

# Housing Finance

## *Stories of Impact*

*This series provides examples of our impact, expertise and lessons learned working with clients and partners.*



## Helping Build a Roof for India's Vulnerable

India has one of the world's worst shortfalls of affordable housing, with a gap valued at \$67 billion by McKinsey & Company. In the country, where nearly 30% of the population is living below the poverty line – and this number is much higher in India's poorest states – it is particularly hard for the people at the base of the pyramid to access financing to improve their living conditions.

IFC contributed to establishing *Aadhar Housing Finance Private Ltd.*, which offers mortgages and small loans for construction and house improvements to low-income households in India. Aadhar caters to those with no proof of income, such as self-employed small business owners, daily wage laborers, and support staff who work for local governments.

*“My dream was to buy a dilapidated property and rebuild it the way I wanted. With a loan I could finally make it happen”.*

— Rahees Mohammad Meerut, Uttar Pradesh state, a client of *Aadhar Housing Finance Private Ltd.*

### RESULTS & IMPACT

- IFC made an equity investment of \$4.5 million in *Aadhar* in 2010 and has been advising it on product design, responsible lending and risk management

With IFC support, *Aadhar* has:

- Extended 2,500 mortgage and home improvements loans since 2011
- Opened 15 branches in Uttar Pradesh and five other low-income states
- Became profitable just one year after launching operations
- Demonstrated that the low-income demographic can be a lucrative segment for housing finance

## The Opportunity

According to UNDP Human Development Report, eight Indian states have more poor than 26 poorest African nations. In other words, 421 million low-income people in these states live in sub-optimal conditions and have limited or no access to credit to build, expand, or renovate their home.

As a result, India has one of the world's worst shortfalls of affordable housing, with a gap valued at \$67 billion (*McKinsey & Company*). While tackling this shortage represents an opportunity for financial institutions and investors alike, Indian market lacks knowledge and expertise in housing finance for the low-income demographics, and needs "first movers" example to demonstrate that mortgages and home improvement loans for the poor can be profitable.



## Our Approach

Providing an equity investment of \$4.5 million, IFC launched a joint venture with India's *Dewan Housing Finance Corp. - Aadhar Housing Finance Private Ltd.*, which offers mortgages on a large scale to underserved lower-middle-income households.

*Aadhar* caters to those earning \$1,200 to \$4,800 annually and with no proof of income, such as self-employed small business owners, daily wage laborers, and support staff who work for local governments. It offers both mortgage loans and also smaller loans for construction and house improvements.

In addition to investing in *Aadhar*, IFC helped diversify its financial products to meet low income households' needs and bundle insurance with the loans. IFC has also been advising *Aadhar* on responsible lending and risk management, and helped the institution to identify innovative ways to reach customers, such as kiosks at construction sites, central community centers, and government low-income project housing.

*Aadhar* has extended 2,500 loans since it started its operations in 2011 and has achieved its goal of setting up 15 branches in Uttar Pradesh and five other low-income states. It has been profitable for more than a year, demonstrating that the low-income demographic can be a lucrative segment for mortgages.

*Aadhar's* parent, *Dewan Housing Finance Corp.*, was founded in 1984 as India's first privately-owned housing finance company. IFC invested about \$12.6 million in *Dewan* in 2003 to support the company's efforts to provide housing finance to middle-income and upper-middle-income households that couldn't get it otherwise. IFC also advised the company on improving corporate governance, reporting standards, and compliance.

*IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries.*

REGION: SOUTH ASIA | COUNTRY: INDIA | THEME: HOUSING FINANCE | BUSINESS LINE: ACCESS TO FINANCE

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