plan (1992-97)	31,500	66,000	97,500
Ninth Plan (1997-2002)	52,000	99,000	1,51,000
Tenth Plan (2002-07)	4,15,000*	3,11,300*	7,26,300
Eleventh Plan (2007-12)	5,07,318.1@	3,73,560#	8,80,878.1

Source: (1) *Report on Trend and Progress of Housing in India, 2003*, NHB, New Delhi., p.79.

(2) Plan Documents, X Plan (2002-07) and XI Plan (2007-2012)

(3) Report of the 22nd Standing Committee on Rural Development 2005-06, Ministry of Rural Development, Government of India, New Delhi, August 2006, p.17.

* Estimates of X Plan Document.

@ From XI Plan Document on Urban Housing, p.43, investment for Urban Housing is Rs.3,61,318.1 Cr.

Rural housing investment is Rs.1,46,000 Cr. as per Source (3), p.17. Thus, total is Rs.5,07,318.1 Cr.

Estimated as 1.2 times as that of the X Plan ie. 1.2 times Rs.3,11,300.00

Table II: Housing Loan Disbursements by various Institutional Agencies.

(Rupees in Crores)

Agency	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
CBs	5553.11 (29.13%)	8566.41 (35.91%)	23553.70 (56.04%)	32816.39 (60.43%)	50398.00 (65.60%)	58623.00 (65.68%)	69859.00 (63.19%)	78242.00 # (62.62%)
HFCs	12637.85 (66.32%)	14614.44 (61.25%)	17832.01 (42.43%)	20862.23 (38.42%)	26000.00 (33.85%)	30109.00 (33.74%)	40141.00 (36.31%)	46164.00 (36.94%)
ACHFs*	867.72 (04.55%)	677.58 (02.84%)	641.48 (01.53%)	623.08 (01.15%)	421.15 (0.55%)	520.00 (0.58%)	550.00@ (0.50%)	550.00 @ (0.44%)
Total	19058.68 (100%)	23858.43 (100%)	42026.86 (100%)	54301.70 (100%)	76819.15 (100%)	89252.00 (100%)	110550.00 (100%)	124956.00 (100%)
Growth	--	25.18%	76.15%	29.21%	41.47%	16.18%	23.86%	13.03%

Source: *Report on Trend & Progress of Housing in India* for 2001-2006, NHB, New Delhi.

*Apex Co-operative Housing Federations (ACFHs), the third largest institutional agency in formal sector housing finance in India. Their relative share, however, is very small and is declining also.

@ Exact figures of co-operative housing disbursals are not available from the RBI / NABARD / NHB sources. Thus, 550 Crores is taken as an estimate for the last three years. However, its presence or absence is not likely to have any significant impact in the overall scenario.

Estimated at 12% above FY 2007 figures. (Exact figures that are comparable not available).

In spite of the appreciable growth of institutional finance to housing in India, the housing shortage is still on the rise, particularly since the 2000s. As of FY 2007 (viz. the end of the Xth Plan, 2002-07), the total urban housing shortage itself in India was 24.71 million units. Besides, there is 7 million units towards the rural housing shortage. (RBI, 2009). (Table III).

Table III: Housing Stock and Shortage, 1991-2007 (Million Nos.)

Year	Housing Stock (Nos in Million)				Housing Shortage
	Pucca	Semi-Pucca	Kutchha	Total	
1991	29.80	06.20	03.20	40.70	08.23
1997	40.07	06.64	03.35	50.08	07.57
1998	42.13	06.72	03.37	51.85	07.36
1999	44.28	06.80	03.40	53.67	07.18
2000	46.55	06.83	03.42	55.56	06.93
2002	41.17	08.08	02.74	55.80	10.56
2007	47.49	09.16	02.18	66.30	24.71

Source: Compiled from: *Annual Report 2006-'07*, Ministry of Housing & Urban Poverty Alleviation, Govt. of India; in *The Economic Times* dt. 13 Aug. 2007, Chennai Ed.

Thus, as the problem of housing shortage is still acute in India, there is the need for alternate models for inclusive housing development – one that is affordable to the low-income masses. In fact the housing shortage grew almost 4 times during the period FY 1991– 2007. In this regard, it is worth noting that the mortgage to GDP ratio in India (as of FY 2008) stood at an abysmal level of 3.40% as against 54% in USA, 57% in UK, 17% in Thailand, 40% in European Union, 40% in Malaysia and 7% in China, (all, as of 2001). Though India's position has since improved to 7.40% (2008) from the earlier 3.4%(2001), it is quite low globally (Table IV).

Table IV: Mortgage to GDP Ratio in various countries (as of FY 2005).

(in Percentages)

Country	India	China	USA	UK	Thailand	EU	Malaysia
Mortgage to GDP Ratio	3.40*	7.0	54.0	57.0	17.0	40	34

Source: *Report on Trend & Progress of Housing in India 2005*; NHB, Govt. of India, p. 07

* **Note:** As of FY 2008, India's Mortgage to GDP ratio has improved to 7.4 % [RBI, 2009 (a)]

On the one hand there is significant growth in housing finance disbursements over the years, thus resulting in a not-so-low high mortgage to GDP ratio of about 7.4% [RBI, 2009 (a)] as of FY 2008. But, a rather disappointing fact is the gradually declining reach of the system to the low-income and other marginalized sections of the population that constitute near full of the total shelter-less population (Table V). This necessitates urgent policy measures for inclusion of the above large group that is unserved or under served by the current institutional system. In fact, this fact has been specifically pointed out by the industry regulator (NHB) itself in its official reports (viz. Trend & Progress of Housing in India, for 2005 and 2006). The fact of losing inclusiveness of the system is also reflected in the pattern of the growth rates of the major players (viz. CBs, HFCs and ACHF's) as already discussed, whereby it has been observed that the co-operative sector institutions (ACHF's) – the financial intermediaries which are the most inclusive of all – have almost disappeared (Table II). Thus, it follows that providing shelter to those in the middle income, low income as well as socially backward and marginalized sections of the society is the need of the hour. This in turn necessitates the need for alternative financing models that can provide affordable housing to the above sections.

Table V: General Profile of the Customers in Housing Finance: Agency-wise Details.

		(Percentage)
ACHFs		CBs and HFCs
Types of Customers	% Share	Mostly to middle to high income group, and that too salaried class, high level of urban concentration also. (Nearly 90%)
Economically Weaker Section (EWS) and Low Income (LIG)	75	
Middle Income (MIG)	18	Majority of the population is un-served / under-served [the low income group (LIG), the self-employed, rural populace etc.]
High Income (HIG)	07	
Total	100	

Ref: (1) *Trend & Progress of Housing in India 2004*, NHB, Govt. of India. p.113,

(2) *Trend & Progress of Housing in India 2005*, NHB, Govt. of India. p.54.]

The pro-rich orientation in respect of housing loans disbursed by both the major types of housing finance intermediaries (viz. CBs and HFCs) is reflected in Table VI which considers the case of a typical HFC (viz. LIC Housing Finance Ltd.) whose data for the period (FY 2000-'01 to 2006-'07) relating to average size of housing loans is available.

Table VI: Average Size of Housing Loan Sanctions (Incremental) (All Commercial Banks)

(Rupees in Lacs)

Financial Year	2000-'01	2001-'02	2002-'03	2003-'04	2004-'05
Av. Loan Amount	01.02	01.81	02.00	02.81	03.45

[Ref: *Trend & Progress of Housing in India 2004*, NHB, Govt. of India, New Delhi. p.113.]

Table VII: Average Size of Housing Loan Sanctioned by a Typical HFC (LICHFL)

(Rupees in Lacs)

Financial Year	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Av. Loan Amount	03.13	03.31	03.83	04.26	05.07	05.92	08.27

[Ref: *Annual Report of LICHFL, 2006-'07*, LICHFL. p.33.]

Note: LICHFL is having 97% of its total housing portfolio under the individual residential housing category. Information in respect of the entire HFCs or that of other players is not available.]

As is evident from Tables V to VII, the housing finance exposures by CBs and HFCs are increasingly becoming pro-rich, pro-salaried class and exclusive of the poor. It is estimated that more than 90 percent of the individual housing finance business of CBs and HFCs goes to the salaried class and the balance to the business or professional class, the share of agriculturists and other rural populace being quite small. Though the government earmarks specific amounts to be disbursed to the poor through various schemes like Golden Jubilee Rural Housing Finance (GJRHF) scheme, the same is only a meager portion of the total housing finance portfolio of these agencies. According to the latest estimates (2007) of National Sample Survey Organization (NSSO), the housing problem in urban India is more acute in urban India than in rural India. Further, it has been pointed out that one out of every seven Indian urban households live in slums. Urban housing shortage has increased by 134% in the last six years (2001-2007). There exists a huge disparity between the number of dwelling units targeted and the number of units constructed, for both the special housing schemes for the poor viz. (i) housing for economically weaker section, (ii) housing for low income group (Table VIII).

Table VIII: Housing for the Poor: Wide Gap between the Targets and Achievements.

Name of the Housing Scheme	Target for 2006-'07 (Units) (Nos)	Achievement (Units) (Nos) till Aug. 2007 & Growth %
Housing for Economically Weaker Section	1,14,000	22,960 (20.14%)
Housing for Low Income Group	24,003	2,251 (09.38%)

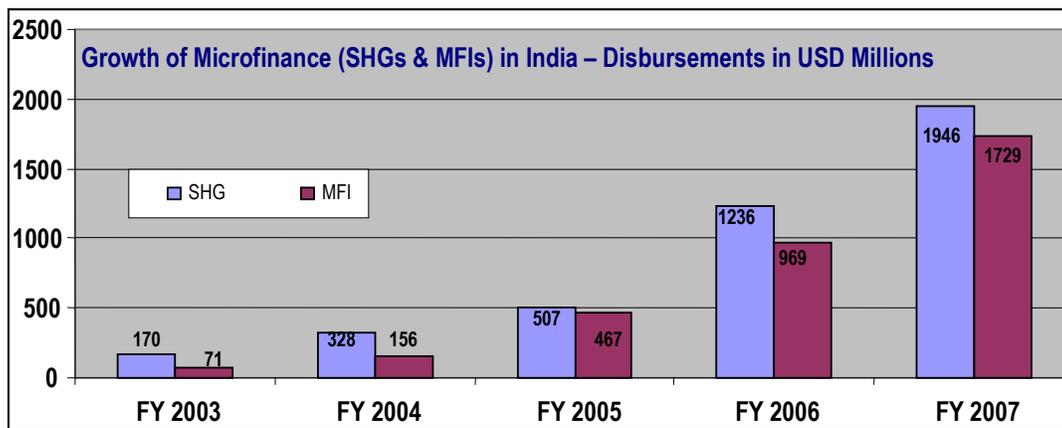
Source: NSSO Estimates (2007) cited in *The Economic Times*, Chennai Ed. dt.13 Aug. 2007

In short, in respect of specialized schemes also, the really deserving sections of the society do not have access to the system, rather a handful of rich and affluent among such sections alone are benefited out of such schemes. As such, one of the worst challenges to Indian housing finance system at present is that of making it more inclusive and hence equitable. This has got special significance in respect of the urban areas. Another need is that of integrating the housing finance market – an integral part of the financial markets – with the entire financial system by ensuring its active participation in the secondary market as well.

11. Indian Scenario in Respect of Microfinance and Housing Microfinance

In India, microfinance initiatives are dominated by two operational approaches viz. (i) SHGs (self help groups), and (ii) MFIs (microfinance institutions), in addition to few co-operative forms. Today the SHG model, which links informal groups of women to the mainstream banking system, has the largest outreach to microfinance clients in the world. MFIs emerged in the late 1990s to harness social and commercial funds available for on lending to clients. Today there are nearly 1500 MFIs in India (Figure I).

Figure I: Growth of Microfinance in India – SHGs and MFIs (FY 2003-07)



Source: *Microfinance Gateways Highlights 2008*. Microfinance Gateway, Jan 2009

There has been remarkable growth of microfinance in India (MIX & Intellcap, 2009)³², but HMF is yet to pick up momentum. There is ‘colossal opportunities’ for microfinance in housing, but ‘products and processes need to be very well defined and structured’ and ‘the crux of the challenge is to design appropriate products and processes’.³³

It may be stated that ‘Financial inclusion’³⁴ in general has begun to attain primacy in almost all financial policy making processes of progressive Governments the world over, including India. In the Indian context, however, in spite of the appreciable growth of microfinance (Figure I), the microfinance initiatives for housing (ie. housing microfinance or HMF in short) is yet to pick up considerable momentum. Besides, as already noted Indian housing finance system is growingly becoming exclusive. Accordingly, because of the growing exclusiveness of the system, there is the need for alternative models for ‘pro-poor’ housing. In India, at present there is strategic significance for alternative models like HMF for balanced and inclusive housing development and hence national economic development.

The experience of SEWA Bank in India – a large scale co-operative bank registered in 1974, under the administration of SEWA (Self-Employed Women’s Association) – an organization based at Gujarat, India, founded by nearly 4000 women as members, most of whom were very poor, has been impressive. But, in other parts of the country none of the MFIs or other NGOs could so far make any

headway in HMF. Nearly 40 percent of the total loans portfolio of SEWA Bank represents housing finance.

The activities of 'Kudumbashree' – the poverty alleviation programme of Government of Kerala has been quite impressive and it has been a role model for the entire nation. But, the performance of its HMF initiative ('Bhavanashree') has not been very impressive. Moreover, very recently (2009) there has been a move for merging the HMF scheme ('Bhavanashree') of 'Kudumbashree' with other governmental schemes for housing finance, like, 'EMS Housing Scheme' and also to stop further disbursements under the 'Bhavanashree' scheme. This fact, in turn, deserves a closer analysis so as to identify the actual deterrents to its healthy growth and that too in a state like Kerala which has got an enviable track-record for MFI activities. This analysis is done in the following paragraphs, as per the objectives and hypotheses of the paper.

12. 'Kudumbashree'– the Poverty Alleviation Programme in Kerala: a Brief Review

'Kudumbashree', the State Poverty Eradication Mission (SPEM) was launched by Government of Kerala in 1998 with the active support of Government of India and NABARD³⁵ for wiping out absolute poverty within a period of 10 years. The project is implemented through Local Self Governments empowered by the 73rd and 74th Constitutional amendments. The slogan of the Mission is "Reaching out to families through Women and reaching out to community through Families". Kudumbashree is a holistic, participatory, women oriented innovative overarching poverty reduction approach. 'Kudumbashree' envisages prosperity of the economically backward families in the state with multiple programmes that will provide them information, create awareness, build up their capability and capacity, enhance their confidence and show them opportunity for better social security and empower them physically, socially, economically and politically. Kudumbashree has altered lives of economically backward women in the state, changed their perception, built their confidence, boosted their morale, rediscovered their dignity and honor, and empowered them economically, socially and politically.

'Kudumbashree' has got a three-tier structure with NHGs (Neighbourhood Groups) as the bottom most tier, ADSs (Area Development Societies) as the next higher level, followed by CDSs (Community Development Societies) as the third (top-most) tier. As of 2009, there are 1.87 lakh NHGs, 17000 ADSs, and 1058 CDSs spread throughout Kerala across all the 14 districts and 1999 panchayats. The activities of 'Kudumbashree' have been quite commendable and are widely recognized as a role model for women empowerment and poverty alleviation in other parts of India.

13. 'Bhavanashree'– the HMF Initiative in Kerala: an Overview

As already noted, 'Bhavanashree' is the HMF wing of 'Kudumbashree'. 'Bhavanashree' scheme is primarily aimed at providing micro finance to NHG members for construction of new houses as well as to repair houses. Inadequate housing and infrastructure facilities are major factors that contribute to poverty. The mismatch between demand and supply of subsidized housing resulted in poor having to wait for years to fulfill their dreams of having a house of their own. Needless to mention, the poor people that 'Bhavanashree' represent is certainly beyond the reach of formal housing finance intermediaries in India, particularly CBs and HFCs. As already noted the share of ACHFs (which are catering to the credit needs of mostly the poor) is negligibly small.

13.1. Eligibility and other Features of 'Bhavanashree' Loans

To be eligible, one should be a member of NHG for at least 6 months and should have consistent and regular thrift and credit habit. The applicant should possess at least 1.5 cents (60 sq.m) or the landless for which local self-government can provide 1.5 cents of land. The salient features are:

- Loans to be utilized for construction, maintenance and repair of houses.
- Loan amount ranges from Rs. 30,000 – Rs.50,000.
- Loans are disbursed in stages (installments decided by the bank.)
- Interest rate is 7.25% per annum.
- EMI (Equated Monthly Installment) starts from at Rs 450.
- Moratorium of 6 months after first disbursement
- Maturity period is 10 years
- Mortgage of the house and land (as the primary security for the loan)
- Insurance cover to the beneficiary of the loan.

13.2. Presence of 'Bhavanashree' in Kerala

At present, there 47,030 beneficiaries of the housing microfinance loans extended by 'Bhavanashree' and the total amount disbursed is Rs.19,963.23 lakhs. Thus, it may be noted that the average amount of a loan is roughly Rs.42450-00. This in turn indicates that average loan per beneficiary is quite above Rs. 30000-00, the lower limit of the loan. (Table IX).

Table IX: Status of Bhavanashree Units in the 14 Districts of Kerala (as of Aug. 2009)

Sl.No.	District	No. of Loans Sanctioned	Amount Disbursed (Rs Lakhs)
1	Thiruvananthapuram	3786	1709.68
2	Kollam	1999	824.92
3	Pathanamthitta	2318	884.58
4	Alappuzha	5335	2187.53
5	Kottayam	2493	1003.51
6	Idukki	1723	791.42
7	Ernakulam	2492	1143.85
8	Thrissur	3479	1575.74
9	Palakkad	2785	1130.77
10	Malappuram	4517	1825.50
11	Kozhikkode	6869	3024.74
12	Wayanad	2954	1259.06
13	Kannur	4482	1831.09
14	Kasargode	1798	770.84
	TOTAL	47030	19963.23

(Source: Collected from, 'Bhavanshree' Co-ordinator, 'Kudumbashree', as of Aug. 2009)

14. Problems of 'Bhavanashree' Housing Loan Scheme: Findings of Empirical Study

As noted earlier, the empirical study has been with respect to Trissur district of Kerala state. Of the 92 panchayats in Trissur district, 50 alone have 'Bhavanashree' units attached with them and there are totally 3479 beneficiaries who have availed a total amount of Rs. 1575.74 lakhs.

Table X: Sample of Five CDSs (Panchayats) under Study of Trissur District in Kerala

Sl.No.	Name of the CDS (Panchayat)	No.of Bhavanashree Beneficiaries	Sample (20 %)
01.	Nadathara Panchayath	39	8
02.	Mattathoor Panchayath	120	24
03.	Thekkumkara Panchayath	33	7
04.	Athirappilly Panchayath	68	14
05.	Thiruvillvamala Panchayath	73	15
Total No.of Bhavanashree Beneficiaries		333	68

(Source: Compiled from , 'Bhavanashree' Cell, District Kudumbashree Office, Trissur, Kerala).

14.1. Problems of 'Bhavanashree' from the Perspective of the Beneficiaries:

- As the loan amount (maximum upto Rs. 50,000-00) is quite low, the same is not at all sufficient for house construction. Often, additional borrowings have to be made from external sources (informal) which in turn carry very high interest rates.
- Because of the need to go for additional borrowings from outside parties at very high rates, such loans get first preference during repayment. This in turn increases the default rates in the formal housing loans availed through 'Bhavanashree'.
- Because of the applicability of 'floating' rate of interest, the effective rate of interest has increased to as high as 12 to 13 percent (even upto 15 percent) as the interest rates have gone up, though the loans were sanctioned at just 7.5 to 8 percent (floating). At the time of availing the loan, the beneficiaries were unaware of the possibility of hike in interest rates in case of 'floating' rate scheme. Likewise, the applicability of interest during the moratorium period (if availed) of first six months were also not known to the beneficiaries. Thus, if the EMI at the time of sanction might be Rs. 450 to Rs.500, the same might reach even Rs. 700 to Rs.750, because of the applicability of 'floating' rate of interest and also the interest charged during moratorium.
- Most beneficiaries were in favour of higher quantum of loan and also lower (fixed) interest rate and fixed EMI throughout the loan period. Besides, they favoured waiver of interest during the moratorium period of six months.
- The loan is not linked with any productive (income generating) activity and as such the beneficiaries are not getting any chance of scaling up their income after availing the loan. This makes repayment of loans rather difficult, particularly when the interest rates are revised upwards because of the 'floating' rate of interest. Moreover, the need to finance from informal sources at very high rates because of inadequacy of 'Bhavanashree' loan alone, repayment of such informal loans gets priority over 'Bhavanashree' loans.

14.2. Problems of 'Bhavanashree' from the Perspective of the Bankers:

- Inadequate awareness regarding the terms and conditions of the loan has resulted in the beneficiaries facing repayment problems.
- Primarily, the lack of awareness regarding the chances of upward revision in interest rates for 'floating rate' loans has worst hit their repayment plans. Besides, the applicability of interest rates during the moratorium period has also created some problems.
- More efforts are required from the part of the individual CDSs to streamline the 'Bhavanashree' activities particularly in regularizing repayments, arranging awareness programmes in advance regarding the interest rate and other terms and conditions etc.

15. Future Plan of Action

There are repayment problems in respect of sizeable number of Bhavanashree units, and the average repayment rate (as of March 2009) is just 78 percent. This repayment rate nearly 20 percent lower than typical microfinance loans which have 96 to 98 percent repayment rate. Thus, the current move of the

Government is to freeze the 'Bhavanashree' sanctions henceforth and also to merge this scheme with other housing schemes like 'EMS Housing Scheme'³⁶, so that in the future only the latter would exist. In respect of 'EMS Housing Scheme', there is the additional benefit of guarantee from the panchayat or urban local body, apart from the interest subsidy from the government.

16. Testing the Hypotheses of the Research

Hypothesis – 1: (HMF portfolio of 'Kudumbashree' viz. 'Bhavanashree' is getting only lesser significance vis-à-vis others). Because of low repayment rate and also other issues, the recent Government decision has been to merge this scheme with some other housing finance scheme (like, EMS Housing scheme) and also to stop further sanctions. Thus, the hypothesis is accepted.

Hypothesis – 2: (The main deterrent to the growth of 'Bhavanashree' is inadequacy of the prime security, viz. clear title to the land where house is to be built, which repels the bankers). In fact, the banks are ready to finance the scheme if repayment is ensured. Prime security (mortgage of the property) is not the issue. Rather, it is related to the operational aspects. That is, repayment of the loans by the beneficiaries is not ensured at the initiative of the CDSs. Besides, the borrowers are not aware of the terms and conditions of the scheme. Thus, the hypothesis is rejected.

Hypothesis – 3: (Repayment rate of HMF loans is significantly lower than that of other MF loans) The 'Bhavanashree' experience so far has underlined this fact, as the repayment rate of 78 percent is quite lower than the repayment rate of other MF loans which is typically over 95 percent. Thus, this hypothesis is accepted.

Hypothesis – 4: ('Incremental housing' is the only practical way of housing development for the poor). Most of the beneficiaries preferred to complete the construction at a single stretch even when the original ('Bhavanashree') loan is inadequate by availing loans from informal sources at high interest rates, rather than doing the work in an incremental manner over a longer period. Besides, most people preferred traditional concrete construction to low-cost designs. In spite of the difficulty faced, people preferred single-stretch construction. Thus, the hypothesis is rejected.

17. Prospects of 'Bhavanashree' Scheme and Strategies for its Fast Growth

Because of the genuine need for housing finance among the low income sections that are hitherto uncovered by the schemes of formal institutional agencies, there do exist good potential for HMF schemes like 'Bhavanashree'. Oommen (2008) [21] has observed that of the 'Kudumbashree' members, 16 per cent reported improvement in housing even when the full impact of the 'Bhavanashree' and other housing schemes may take more time to get reported. Besides, it has also been reported that more than 50 per cent of the new houses constructed were concrete structures. Moreover, the interviews with the existing 'Bhavanashree' beneficiaries, various bankers to the 'Bhavanashree' scheme and also the concerned 'Bhavanashree' officials in their controlling offices, has also revealed the immense potential of the scheme, in spite of the shortcomings that it face at present. However, the various persisting issues relating to the design of the scheme, its implementation, and administration need to be duly sorted out.

17.1. Strategies for Healthier Growth of 'Bhavanashree' – the Design Aspects

- Because of the inadequacy of the loan amount (maximum Rs.50,000/-) for construction of a house, which typically requires Rs.1 lakh (minimum) to 2 lakhs, the loan amount needs to be enhanced to the level of at least Rs. 1 lakh. This strategy obviates beneficiaries from going for additional high cost loans from informal sources which may create heavy pressure on their repayment capacity. Hence the repayment of the loans becomes easier for the beneficiaries.
- Linking of 'Bhavanashree' with some productive (income generating) activity would be beneficial for enhancing the repayment capacity of the rural women. Schemes with features like

that of 'PHIRA' (Productive Housing in Rural Areas) which has been recently promoted by NHB (National Housing Bank) need to be designed and implemented. Apart from enhancing the repayment capacity, such schemes can address two interrelated issues together: (i) housing, (ii) poverty alleviation / income generation.

- Efforts to offer 'fixed rate' loans to the beneficiaries be made by arrangement with banks, by pegging such loans with long term low interest refinance from agencies like NHB and NABARD. This would eliminate the fear of increase in monthly installments of loan, in case of upward movement in interest rates which is the problem with 'floating rate' loans. Likewise, waiver of interest rate during moratorium period through some arrangement with the banks will further enhance the repayment prospects of the loans.
- Care should be taken to ensure that different housing finance schemes do not overlap. Schemes for rural housing and those for urban housing be properly differentiated and beneficiaries should be made eligible under only one scheme. Those who are not eligible under other formal schemes be considered under 'Bhavanashree' on merits.

17.2. Strategies for Healthier Growth of 'Bhavanashree' – the Implementation Aspects

- Proper awareness programmes need to be arranged at the initial (sanction) stage itself regarding the terms and conditions of the loan, the implications of 'floating' interest rates, moratorium period etc. Such programmes be preferably arranged with the representatives of the various bankers that provide the finance for 'Bhavanashree'. This strategy would minimize confusion at a future point of time.
- As 'Bhavanashree' loans are availed by only a few among the members of NHGs and that too on their individual capacities, effective co-ordination of the scheme be ensured at the CDS level right from the beginning. The beneficiaries can take up various issues together for redressal if there is co-ordination, which will be more effective than solving them individually; eg. Issues relating to rescheduling, interest rate, moratorium etc.

17.3. Strategies for Healthier Growth of 'Bhavanashree' – the Operational Aspects

- As 'peer group pressure' is one of the major factors that enhance repayment of microfinance loans and since this is not prominent in respect of 'Bhavanashree' loans, it is advisable to have proper coordination and control of the beneficiaries under each CDS. Though the housing loans are availed in individual capacities (and not collectively), better control at the unit level would enhance the chances of repayment. Some CDS level office bearer be made in charge of all such co-ordination activities, who should act as the liaison officer with the respective banks as well.
- Periodical meetings of the beneficiaries be arranged at the CDS level at the initiative of the CDS office bearer, for effective review, monitoring and control of the various accounts coming under their jurisdiction, particularly repayment related issues.

18. Concluding Observations

In spite of the various shortcomings of the housing microfinance scheme 'Bhavanashree' sponsored by the Government of Kerala, it has got immense potential to come up if suitable strategies are adopted. In fact, a for a massive movement like 'Kudumbashree' the only one of its kind in the entire world and that too with Government sponsorship, designing and implementing various remedial strategies as discussed above would not be a big challenge. Besides, because of the wide range of microfinance activities currently being undertaken by 'Kudumbashree' and the excellent nexus with banks, initiating productive housing schemes (on the lines of 'PHIRA') and obtaining better terms from banks (like, 'fixed rate' loans) etc. appear to be quite feasible.

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