



Report and Recommendation of the President to the Board of Directors

Project Number: 53202-001
October 2019

Proposed Senior Secured Debt Financing Aavas Financiers Limited Supporting Access to Housing Finance for Women in Lower-Income Groups and in Lagging States Project (India)

This is an abbreviated version of the document approved by ADB's Board of Directors, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 October 2019)

| | | |
|---------------|---|--------------------|
| Currency unit | – | Indian rupee/s (₹) |
| ₹1.00 | = | \$0.0140 |
| \$1.00 | = | ₹71.20 |

ABBREVIATIONS

| | | |
|------|---|-----------------------------|
| ADB | – | Asian Development Bank |
| ALM | – | asset liability management |
| AUM | – | assets under management |
| CAR | – | capital adequacy ratio |
| E&S | – | environmental and social |
| EWS | – | economically weaker section |
| GAP | – | gender action plan |
| HFC | – | housing finance company |
| LAP | – | loans against property |
| LIG | – | low income group |
| LTV | – | loan-value |
| MIG | – | middle income group |
| NBFC | – | nonbank financial company |
| NPA | – | nonperforming asset |
| PMAY | – | Pradhan Mantri Awas Yojana |
| PSB | – | public sector bank |
| RBI | – | Reserve Bank of India |
| SFB | – | small finance bank |

NOTES

- (i) The fiscal year (FY) of the Government of India and Aavas Financiers Limited ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 31 March 2019.
- (ii) In this report, “\$” refers to United States dollars.

| | |
|-------------------------|--|
| Vice-President | Diwakar Gupta, Private Sector Operations and Public–Private Partnerships |
| Director General | Michael Barrow, Private Sector Operations Department (PSOD) |
| Director | Christine Engstrom, Private Sector Financial Institution Division, PSOD |
| Team leader | Susan Olsen, Senior Investment Specialist, PSOD |
| Team members | Genevieve Abel, Principal Transaction Support Specialist (Integrity), PSOD |
| | Manfred Kiefer, Senior Economist, PSOD |
| | Apurva Kumar, Investment Specialist, India Resident Mission (INRM), PSOD |
| | Arlene Ponce de Leon Porras, Senior Safeguards Officer, PSOD |
| | Daniele Quaggiotto, Counsel, Office of the General Counsel |
| | Rhea B. Reburiano-Javier, Social Development Officer (Safeguards), PSOD |
| | Amanda Satterly, Senior Social Development Specialist (Gender and Development), PSOD |
| | Priya Sunder, Investment Officer, INRM, PSOD |
| | Grachelle Talicuran, Associate Safeguards Officer (Environment), PSOD |
| | Siela Teng-Almocera, Social Development Officer (Safeguards), PSOD |

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

| | Page |
|--|-------------|
| PROJECT AT A GLANCE | |
| I. THE PROPOSAL | 1 |
| II. THE FINANCIAL INTERMEDIARY | 1 |
| A. Investment Identification and Description | 1 |
| B. Business Overview and Strategy | 3 |
| C. Ownership, Management, and Governance | 4 |
| D. CONFIDENTIAL INFORMATION DELETED | 5 |
| III. THE PROPOSED ADB ASSISTANCE | 5 |
| A. The Assistance | 5 |
| B. Implementation Arrangements | 5 |
| C. Value Added by ADB Assistance | 6 |
| D. CONFIDENTIAL INFORMATION DELETED | 6 |
| IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT | 6 |
| A. Development Impact, Outcome, and Outputs | 6 |
| B. Alignment with ADB Strategy and Operations | 6 |
| V. POLICY COMPLIANCE | 7 |
| A. Safeguards and Social Dimensions | 7 |
| B. Anticorruption Policy | 8 |
| C. CONFIDENTIAL INFORMATION DELETED | 8 |
| D. Assurances | 8 |
| VI. RECOMMENDATION | 8 |
| APPENDIXES | |
| 1. DESIGN AND MONITORING FRAMEWORK | 10 |
| 2. List of Linked Documents | 12 |

PROJECT AT A GLANCE

| | | | |
|---|---|--|---------------------------------|
| 1. Basic Data | | Project Number: 53202-001 | |
| Project Name | Supporting Access to Housing Finance for Women in Lower-Income Groups and in Lagging States Project | Department /Division | PSOD/PSFI |
| Country | India | | |
| Borrower | Aavas Financiers Limited | | |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | |
| ✓ Finance | Housing finance | | 60.00 |
| | | Total | 60.00 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
| Inclusive economic growth (IEG) | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Climate Change impact on the Project | Low |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
| Private sector development (PSD) | Promotion of private sector investment | Gender equity (GEN) | ✓ |
| 5. Poverty and SDG Targeting | | Location Impact | |
| Geographic Targeting | No | Rural | Medium |
| Household Targeting | Yes | Urban | Medium |
| General Intervention on Poverty | No | | |
| SDG Targeting | Yes | | |
| SDG Goals | SDG1, SDG5, SDG10, SDG11 | | |
| 6. Nonsovereign Operation Risk Rating | | | |
| Obligor Name | | Obligor Risk Rating | Facility Risk Rating |
| Aavas Financiers Limited | | | |
| 7. Safeguard Categorization | Environment: FI-C | Involuntary Resettlement: FI-C | Indigenous Peoples: FI-C |
| 8. Financing | | | |
| Modality and Sources | | Amount (\$ million) | |
| ADB | | 60.00 | |
| Nonsovereign Debt Security (Regular Loan): Ordinary capital resources | | 60.00 | |
| Cofinancing | | 0.00 | |
| Others^a | | 0.00 | |
| Total | | 60.00 | |
| Currency of ADB Financing: INR | | | |

^a Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed senior secured debt financing of up to \$60,000,000 (in Indian rupee equivalent) to Aavas Financiers Limited (Aavas) for the Supporting Access to Housing Finance for Women in Lower-Income Groups and in Lagging States Project in India.

2. The Asian Development Bank's (ADB) longer-tenor debt financing will provide housing loans targetting women borrowers in economically weaker sections (EWS) and low-income groups (LIGs).¹ At least 75% of the debt proceeds will be onlent to borrowers in select lagging states of India.²

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

3. **Affordable housing and housing finance.** Limited housing supply adversely affects the living conditions of lower-income households, especially in large cities characterized by low building standards. The shortage of housing units in India is estimated at 18.7 million in urban areas and 43.7 million in rural areas.³ More than 90% of this deficit is estimated to be in the affordable housing segment, primarily classified as EWS and LIG. A large number of urban lower-income families, with a monthly household income of ₹10,000–₹25,000, can afford privately built housing costing ₹400,000–₹1 million. This customer segment needs an estimated 15 million homes, which translates into a funding need of ₹7 trillion.⁴ The Government of India launched the Pradhan Mantri Awas Yojana (PMAY) initiative in 2015, with a target of building 20 million affordable homes for the urban poor, including the EWS and LIG categories, by 2022.⁵ To date, about 8.4 million homes have been authorized.⁶ Under the PMAY, the government offers interest rate subsidies of 3.0%–6.5%, depending on the loan amount and the income category of the borrower, and other measures to incentivize the supply of affordable housing.

4. **Finance sector overview.** Banks dominate the finance sector, with the assets of commercial banks totaling 75.0% of financial system assets.⁷ Public sector banks (PSBs) have 65.8% of all banking assets, but are facing tighter capital constraints with an average leverage

¹ Ministry of Housing and Urban Poverty Alleviation (MoHUA). 2017. Pradhan Mantri Awas Yojna (PMAY). The MoHUA's definition for EWS is family income of less than ₹0.3 million per annum; family income of between ₹0.3 million–₹0.6 million per annum qualifies as an LIG; and the middle-income group has family income of above ₹0.6 million and less than ₹1.8 million per annum. For this report and recommendation of the President, lower-income households refer to EWS and LIGs.

² Lagging states have a higher poverty incidence or lower per capita income than the national average, or have special status as defined by the Government of India. Special Status is a classification given by the Government of India to certain states that face geographical and socio-economic disadvantages such as hilly terrains, strategic international borders, economic and infrastructural backwardness, and non-viable state finances. For this project, the lagging states are Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Nagaland, Odisha, Rajasthan, Tripura, Uttar Pradesh, and West Bengal.

³ M. Jena. 2016. [U.N. Expert Calls for India to Ramp up Action to Help Slum Dwellers](#). Thomson Reuters Foundation. 26 April; S. Singh, M. Swaminathan, and V. K. Ramachandran. 2014. Housing Shortages in Rural India. *Review of Agrarian Studies*. 3 (2). pp. 54–72.

⁴ A. Agarwal, V. Jain, and A. Karamchandani. 2013. [State of the Low-Income Housing Market: Encouraging Progress & Opportunity to Realize Dreams of Millions](#). Mumbai: Deloitte Touche Tohmatsu India.

⁵ Government of India, Ministry of Housing and Urban Poverty Alleviation. 2015. [Pradhan Mantri Awas Yojana – Housing for All \(Urban\): Scheme Guidelines](#). New Delhi.

⁶ Government of India. [Ministry of Housing and Urban Affairs](#) (accessed on 28 July 2019).

⁷ Reserve Bank of India. 2018. [Report on Trend and Progress of Banking in India 2017–2018](#). Mumbai.

ratio of 5.9%. Gross nonperforming assets (NPAs) for the banking system declined to 9.3% in fiscal year (FY) 2019 from 11.5% in FY2018 and 9.6% in FY2017. The NPAs of private sector banks (3.7%) and nonbank financial companies (NBFCs, 6.6%) reflected better performance than that of PSBs (NPAs of 12.6%) in FY2019. NBFCs serve segments that typically are not catered to by banks. The Reserve Bank of India (RBI) had 9,659 NBFCs registered in FY2019. The NBFC sector has generally performed well; however, it has experienced tightening liquidity beginning in September 2018 due to defaults of certain high profile NBFCs, including housing finance companies (HFCs).⁸ Despite the size of the banking industry, poor access to financial services remains a key issue in India, with 20.1% of people unbanked.⁹ Access to credit is even more limited, with less than 7.0% of borrowers accessing credit via formal channels.¹⁰

5. Housing finance sector. Given borrowers' constrained access to credit and the limited availability of long-term funds for financial institutions offering home loans, mortgage penetration in India was only 10.0% in FY2018—much lower than in other emerging markets such as the People's Republic of China (18.0%), Thailand (20.0%), and Malaysia (34.0%).¹¹ Most commercial banks provide mortgage lending, but the affordable housing segment has not been a primary target as banks have concentrated on salaried employees in urban areas. HFCs are a significant player in mortgage financing, representing a 37.0% market share. Regulated by the RBI, the 77 HFCs are solely mandated to fund housing.¹² The volume of HFC housing loans outstanding, including loans against property (LAPs), totaled ₹20.9 trillion in December 2018, up by an annualized rate of 15.6% since March 2018. With an NPA ratio of 1.1% (FY2018), the asset quality of HFCs exceeded that of banks. However, rural-focused HFCs targeting low-income segment household incomes of less than ₹0.2 million had an NPA ratio of 12.4% (FY2018) and those with incomes of ₹0.2 million–₹0.5 million had an NPA ratio of 4.7% (FY2018). The higher level of stress in these segments is likely to be attributed to improper assessment of borrower debt service capacity and high loan–value (LTV) ratios.

6. Underserved home loan borrower segments. Lower-income households are particularly constrained in obtaining mortgages because of the lack of documents to prove their income source, high credit evaluation costs, and perceived higher credit risk. As a result, such households typically fund their homes through savings, borrowings from family and friends, or loans from local moneylenders at usurious interest rates. Women in this income group find it particularly difficult to obtain mortgage loans to meet their housing needs, as men dominate land and home ownership. A survey of land ownership carried out by ADB in northern and eastern India indicated that women owned only 3.6% of plots, while men represented the vast majority (85.9%) and the remaining 10.5% were untitled.¹³ Lack of property ownership directly contributes

⁸ In September 2018, IL&FS, a large infrastructure development and finance conglomerate, defaulted on its payment obligations. The default was due to asset-liability maturity mismatches on the company's books which worsened due to delays in project execution. This led to a crunch in the supply of liquidity in the market which impacted the entire NBFC sector. Following a persistent liquidity crunch, Dewan Housing Finance Ltd. (DHFL), one of the largest housing finance companies, also defaulted on its payments in June 2019. DHFL has significant exposure to real estate developers – a sector that is in the middle of a prolonged slowdown and was also heavily dependent on short-term debt, both factors resulted in liquidity issues for the company. More recently, in September 2019, Altico, a NBFC focused on real estate financing also defaulted on interest payments for bank loan due to liquidity shortfalls.

⁹ The level of unbanked people in India declined from 65% in 2011 to 20% in 2017 after the government launched the Pradhan Mantri Jan Dhan Yojana scheme, aiming to open 100 million bank accounts for poor families.

¹⁰ World Bank. [Financial Inclusion Data/Global Findex: India](#) (accessed 9 September 2019). According to the World Bank's Findex report (2018), only 8% of males and 5% of females over the age of 15 are reported to have borrowed from a financial institution.

¹¹ Housing Finance Information Network. [Countries](#) (accessed 9 September 2019).

¹² CRISIL. 2019. *Cutting Edge Research on Housing Finance*. Mumbai (July).

¹³ H. Glenn et al. 2018. [Women's Land Title Ownership and Empowerment: Evidence from India](#). ADB Economics Working Paper Series. No. 559. Manila: ADB.

to the low social status of women, vulnerability to poverty and low bargaining power within households.¹⁴ Recognizing the issues related to low levels of women's property ownership, several states in India have provided tax incentives for women holding property titles. Female access to finance in India is also extremely low, with only 5.0% of women reported to have borrowed from a formal financial institution and only 3.0% having an outstanding housing loan.¹⁵

7. **Rationale.** To address the need to improve affordable housing finance, particularly for women and lower-income households, ADB identified HFC partners that have demonstrated the ability to reach such households on a sustainable basis. While ADB has provided funding to HFCs in India in the past,¹⁶ the proposed project targets lower-income EWS and LIG segments (footnote 1) than the previous loans and focuses entirely on female borrowers. Aavas, an HFC based in Rajasthan, targets the lower-income EWS and LIG segments in rural and small towns classified as Tier II and below.¹⁷ Some 83% of Aavas loans are to lower-income households,¹⁸ 65% of clients are self-employed, and 44.4% are first-time borrowers from formal financial institutions. With women representing 58.8% of primary borrowers and nearly all remaining loans having women as co-borrowers, Aavas has a very strong footprint in servicing women. Aavas has demonstrated successful business growth, led by experienced senior managers and supported by strong middle management. Its robust risk management entails a strong presence of credit officers at its branches. Aavas proved the strength of its prudent operations and risk management following demonetization in November 2016, where it was able to maintain strong asset quality, significantly better than most of its peers. Using technology and automated processes enables Aavas to have efficient and cost-effective loan sourcing, approval, and monitoring as it scales its business across 10 states and seeks to empower more women property owners. The proposed project will support the growth of Aavas from its strong presence in western India toward more challenging, less serviced regions.

B. Business Overview and Strategy

8. **Overview.** Aavas was incorporated as Au Housing Finance Private Limited (Au Housing) in February 2011 and began operations in March 2012. It started as a fully owned subsidiary of Au Financiers, an NBFC that converted to a small finance bank (SFB) in 2017.¹⁹ Associated with its licensing as an SFB, Au Financiers sold Au Housing to private equity investors Kedaara Capital, Partners Group ESCL, and Partners Group Private Equity (Master Fund), LLC in 2016. In March 2017, the company name was changed to Aavas Financiers Limited.

¹⁴ International Center for Research on Women. 2008. *Seven Priorities, Seven Years To Go*. India.

¹⁵ A. Demircuc-Kunt et al. 2018. *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. Washington, DC: World Bank.

¹⁶ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to PNB Housing Finance Limited for the Low-Cost Affordable Housing Project in India*. Manila. ADB's nonsovereign operations have a \$150 million loan outstanding to PNB Housing Finance Limited. ADB also provided two loans to Dewan Housing Finance Corporation Limited in 2003 and 2014, which have been fully repaid: (i) ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to Dewan Housing Finance Corporation Limited for the Private Sector Housing Finance Project in India*. Manila; and (ii) ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Dewan Housing Finance Corporation for the Low-Cost Affordable Housing Finance Project in India*. Manila.

¹⁷ Government of India, Press Information Bureau. 2015. *Government Approves Proposal for Reclassification/Upgradation of Certain Cities/Towns on the Basis of Census-2011*. News Release. 30 May. Tier II cities have a population of 0.5 million–5.0 million. Tier III cities have a population below 0.5 million.

¹⁸ Data as of FY2019; *Annual Report of Aavas, 2019*.

¹⁹ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Debt Investment to Au Financiers (India) Limited for Expanding Micro and SME Lending in Semi-Urban and Rural Areas Project in India*. Manila. ADB approved a \$75 million loan to Au Financiers in October 2016.

9. Aavas operates 210 branches across 10 states, reaching close to 900 Tehsils²⁰. Most of Aavas' business (about 89.5%) has focused on the states of Rajasthan, Maharashtra, Gujarat, and Madhya Pradesh, with Rajasthan contributing 44.0% of its assets under management (AUM) as at the end of FY2019. The company mainly offers housing loans (78.6%), while 21.4% of loans were LAPs to fund businesses and top-up loans for personal use. The average loan size is ₹0.86 million, and more than 90.0% of its loans totaled less than ₹1.5 million (\$21,067) in FY2019, while 83.0% of the loans represented lower-income households. The average contractual tenor of loans is 15 years, but the weighted average life of the loan is 7.5 years because of prepayments.

10. **Business strategy.** Since its foundation, Aavas has become the largest HFC in the affordable housing segment holding ₹59.4 billion in AUM (FY2019) with a market share of 6.8%.²¹ Aavas will continue to focus on non-salaried lower income customers, penetrating deeper into the 10 states with existing operations, especially in districts with low mortgage penetration. From its base in Rajasthan, Aavas has gradually expanded into the adjacent states of Gujarat, Maharashtra, Madhya Pradesh, Delhi, Haryana, Uttar Pradesh, Chhattisgarh, and Uttarakhand. The company will continue to focus on home loans and self-construction home loans, with a cap of 25.0% on loans for non-housing purposes.

C. Ownership, Management, and Governance

11. **Ownership.** As of 31 March 2019, Aavas' promoters included private equity investors Lake District (34.3%), Partners Group ESCL (16.7%), and Partners Group Private Equity (Master Fund), LLC. (7.3%). AU Small Finance Bank held 7.2%, while other institutional investors, the public, and employees held the remaining 34.5%. Integrity due diligence was conducted.²² Some 41.7% of shares are with non-promoter and no single investor holds more than 10.0%. While the shares held by the three private equity funds are not permitted to disclose details of their investors, ADB has received written confirmation that anti-money laundering and combating the financing of terrorism checks have been conducted in compliance with relevant statutory requirements.²³ Two members of the board of directors are politically exposed persons, having served as directors in state-owned entities, but they do not appear to be subjects of any adverse media. ADB's review of the relevant entities does not give cause to believe they were established or are being used for cross-border tax evasion, money laundering, or terrorism financing.

12. **Governance structure.** Aavas' board has nine members, including three independent directors, five nominee directors, and the chief executive officer. The chair of the board is an independent director. The board members have experience across the financial services sector, including with large PSBs, private equity firms, and commercial banks. The audit committee has a majority of independent directors and the nomination and remuneration committees have equal number of independent and non-executive nominee directors. Aavas' statutory auditor is S. R. Batliboi & Associates, an EY associate. The corporate governance of Aavas appears satisfactory and is in compliance with Securities and Exchange Board of India guidelines.

13. **Management.** Sushil Kumar Agarwal, Managing Director & chief executive officer, has worked for more than 17 years in retail financial services. Agarwal is supported by an experienced

²⁰ A Tehsil is an administrative unit smaller than a city and comprising of several villages.

²¹ Corporate presentation of Aavas, August 2019 based on a report by ICRA based on AUM of Affordable of all HFC (excluding DHFL) of FY18 .

²² ADB. 2016. [Anticorruption Policy: Enhancing the Role of the Asian Development Bank in Relation to Tax Integrity](#). Manila.

²³ ADB. 2003. [Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism](#). Manila.

team comprising Ghanshyam Rawat, the chief financial officer; Ram Naresh, the chief business officer; and Ashutosh Atre, the chief credit officer. Rawat has more than 2 decades of experience in managing treasury operations across various organizations. Naresh has worked extensively in financial services and allied sectors. Atre worked at Equitas Housing Finance, ICICI Bank and Cholamandalam before joining Aavas.

14. **Risk management.** Aavas' risk management framework and limits are set by its board of directors, supported by risk management, audit, and asset liability management (ALM) committees. The committees are mandated to supervise and identify current and emerging risks, develop risk assessment systems, monitor control mechanisms, and monitor defined risk tolerance limits.

15. **Credit risk.** Aavas has a standardized credit approval process that entails customer selection criteria, credit risk, and cash flow analysis for quality customers. The most heavily weighted factors in the credit process include cash flow analysis based on the employment profile of the borrower; the Bureau score; the quality of the property mortgaged; the loan amount; and the LTV ratio.²⁴ Credit exposures, limits, and asset quality are regularly monitored by the management. Almost all loans fund owner-occupied dwellings; Aavas does not fund builders. Credit review is segregated from the sales operations and the ratio of risk to sales officers is strong at 1.0:2.5.

16. **Portfolio monitoring and collections.** The company maintains a comprehensive system of internal controls, with key backup procedures and continuity plans. The internal audit team ensures compliance with controls and processes. Aavas also studies the behavior of declined customers to enhance its loan approval process. The credit team receives daily updates on any overdue payments for all loans underwritten within 18 months. Aavas uses predictive analytics to identify probable late payment cases in advance and to trigger prompt action by its collections team.

D. CONFIDENTIAL INFORMATION DELETED

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

17. The ADB assistance consists of a senior secured debt facility of up to \$60 million equivalent in Indian rupees with a tenor of up to 8 years. The ADB financing will be in the form of nonconvertible debentures with an exclusive legal charge on the security provided.²⁵ ADB may enter into risk transfers with eligible counterparties for a portion of the exposure.

B. Implementation Arrangements

18. **Use of proceeds.** Aavas will use the proceeds of ADB's facility to provide housing finance to EWS, LIG and MIG households. The entire ADB loan amount will be onlent to women as primary borrowers or as co-borrowers. At least 75% of the loan proceeds will be used in selected lagging states.

²⁴ TransUnion CIBIL Limited is a credit information bureau operating in India. The bureau maintains credit files on individuals and businesses and provides scores that can be used to assess the creditworthiness of the borrower.

²⁵ A nonconvertible debenture is a debt security with a fixed rate of interest and specified tenor, which is not convertible to equity. The security includes eligible receivables, which meet the following criteria: (i) in the "standard" or equivalent category under the borrower's asset classification system and (ii) that have not been restructured.

19. **Reporting arrangements.** ADB will monitor the project throughout its duration.²⁶ Aavas will report to ADB on regular intervals with (i) quarterly unaudited financial statements, (ii) annual audited financial statements, (iii) quarterly loan portfolio and covenant reports, (iv) annual development indicators agreed between ADB and Aavas, (v) annual reports on safeguards and social protection compliance, and (vi) annual progress report on the implementation of the gender action plan (GAP).

C. Value Added by ADB Assistance

20. **Access to housing for underserved segments and women.** India's mortgage markets are still underdeveloped and lower-income segments lack access to mortgage finance. Housing is also a strong contributor to employment. According to an ADB study, ₹10 million invested in construction creates 22,000 unskilled, 23,000 skilled and semi-skilled, and 9,000 managerial and technical person work-days in India.²⁷ As up to 40% of Indian homes in urban areas are nonpermanent, this transaction targets extending access to affordable permanent quality housing to lower-income segments, representing an inclusive business model. As a result of the project, the market for housing loans and improved houses will be also extended towards women and people in lagging states.

21. **Access to longer-tenor local currency debt.** Aavas has an ongoing need for long-term debt financing to respond to the demand for affordable mortgages targeting low-income households. Aavas' assets have a legal maturity of 15 years at origination and 7.5 years (after prepayment), requiring long-tenor debt financing to ensure a prudent ALM. NBFCs and HFCs must also diversify funding to maintain adequate liquidity, particularly given the current tight liquidity conditions.

D. CONFIDENTIAL INFORMATION DELETED

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impact, Outcome, and Outputs

22. **Impact.** The project is aligned with the following impact: access to housing finance for lower-income borrowers increased (a PMAY initiative).

23. **Outcome.** The project will have the following outcome: access to affordable housing for women borrowers, especially in lagging states, improved.

24. **Outputs.** The project's outputs will be Aavas' improved capacity to serve lower-income groups, women borrowers, and to lagging states of India. Women's financial literacy will also be improved.

B. Alignment with ADB Strategy and Operations

25. The project will contribute to the following operational priorities of Strategy 2030²⁸ (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender

²⁶ Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).

²⁷ J. Doling, P. Vandenberg, and J. Tolentino. 2013. [Housing and Housing Finance – A Review of the Links to Economic Development and Poverty Reduction](#). ADB Economics Working Paper Series. No. 362. Manila: ADB.

²⁸ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

equality; and (iii) making cities more livable. According to ADB's India country partnership strategy, 2018–2022, ADB's nonsovereign operations will continue to support the finance sector.²⁹ The project will also support access to affordable housing in lagging states, in line with the PMAY initiative. The project is also aligned with ADB's Gender Equality and Women's Empowerment Operational Plan, 2013–2020.³⁰

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

26. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009). The loan's potential environmental and social (E&S) impacts, the risks associated with the borrower's existing and/or likely future portfolio, and its commitment and capacity for E&S management have been assessed by ADB.

27. **Category FI (treated as C).** Aavas' business activities have minimal or no adverse environmental impacts and are unlikely to entail impacts on involuntary resettlement and indigenous peoples. Aavas will (i) apply ADB's prohibited investment activities list; (ii) exclude activities with category A and B environment and social safeguard impacts; (iii) ensure that investments using ADB funds comply with ADB's Safeguard Policy Statement and abide by applicable national laws and regulations, including labor laws, pursuant to ADB's Social Protection Strategy; and (iv) take measures to comply with internationally recognized core labor standards. Aavas will confirm this in its periodic report to ADB and need not apply any other specific safeguard or social requirements. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009) as FI treated as C for impacts on the environment, involuntary resettlement, and indigenous peoples, and need not apply any other specific requirements.

28. **Environmental and social safeguards.** Aavas will not finance real estate development or mass housing construction, and targets lower-income and women home borrowers. Aavas' current portfolio generally falls within the environment *category C* classification, wherein the existing loans or subloans are likely to have minimal or no adverse environmental impacts. The climate change impact from the project is expected to be low because of the nature and scale of loans that may be financed by the ADB loan proceeds. No land acquisition, physical or economic displacement, or impact on indigenous peoples' communities are expected since the housing loans will be provided to individuals who have purchased the property or are voluntarily making improvements to their dwellings. Aavas' credit policy also excludes activities that impinge on lands owned or claimed under adjudication by indigenous peoples, or without the full consent of such people.

29. Aavas has an established E&S policy. The chief risk officer is responsible for E&S matters, while the company secretary receives and responds to complaints from the public or civil society organizations. Engineers conduct site visits and prepare valuation reports describing the conditions in which the property is situated and the market value, based on prevailing market rates. Aavas has adopted the exclusion list of the International Finance Corporation. Internal trainings on E&S are being provided by Aavas to all relevant staff, and compliance with E&S is also reported in the annual monitoring report as part of its requirements to the CDC Group plc.

²⁹ ADB. 2017. [Country Partnership Strategy: India, 2018-2022-Accelerating Inclusive Economic Transformation](#). Manila.

³⁰ ADB. 2013. [Gender Equality and Women's Empowerment Operational Plan, 2013–2020: Moving the Agenda Forward in Asia and the Pacific](#). Manila.

30. **Labor and social protection.** Aavas is an equal opportunity employer. Embedded in its recruitment policy is the principle that Aavas does not discriminate based on gender, region, religion, caste, or creed. To secure its employees' well-being, Aavas has adopted (i) a human resources policy outlining benefits, including maternity benefits and flexible work hours; (ii) a Vishakha Policy (Policy Against Sexual Harassment) to prevent and deter sexual harassment at work; (iii) an employee grievance redressal policy that ensures all communication channels are open for employee grievances; and (iv) a whistleblower policy to encourage employees to report concerns regarding unethical behavior or fraud. Aavas will (i) apply ADB's prohibited investment activities list; (ii) exclude all projects that have adverse E&S social safeguard impacts (categories A and B); (iii) ensure that investments using ADB funds abide by applicable national laws and regulations; and (iv) comply with ADB's Safeguard Policy Statement (footnote 31). Aavas will confirm these in its periodic reports to ADB.

31. Aavas will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with the internationally recognized core labor standards.³¹ Aavas will report on its compliance with such laws. Information disclosure will follow ADB requirements.³²

32. **Gender equity as a theme.** Following ADB's Policy on Gender and Development (1998), Aavas has incorporated measures as part of a GAP.

B. Anticorruption Policy

33. Aavas was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism and remedies for ADB in the event of noncompliance.

C. CONFIDENTIAL INFORMATION DELETED

D. Assurances

34. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),³³ ADB will proceed with the proposed assistance upon establishing that the Government of India has no objection to the proposed assistance to Aavas. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

VI. RECOMMENDATION

35. I am satisfied that the proposed senior secured debt financing would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the senior secured debt financing of up to \$60,000,000 (in Indian rupee equivalent) from

³¹ ADB. 2003. [Social Protection](#). Manila (adopted in 2001).

³² Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

³³ ADB. 1966. [Agreement Establishing the Asian Development Bank](#). Manila.

ADB's ordinary capital resources to Aavas Financiers Limited for the Supporting Access to Housing Finance for Women in Lower-Income Groups and in Lagging States Project in India, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

31 October 2019

DESIGN AND MONITORING FRAMEWORK

| Impact the Project is Aligned with | | | |
|---|--|--|---|
| Access to housing finance for lower-income borrowers increased (Government of India's Vision of Housing for All by 2022 [Pradhan Mantri Awas Yojana]) ^a | | | |
| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
| <p>Outcome Access to affordable housing for women borrowers, especially in lagging states, improved</p> | <p>By FY2028:</p> <p>a. Volume of Aavas housing loans to lower-income group^b outstanding increased to ₹140,000 million (FY2019 baseline: ₹37,000 million)</p> <p>b. Volume of Aavas housing loans outstanding to women borrowers^c increased to ₹230,000 million (FY2019 baseline: ₹58,005 million)</p> <p>c. Volume of Aavas housing loans outstanding to lagging states^d increased to ₹120,000 million (FY2019 baseline: ₹34,354 million)</p> | <p>a.–c. Annual development effectiveness monitoring report from the borrower.</p> | <p>Unexpected market changes lead to less demand for housing finance.</p> <p>Interest rate and inflation increase to high levels.</p> |
| <p>Outputs</p> <p>1. Capacity of Aavas to serve lower-income group improved</p> <p>2. Capacity of Aavas to serve women borrowers improved</p> <p>3. Capacity of Aavas to cater to lagging states of India improved</p> | <p>1a. By FY2028: Number of housing loans to lower-income groups outstanding increased to 150,000 (FY2019 baseline: 64,514)</p> <p>2a. By FY2028: Number of housing loans outstanding to women^c increased to 185,000 (FY2019 baseline: 75,533)</p> <p>2b. Number of employees increased to 4,000, 5.0% (200) of whom are women by 2021 (2019 baseline: total number of employees: 3,190 of which 3.8% (120) are women)</p> <p>2c. Training and education on Aavas' Policy Against Sexual Harassment completed for 100% of staff by FY2021 (baseline: Not applicable)</p> <p>2d. Annual training of Vishaka Committee members on execution of Policy Against Sexual Harassment by an external expert conducted, starting by 2020 (baseline: Not applicable)^e</p> <p>3a. By FY2028: Number of housing loans outstanding in lagging states increased to 120,000 (FY2019 baseline: 50,794)</p> | <p>1.–4. Annual development effectiveness monitoring report from the borrower.</p> | <p>Unexpected market changes lead to lower market demand.</p> |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|--|---|---------------------------------------|-------|
| 4. Women's financial literacy improved | 3b. By FY2028: Number of housing loans outstanding to women in lagging states increased to 100,000 (FY2019 baseline: 48,953) 4a. Financial literacy of 50,000 women enhanced either through Aavas' loan officers or corporate social responsibility program by FY2028 (2019 baseline: Not applicable) ^f | | |
| Key Activities with Milestones Outputs 1–4 1.1 ADB executes loan agreement by the fourth quarter of 2019. 1.2 ADB facility is fully disbursed by 2020. 1.3 Borrower onlends the proceeds of this loan to lower-income groups and women borrowers by the end of 2021. | | | |
| Inputs ADB: \$60 million Indian Rupee equivalent loan | | | |
| Assumptions for Partner Financing Not applicable | | | |
| Inputs ADB: \$60 million equivalent loan | | | |
| Assumptions for Partner Financing Not applicable | | | |

ADB = Asian Development Bank; FY = fiscal year (1 April to 31 March, the year indicates the calendar year in which the FY ends).

^a Government of India, Ministry of Housing and Urban Poverty Alleviation. 2015. [Pradhan Mantri Awas Yojana – Housing for All \(Urban\): Scheme Guidelines](#). New Delhi.

^b For this project, lower-income group refers to households with annual incomes below ₹600,000, in line with the government's definition of low income group for the purposes of granting the credit linked subsidy scheme or similar program to support access to affordable housing.

^c Women borrowers refer to female primary or co-borrowers. Aavas has also committed to reporting on the number of women as primary borrowers as a separate disaggregated figure.

^d Lagging states include lower-income states with high poverty incidence and special category states as identified by the government. For the use of ADB proceeds for this project, the lagging states will be Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh, and West Bengal.

^e ADB recommends that an external expert conduct a minimum 1 hour in person or in situ or video conference briefing Vishaka Committee members once a year. ADB will recommend experts based in India for this purpose.

^f Financial literacy refers to the education and understanding of various financial topics related to the efficient management of personal finance, including making appropriate decisions on home loans—the importance of saving for future family needs or emergencies, the importance of on-time payments for maintaining loan repayments, the concept of equal monthly installments for loan payments, and the concept of effective interest rate calculations as the borrowing cost on the loan.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=53202-001-4>

1. Contribution to the ADB Results Framework
2. Country Economic Indicators