Ex post evaluation – India

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Sector: Financial sector/Low-cost housing 24030
Programme/Project: Housing finance III, BMZ No. 1997 65 553*
Implementing agency: a leading Indian housing construction finance company

Ex post evaluation report: 2015

		Project appraisal (Planned)	Ex-post evaluation (Actual)
Investment costs (total)	EUR million	15.34	15.34
Funding	EUR million	15.34	15.34
of which BMZ budget funds	EUR million	15.34	15.34

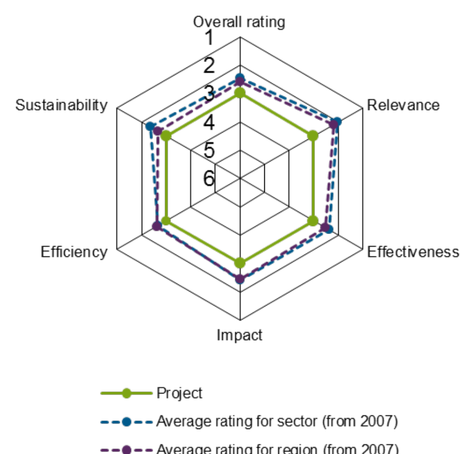
*) Random sample 2015

Summary: This non-repayable financial contribution was used to fund loans which the project-executing agency issued to low-income sections of the population – predominantly in rural areas – mainly for the financing of housing and complementary infrastructure (sanitary facilities, site development, etc.) via state and non-state bodies (e.g. housing authorities, non-governmental organisations (NGOs) and microfinance institutions (MFIs)). An amount of EUR 6 million of the financial contribution was also earmarked for promoting income-generating measures and small business projects via microcredits.

Objectives: The overarching developmental objective of the project was to improve the housing situation and sanitary conditions for India's economically weaker sections. The project objectives were to provide adequate housing and adequate sanitary conditions in rural and urban areas, allocate the constructed residential units to the target group as well as have repayment obligations met by the borrowers. A secondary objective was to increase the income of the lower classes of the population (by means of the partial further use of repaid loan funds or through the original use of the contribution funds) by awarding microcredits.

Target group: Families whose monthly income does not exceed the state-defined upper threshold for "economically weaker sections" (at project appraisal in 1997, Rs. 2,100 per month, i.e. EUR 52); this threshold was adjusted several times and most recently amounted to INR 8,333 (EUR 120).

Overall rating: 3



Rationale: The result of the project is two-fold. A comparatively good result in terms of the secondary objective of loans and microcredits generating income is contrasted with a less satisfactory result for the main project component of housing finance. On the one hand, it is regrettable that the funds were disbursed slowly, which was caused partly by the suboptimal definition of the target group; on the other, the targets for the repayment indicators for the housing finance were not met, which is also connected to the target group selection. Despite initial reluctance, the project-executing agency now has plans to continue the housing finance for the lowest-income group (and the group just above) with different target group definitions, which means the project can still be rated satisfactory with regard to housing finance too.

Highlights: Project experience demonstrates the importance of a realistic assessment of the opportunities and limits of the target group, in this case with regard to the acquisition of property by the lowest income groups in India, which is barely feasible in financial terms.

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Rating according to DAC criteria

Overall rating: 3

General conditions and classification of the programme

In order to improve the housing and sanitary conditions as well as the incomes of economically weaker sections (EWS), a non-repayable financial contribution amounting to EUR 15.34 million was made available to the project-executing agency (PEA), one of India's largest construction financing institutions. This non-repayable financial contribution was used to fund loans which the PEA issued to low-income sections of the population – predominantly in rural areas – for the financing of housing and complementary infrastructure measures (sanitary facilities, site development, etc.) via state and non-state bodies (e.g. housing authorities, non-governmental organisations (NGOs) and microfinance institutions (MFIs)).This non-repayable financial contribution was used to fund loans which the PEA issued to low-income sections of the population – predominantly in rural areas – for the financing of housing and complementary infrastructure measures (sanitary facilities, site development, etc.) via state and non-state bodies (e.g. housing authorities, non-governmental organisations (NGOs) and microfinance institutions (MFIs)). Up to DM 2 million (EUR 1.02 million) of the aforementioned contribution was permitted for use in the funding of income-generating measures and small-business projects (microcredits) in order to support the further development of the PEA's microfinance portfolio. In fact, in the course of project implementation, the focus of the funded loans shifted to a significant extent away from home construction loans in favour of microcredits. As in the two previous projects PEA I and II, which were similar in terms of objectives, the target group consisted of families whose monthly income did not exceed the state-defined upper threshold for the economically weaker sections (EWS) category (at the PA in 1997 this was INR 2,100 per month, i.e. EUR 52). The income threshold, however, was relaxed several times during the project period; at the time of the EPE it was INR 8,333 (EUR 120) per month. Income-generating measures for the construction loan recipients were also funded as part of the PEA III project, with the aim of helping the recipients obtain additional income. In addition, isolated microcredits were awarded (without parallel home loans).

Relevance

The overarching developmental objective of the project was to improve the housing situation and sanitary conditions for India's economically weaker sections. The lack of adequate housing, particularly for low-income groups, combined with the rapidly growing population in India remains a challenge. The improvement of living conditions and the provision of adequate housing options, which is viewed as a basic need, are still important objectives of Indian government policy and have been important aims of German DC in India for more than twenty years. The project should enable poorer people and their families to own a home, improving their situation with regard to independence and security. At the same time, this home ownership should prevent them from being affected by inflationary developments to some extent. Thus the project also contributes to poverty reduction. The project, which is associated with the sub-priority of financial system development, stands out from classic housing construction interventions in that it should also help to generate additional income by funding income-generating activities (in some cases independently of home loans). This secondary objective should not be underestimated, even if it is not explicitly included in the original objectives.

By supporting the EWS with income-generating loans, the project was also designed to promote financial inclusion, mostly within the framework of self-help groups. In many cases, these small loans offer people the potential to obtain additional income through small investments (such as buying a cow, a goat, a sewing machine, a tool, cooking utensils or a food stall).

These objectives are still very relevant from today's perspective. There is, however, slight reservation with regard to the question of how suitable the target group actually was for home ownership. The slow outflow of funds, the lengthy difficulties encountered by the PEA when trying to integrate the EWS target group into its own clientele in the long term (see also the evaluation report for phase II) and the number of EWS home loans in arrears which, while not extremely high, is still above average, suggest that this was not altogether without problems. The PEA assumes that an object priced at four times the amount of annual income represents the upper limit of financial accessibility. For the EWS, the currently defined upper limit of

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INR 100,000 per family means a maximum price limit of INR 400,000 (approximately EUR 5,700). Although the project loans were significantly lower than this upper price limit in the past when the EWS upper limits were considerably lower, according to the PEA it is difficult today to find housing, including the land on which it stands, within this price range (especially in urban areas). The EWS and the lower income group (annual income up to INR 200,000) are thus dependent on subsidised programmes and are able to finance an apartment or house privately only in exceptional cases. Such exceptions generally include a plot of land being inherited, the family members being trained in a relevant trade such as bricklaying or carpentry, thus allowing them to carry out a significant amount of the work by themselves, or members outside the immediate family being able to help out financially. This subject is addressed in further detail in the section entitled “Sustainability”.

The objectives originally set (improvement of housing conditions and incomes) remain extremely relevant. In the case of the implicit, but not defined objective (home ownership), there are doubts as to whether the defined target group was suitable for the loan-financed acquisition of property, which is also reflected in the changing modalities of an approach to continue the project on a commercial basis (after the end of the project) (see “Sustainability”).

Relevance rating: 3

Effectiveness

The project objectives were to provide adequate housing and adequate sanitary conditions in rural and urban areas, allocate the constructed residential units to the target group and have repayment obligations met by the borrowers. A secondary objective was to increase the income of the lower classes of the population by means of the partial further use of repaid loan funds as small loans (or by means of the original use of the contribution funds).

Due mainly to the increase in the microfinance component (income-generating measures), the indicators were suitable for assessing the project’s success only to a limited extent. Furthermore, not all indicators were measured by the project-executing agency to the intended level of detail.

The quantitative indicator of providing 17,000 home loans was exceeded, with 19,248 loans. What is more, according to the PEA, the majority of apartments were fitted with sanitary facilities, i.e. running water in the kitchen and a toilet. The apartments were also occupied by the borrowing families. As a result, over 90,000 people were supplied with their own homes, at an Indian average of 5.2 persons per family. In addition, there were 59,000 recipients of microcredits. When the approximately 60 % double counts are subtracted (housing recipients who also received microcredits), this leaves 66,000 loan recipients. However, the outflow of funds dragged on over thirteen years instead of the intended five.

Based on the submitted (but incomplete) data, the repayment rate to the PEA – defined as the percentage of loans that are not overdue, or that are overdue by less than 90 days – was 93.4 % overall, and thus falls just short of the 95 % target. This overall repayment rate is made up of the 98.1 % repayment rate for MFI loans and the 89.1 % repayment rate for home loans, thus the objective was met in the case of MFI loans and not in the case of home loans. The PEA failed to measure some of the indicators defined in great detail at the project appraisal, including in particular the rate of repayment of the ultimate borrowers to the NGOs or MFIs. Three years after payment of the last portions of the loans, this figure remains unknown, since the various institutions did not account for the individual sub-loans separately. According to the PEA and to spot checks carried out at the institutions visited during the ex-post evaluation, one can assume, however, that these repayment rates do not differ much, on average, from the above values, except in isolated cases.

It would have been useful for the microfinance component, particularly after this was increased from the original DM 2 million to EUR 6 million, to formulate more meaningful indicators (e.g. survey of income changes among the beneficiaries by means of spot-checks, establishment of a control group). Subsequent assessment is difficult because given the high number of ultimate borrowers and the time which has elapsed since the end of the project, obtaining such data would involve disproportionate effort. However, discussions with local borrowers and MFIs lead to the conclusion that these loans were used for small-business investments, such as the purchase of cows and goats, tools, food stalls, cooking appliances, sewing machines and the like, and, as a rule, also opened up valuable additional sources of income, par-

ticularly for those who also made use of the home loans. The low number of loan defaults in the MFI sector suggests that it was also possible to generate the amounts required for repayment.

The programme met the objectives relating in particular to the number of subsidised apartments as well as the number of microcredits, and surpassed the required repayment indicators in the microcredit sector, though it fell short for home loans by a relatively significant margin. No statistics are available concerning the overall Indian arrears average specifically for EWS, but the percentage of non-performing loans amongst housing financiers totals around 1.2 %, and arrears amongst Indian MFIs make up a total of 13.7 % of the respective loan portfolio. This is remarkable in that the repayment rates for loans granted under the project were higher for MFI loans than for home loans.

To the extent that the relevant data was available, the attainment of the project objectives and indicators defined at the programme appraisal can be summarised as follows:

Indicator	Status PA, target value PA	Ex post evaluation
I. General objectives/indicators		
Housing loans should be awarded to economically weaker sections of the population	17,000 housing loans (including 1,300 toilets)	19,248, the majority with toilets
Sub-loans awarded by MFIs for micro enterprises and income-generating measures	90 % share for income-generating measures (not for consumption purposes)	Achieved (almost 100 %)
II. Repayment-oriented objectives (combined and adapted to the available data – based on the volume of loans granted)		
Repayment rate for MFIs/NGOs (microcredits) to PEA	At least 95 %	98.1 %
Repayment rate for NGOs (housing) to PEA	At least 95 %	89.5 %
Repayment rate for NGOs/MFIs to PEA overall	At least 95 %	93.6 %
Repayment rate for borrowers to NGOs involved in the implementation (housing)	At least 85 %	Not recorded
Repayment rate for borrowers to NGOs/MFIs involved in the implementation (microcredits)	At least 90 %	Not recorded
Repayment rate for ultimate borrowers to state bodies	Base value > 65 %, target value minimum 90 %	Not recorded

Although repayment rates were not recorded or were not followed up on at the level of the intermediary institutions, it can however be assumed that the indicators largely met the designated objectives. In par-

ticular, despite the restrictive target group, the set number of home loans was exceeded, which suggests the primary project objective (provision of adequate housing) was achieved.

Effectiveness rating: 3

Efficiency

The PEA has a very efficient organisational and operational structure. With a loan repayment rate of 99.3 %, capital adequacy of 16.3 % and a return on equity (after tax) of 19.4 %, the institution achieves figures that also enable it to play a role at international level. Its many years of experience and expertise in the field of housing finance enable it to anticipate problems in this area and to manage the project within the scope of its powers. In this respect, the production efficiency can be rated as very good. The situation is more mixed at the level of the intermediary institutions (NGOs/MFIs). On the one hand, it is regrettable that the review of loan commitments in arrears amongst NGO/MFI customers was considered too expensive and was therefore no longer performed in detail from around 2005 onwards. Although this concerns 152 institutions with 76,000 individual loans from the project, it would nevertheless have been advisable to collect the data, which was intended for use as an indicator of project success, at least on a sample basis. When it comes to assessing effectiveness (see above) and allocation efficiency, we must therefore rely on the testimony of the PEA, which assumes that the percentage of non-performing loans at the level of the intermediary institutions is more or less in line with the percentage of non-performing loans owed to the PEA.

On this basis, the result is divided into two parts: while the rather low percentage of non-performing loans amongst MFIs clearly exceeds the objectives (only five of 65 MFIs have problems in this regard), 32 of the 87 housing NGOs are in arrears of more than three months. Overall, however, the margins are likely to have been sufficient to cover operating costs at both the PEA as well as the intermediary institutions, whereas the margins in the MFIs are also significantly higher than in housing construction due to higher sub-loan interest rates. According to the PEA, the causes of the arrears in the 32 NGOs are to be found not so much in insufficient margins, but rather in poor management and unprofessional monitoring as well as the financially weak target group. The management of the PEA has come to the conclusion, particularly in the case of home loans, that the EWS group is a difficult clientele with respect to the often populist interventions of politicians in favour of borrowers in arrears, with the result that it is questionable whether the project target group was suitably defined. This has also led to inefficiencies insofar as the funds were not completely utilised until after 13 years, whereas the planned disbursement period was only five years.. A learning process developed as a direct result of the project which, after some initial hesitation, prompted the PEA to continue working with NGOs/MFIs to serve lower income groups, albeit using a different target group not defined solely based on income (see section on “Sustainability”). The mean value between a very good production efficiency and a mixed allocation efficiency (good for MFIs, just sufficient for housing NGOs) allows us to rate the overall efficiency as satisfactory.

Efficiency rating: 3

Impact

The overarching developmental objective of the project was to improve the housing situation and sanitary conditions for India’s economically weaker sections. A secondary objective was to increase the income of the lower classes of the population. The improvement of housing conditions results in higher hygiene standards with a positive impact on family health, time savings as a general rule thanks to a private water connection (either in the apartment or at least in the building), more room for all the family members, and not least the improvement of self-confidence through the acquisition of property and of long-term security thanks to calculable repayment rates, as opposed to inflation-based rent increases. Last but not least, financial literacy was also strengthened by the establishment of a banking relationship (usually as part of a group), and further possibilities for use indicated by the continuation of banking activities outside of the loan. Income-generating loans created the opportunity for further sources of income. As the examples which were examined during the visit show, special care was taken in the project to ensure that the borrowers were also able to afford the resulting interest on their debt, in order to prevent problems related to over-indebtedness. This conservative lending policy was one reason for the relatively slow outflow of the funds. No standalone indicators were formulated for the overarching developmental goal, so we must op-

erate on the assumption that the overall objective is met in principle by the fulfilment of the first indicator (at least 17,000 home loans [...] awarded to economically weaker sections of the population). On the basis of the second indicator (90 % of sub-loans awarded by MFIs for micro enterprises and income-generating measures) in connection with the sufficiently high repayment rates for income-generating loans, the secondary objective of additional sources of incomes can be considered fulfilled. Despite the limitations caused by the shortcomings in the definition of the target group and in the fulfilment of repayment obligations, the project had a satisfactory effect.

Impact rating: 3

Sustainability

The PEA has decided not to continue the issuing home loans and microcredits to the EWS in this form. It must be taken into account in this context that the average credit amount of a home loan at the PEA is approximately 30 times higher than that of the loans from the project. For cost reasons alone, the awarding of such loans is therefore only practical in the context of cooperation with housing NGOs which are familiar with this clientele and which have also developed strategies to ensure credit standing, usually in the context of self-help groups. With regard to microfinance loans, these are generally only covered by the mandate of the PEA if issued in conjunction with home loans. In addition, the financial market has now opened up to MFIs – due in part to the experience gained by many MFIs as a result of the project – with the result that these MFIs have no problems with funding through commercial banks, provided they have earned themselves a good reputation in the past. The government's continued target for banks to issue 40 % of funds to defined priority sectors, including the microfinance sector, also supports this process. When granting home loans to the EWS, not only the PEA, but also other banks have reservations for two reasons: On the one hand, the relatively high rate of default (which is also apparent from the project), and on the other, the frequent influence of politics, often populist and difficult to predict, in favour of this population segment when it comes to non-performing loans. However, we also need to face up to the above-mentioned fact that it is difficult for the majority of people in this segment to find affordable housing due to their low income, unless there are exceptional circumstances such as an inherited property, self-declared skills in housing construction or financial support from the extended family. For this reason, the PEA has now also taken an approach which is not based solely on average income (see below).

The cooperation with NGOs and the – at least indirect – cooperation with a lower income population segment has, however, provided the PEA with valuable experience and, most importantly, resulted in the creation of two projects which target the lower income group of recipients. The first of these is a programme that has been in the pipeline for a long time, but which was only implemented eight months ago. While the programme is essentially aimed at the income group above the EWS (lower income), it does not rule EWS borrowers out, provided they are able to afford the repayments as evidenced by a credit check carried out by the PEA and provided these repayment obligations do not threaten to get them into financial difficulty. In this regard some distance has been made both from the concept of minimum income as well as from the need for a fixed employment contract, and loans are also issued to farmers, self-employed persons and persons with temporary employment as a matter of principle, provided that they fulfil a specially formulated list of criteria. Innovative and sophisticated methods for estimating income are applied here, which go well beyond the traditional evaluation of bank statements. The programme, under which loans are awarded directly and not via MFIs/NGOs, is still in a trial phase, but has already grown rapidly since its beginnings and has a current volume of INR 30 million per month (EUR 428,000).

At the level of MFIs, the project has created a strengthened awareness of banking and professional credit monitoring in many institutions as the result of its cooperation with the PEA and the obligation to catch up with banking standards (60 out of 65 of these institutions from the project are not in arrears to the PEA). This, in turn, has also opened the door to funding through the banking sector for many. Thus the project has contributed to the sustainable stabilisation of these institutions too, a number of which have now earned the status of Non-Bank Financial Corporation (NBFC) subject to central bank supervision.

For the reasons mentioned above, however, this process did not occur in housing NGOs, although they also experienced a high unmet demand for home loans from the EWS. Nonetheless, the PEA has now taken initial steps towards cooperating with successful NGOs in a second project. In this context, the PEA exploits the expertise of these NGOs, which are experienced in the fields of housing and microcredit, in

order to approach economically weaker sections of the population once again by means of a target group defined in a somewhat more complex manner. The total sum of the PEA's credit lines to date amounts to around INR 700 million; an amount which, although it makes up less than 1 % of the PEA loan portfolio, certainly comes close to the sum made available by the project (INR 829 million). It remains unclear how this area will develop and whether the experience of the PEA will lead to the expansion of business in this area, but this can at least be considered the first step towards also achieving sustainability in the area of housing. The fact the project model was not implemented on a 1:1 basis should not be regarded as a negative, since it was impossible for the PEA, in light of the political and economic conditions and after weighing up the professional risks, to adopt a business model likely to be linked with high losses on a permanent basis. This can also be seen in connection with the principles of financial responsibility, to which the PEA feels duty-bound: issuing a loan to a family whose ability to service the loan is doubtful and which could result in the family getting into financial difficulty would simply be irresponsible.

The assessment of sustainability is therefore broken down into two parts. The slow outflow of the funds indicates the suboptimal delineation of the target group, which is also in line with the assessment of the preceding phaseII. Furthermore, the arguments put forward repeatedly by the PEA signal that it is not economically feasible to continue the project in its original form with the previous definition of target groups. In this sense, however, a learning effect has also taken place which shows in which form the intention of the project can be continued in a sustainable way. Dialogue with the PEA in this field should therefore be continued.

Sustainability rating: 3

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).