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Financial inclusion of low-income households in urban areas is key focus
The government of India and the World Bank today signed a \$100 million credit agreement aimed at helping low-income households in Indian cities access loans to purchase, build or upgrade their dwellings. The Low Income Housing Finance Project will be implemented by the National Housing Bank (NHB). It will support the governments agenda for financial inclusion by making it easier for low-income households in urban areas to access housing finance and by strengthening the capacity of financial institutions that target these groups.
Indias urban population is expanding at a rapid pace and is expected to rise to 600 million by 2031, more than double that in 2001. Housing shortages in India are also acute with more than 90% of the shortage being faced by low-income households. In 2012 the urban housing shortage was estimated at 19 million.
Financial inclusion is a priority for the government of India and this project will allow NHB to innovate and bring in financial products for improving access to housing of low-income households, said Nilaya Mitash, joint secretary, Department of Economic Affairs, Ministry of Finance.
The credit agreement for the Low Income Housing Finance Project was signed by Nilaya Mitash, joint secretary, Department of Economic Affairs, Ministry of Finance, on behalf of the government of India; R.V. Verma, chairman and managing director, National Housing Bank (NHB); and Michael Haney, operations advisor, World Bank, India on behalf of World Bank.
"We are glad to enter into this partnership with the World Bank, with support of government of India. The program, which will explore sustainable housing finance models for low income households, has been conceived imaginatively and is consistent with the vision and charter of the NHB , said R.V. Verma, chairman and managing director, National Housing Bank.
The project will support financial institutions which target low-income households and build their capacity to scale up sustainable housing finance.
"Some 10 million people move to Indias towns and cities each year and need homes to live in. But a majority of these are low-income, informal sector workers who find themselves shut out of formal financial markets when they go seeking loans to build or buy themselves houses. They are forced to use unregulated, informal sources of finance at much higher rates of interest, said Michael Haney, operations advisor, World Bank. "This project will allow low-income households to switch from informal finance to longer-term, formal sources for their housing needs.
Housing shortages are a result of several challenges facing the housing sector. Current land use policies and building norms restrict the availability of housing. Developers tend to refrain from entering the low-income market due to perceived risks associated with buyers who lack access to formal finance. The bulk of the low-income population works in the informal sector, with no documentation of income, and need customized lending products. Most banks in India do not have the tools or the capacity to assess and manage credit risk for this market. And most non-bank financial institutions lack access to the long-term funding necessary to make housing finance affordable.
Through learning and innovative financing, the project will build capacity in NHB and the primary lenders which target low-income borrowers. New products, risk management, and market infrastructure will address the informality of income and property rights, said Bertine Kamphuis, private sector development specialist, World Bank and the projects task team leader. "Initially, the project will introduce pilots to test the sustainability of these lending guidelines and products. One of the aims is to preserve affordability by finding alternative forms of collateral to reduce credit risk and keep interest rates at manageable levels. Over-indebtedness and loan quality will be monitored regularly, she added.
The project will be financed by a credit from the International Development Association (IDA) - the World Banks concessionary lending arm - which provides interest-free loans with 25 years to maturity and a grace period of five years.
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