IGL FINAL REPORT

NABFINS approached us to assess the viability of three new loans: Trader’s, Industrial JLG, and Housing. Combining primary research on the field and secondary research online and speaking to employees, we were able to summarize the key findings into main client types for each product and evaluated alternative options by analyzing opportunities and risks. We recommend not discriminating against any traders or industrial JLG members. For housing loan, we excluded potential clients that do not own land as this becomes too risky. An implementation strategy is given for each target segment and detailed criteria are provided in a framework as well. Considering the market position, NABFINS will remain its interest rate at 15-16.75%. The key competitors for each loan type, Traders, Industrial JLG, and Housing are money lenders, MFIs, and commercial banks respectively. Considering all mentioned aspects of our project, NABFINS will be able to successfully launch the three new products.

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Introduction to Microfinance

According to the World Bank, between 2.5 and 3 billion people were financially excluded in 2014 with almost 80% of those living with less than $2 a day (World Bank, 2014). This lack of access to financial services combined with an absence of infrastructure and often a shortage of essential food supplies creates a cycle of extreme poverty. Being “unbankable” is directly correlated to low income, absence of savings, lack of education, and poor living conditions. Over the last decade, several financial services providers have emerged to offer services to the poorest class of the society, ultimately to solve these problems. This led to the microfinance movement, which arrived in the late 70s.

During the first years of the 80s, the movement grew rapidly and in 1983, Muhammad Yunus, a Bangladeshi economist, created what would become one of the most well-known microfinance institutions (MFIs) and a model for every other microfinance model, the Grameen Bank. This microfinance model was designed to help entrepreneurs and villagers too poor, to obtain funding from commercial banks by giving them access to small loans without having to provide any collateral. No legal paperwork was signed between the bank and the groups; the relationship between both parties was based on solidarity and trust. Unlike moneylenders which were charging outrageous rates (up to 70%), Grameen Bank was offering loans at decent interest rates (20%) which greatly helped the model to be accepted worldwide.

Forty years later, microfinance is defined as: “the activity or business of providing financial services to poor people or new businesses in poor country” (Cambridge dictionary, 2016). Different models have seen the day, and the microfinance movement is now well known and recognized as an efficient tool to fight poverty. The International Finance Corporation (IFC), a subsidiary of the World Bank, explained how microfinance has helped the poorest communities over the last decades: “Financial services for poor people are a powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress. Formal financial services such as savings, loans, and money transfers enable poor families to invest in enterprises, better nutrition, improved living conditions, and the health and education of their children. Microfinance has also been a powerful catalyst for empowering women” (IFC, 2016).

The following table gives us a better understanding of the characteristics and distinguishes features of the type of clients, lending technology, loan portfolio, organizational ideology, and institutional structure related to MFIs. It is important to note that these features are representing an overview of the microfinance industry and that some specific conditions and features might be different from one MFI to another.

Characteristics	Distinguishing Features
Type of client	• Low Income • Employment in informal sector; low wage bracket • Lack of physical collateral • Closely interlinked household/business activities
Lending Technology	• Prompt approval and disbursement of micro loans • Lack of extensive loan records • Collateral substitutes; group-based guarantees • Conditional access to further micro-credits • Information-intensive character-based lending linked to cash flow analysis and group-based borrower selection
Loan Portfolio	• Highly volatile • Risk heavily dependent on portfolio management skills
Organizational Ideology	• Remote from/non-dependent on government • Cost recovery objective vs. profit maximizing
Institutional Structure	• Decentralized • Insufficient external control and regulation • Capital base is quasi-equity (grants, soft loans)

Source: (BSP.GOV, 2001)

Early on, microfinance thinkers realized that providing a loan to a single person, who has no stable income, no collateral and no access to a bank account, would result in high level of risk. Even with a lot of goodwill, no banking institution would allow giving personal loans to individuals with low creditworthiness as well as lack of collateral. Confronted by this problem, bankers and MFIs had to find alternatives to close the gap between lenders and borrowers.

To solve this problem, the notion of group lending was invented. Solidarity and trust are the cornerstones of group lending. Social lending believes that peer pressure and mutual support should promote a healthy repayment culture inside the group and compensate for the absence of collateral. Peer pressure is a great tool to force individuals to be disciplined and pay back on time: "The peer monitoring works as a screening and risk protection device, since groups have reasons to be concerned about a future supply of credit. This may develop a working environment and confidence between lenders and borrowers." (Financial Express, 2011)

Different types of groups exist for various needs. Each group have distinctive objectives and different goals. All of these groups usually have one goal in common; to help people living under the poverty line to improve their situation by giving them income generating assets through micro loans and financial support. Below are the major types of groups present in South Asia.

MICROFINANCE GROUPS	
Self-Help Groups (SHGs)	A Self Help Group is a homogeneous group of micro entrepreneurs with affinity among themselves, voluntarily formed to save whatever amount they can conveniently save out of their earnings and mutually agree to contribute to a common fund of the group from which small loans are given to the members for meeting their productive and emergent credit needs at such rate of interest, period of loan and other terms as the group may decide (Union Bank of India, 2014).
Joint liabilities groups (JLGs)	While the SHG is a savings- led slow growth model and unique to India, JLG is a credit-led fast growth model, loosely based on the Grameen model of Bangladesh. In order to develop effective credit products for small/marginal/tenant farmers, oral lessees and share croppers, as also entrepreneurs engaged in various non-farm activities, the scheme for Joint Liability Groups was launched (IRMA, 2013).
Second Level Institutions (SLIs)	Organization of small producers, that are not able to protect and promote their own interests and benefits unless they are organized into institutions owned and controlled by them, which aggregate, give them opportunities of economy of scale and increase their bargaining power (Fernandez, 2014).

Key Players

Depending on the country's experience and regulations towards microfinance, there may be many players in the microfinance industry of a country. The key players in this industry are the following: the central bank, the commercial banks, the microfinance institutions (MFIs), the non-governmental organizations (NGOs), and the end users, which are groups of entrepreneurs and villagers.

The central bank is the authority in command of the monetary policies of a specific country. The institution plays an important role by setting the regulations and laws surrounding the microfinance industries. The MFIs are the creditors who will provide loans to the groups in need. Usually, MFIs obtain their funding through a mix of borrowing and private investment. Each country has a different approach, however the majority of Indian MFIs are highly leveraged and use commercial bank loans to finance themselves. The cost of borrowing charged by the commercial bank will have a big impact on the MFI's interest rate, the higher the cost of borrowing, the higher the interest charged to the end user.

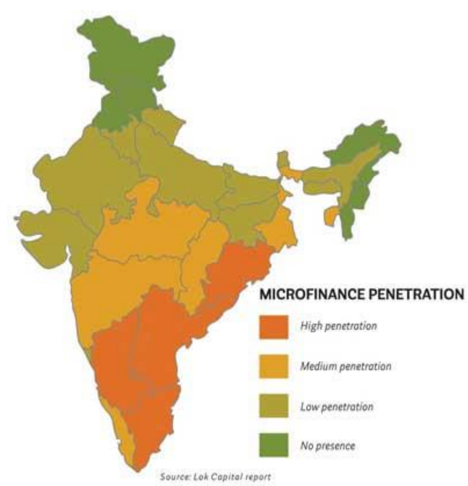
The role and risk assumed by NGOs are different depending on which microfinance model is used by the MFIs. Usually, NGO's role is to be an intermediary between the MFIs and the end user. They are two types of NGOs, the business facilitator and the business correspondent. Business facilitator as their name suggests, are often seen as a facilitator between both parties and a large part of their work happens before the loan is given to the end user. They are in charge of forming and training the groups, advising and consulting the SHG, promoting the different groups to the MFIs and post-sanction monitoring. However, they shall not engage in cash handling, including disbursements, collections, etc. A business correspondent will perform exactly the same duty as the business facilitator, but will also be involved in the cash handling activities such as disbursal of credit, recovery of principal, collection of interest, and sales of different micro financial services.

Microfinance Needs in India

MFIs have been targeting the poorest segment of the population over the last few years and have helped India's economy to grow more rapidly. Indeed, over the last decade, India's GDP per capita has risen significantly, passing from almost $800 in 2006 to $1,263 in 2014 and forecasting $2,374 by 2020 (Figures in USD). This is the consequence of a fast paced economy growing at more than 7% per annum over the last few years (Trading Economics, ND). According to the Economic Survey, published by the Indian government, India's GDP growth rate is expected to be between 8.1 and 8.5% from 2015–16. With the population becoming wealthier, some new opportunities are rising in the microfinance industry. People who were previously simply trying to survive are now starting to create businesses, buy land, and/or houses. Dealing with this issue, MFIs must renew their offer and diversify their portfolio to be able to face those needs required.

A part of the Indian population is becoming richer, however there is still many people which are underserved. MFIs should put more focus on that segment as well. Even though microfinance is one of the fastest growing sectors in the world, Indian MFIs outreach to the poorest is relatively low compare to Bangladesh, currently only 8% of the population living under the poverty line is covered compared to 65% in Bangladesh (Nasir, 2013). The main reason why the coverage to the poorest is so low is because MFIs are not targeting the poorest: "Though the program is spreading rapidly but with a slow progress in targeting the bottom poor households. About 50% of SHG members and only 30% of MFI members are estimated to be below the poverty line" (Nasir, 2013).

The needs for microfinance funding also vary drastically depending on the geographical location in which SHGs are living in. Over the last decade, thousands of MFIs have started to offer financial services to the lowest classes of the society in the south part of India, making the region one of the wealthiest of India today. Sadly, the same cannot be said about the northern states of India, where poor MFIs coverage and absence of funding and infrastructure compose the poorest of the country. As you can see on the map beside, the Southern region has the highest share of both outreach and loans outstanding, followed by the East.



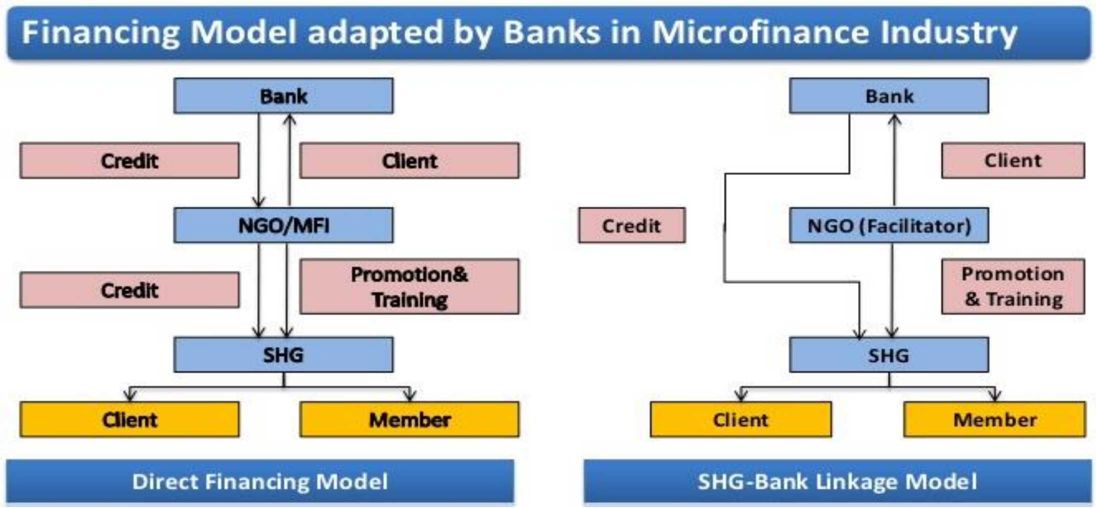
Overall, it is difficult to evaluate the supply and demand of microfinance in India, but experts have recently evaluated demand for microfinance to 30 billion US dollars, while the aggregate supply is approximately 2.2 billion US dollars (Parekh, 2013).

Self Help Group Bank Linkage Program (SHG-BLP)

A few years later after the Grameen Bank model was launched in Bangladesh, a new microfinance model was created in India. Inspired by Dr. Yunu's model, this brand new model would soon become the standard for all MFIs in the country. Started as an action research program in 1989, the Self-Help Group Bank Linkage Program (SHG-BLP) became a pilot project in 1992, financed by the National Bank for Agriculture & Rural Development (NABARD), which is owned by the central government of India (Chapter 7, NABARD, 2016). Today, NABARD is seen as a world-renowned apex development bank, which pioneered the world's largest microfinance movement. However, at that time the bank was newly born and was still figuring out how to improve India's agriculture industry and rural development.

Through 1999, the growth of the model was slower than expected with only 32,995 groups were credit linked during the period 1992 to 1999 (NABARD, 2016). Between 1999 and 2006, the model has undergone a tremendous growth phase, and the number of SHGs financed increased from 81,780 in 1999-2000 to more than 6.2 lakh in 2005-06 and 6.87 lakh in 2006-07 (NABARD, 2016). Today the program has expanded nationwide and MFIs are currently operating in 28 states, five union territories and 568 districts in India (Bharat Microfinance Report, 2015). As of 31 March 2014, there is more than 74.3 lakh savings-linked SHGs, covering over 9.7 crore poor households. The total savings of these SHGs with banks amounted to 9897.42 crore (NABARD, 2015).

The SHG-BLP model is divergent from the direct financing model, mostly because of the different approach taken by the bank to provide the credit to the end user. In a direct financing model, the bank will provide a loan to the NGOs, which will provide a loan to the SHG at a higher interest rate to cover their cost of borrowing. In SHG-BLP model, the bank still needs the NGOs to work as business facilitator or business correspondent, although they will provide a loan directly to the end user. The graph below explains the difference between the two approaches:



Step-by-Step Approach of the Loan Process Procedure

1. **Formation of the group and opening of a saving bank account:** At this point MFIs are not yet involved in the process; usually a NGO will help poor people to form a group and will open a saving account in their name.

2. **Savings & Internal lending by the SHG:** MFIs are still not involved in the process, at this stage SHG are in an education phase, they need to demonstrate that they understand the underlying rules of basic finance and loaning. With the help of NGOs, it is during this step that SHG will start applying the five principles that are mandatory to every SHG: regular meetings, regular savings, regular internal lending, regular book keeping and regular banking. They will need to apply those principles for at least six months before becoming bankable.

3. **Assessment of SHG:** After six months, the NGOs will submit a list to MFIs of SHG who they think are mature enough to receive a loan. MFIs will then send a financial service officer (SFO) to grade the SHG through financial and non-financial criteria. During this step that SFOs will perform the ''know your client'' (KYC) verification and control all the documentation necessary.

4. **Sanction of Credit Facility to SHG:** After satisfying about the functioning of the groups, branch may sanction loan directly in the name of the SHG (not in the name of individual members), which in turn will lend internally to its members.

5. **Repayment of loan by SHG:** A repayment schedule is drawn up with the SHG, and the loan is to be repaid regularly. The group using their collective authority discourages defaults. Every member is made to realize that the money belongs not only to him, but also to the other members of the Group.

Introduction to NABFINS

NABFINS is a short form used for National Bank for Agriculture and Rural Development Financial Services Limited. Their general goal is to provide finance for agriculture and microcredit towards promotion, expansion, commercialization, and modernization of agriculture and allied activities. They focus on the underserved sections of the society in both, rural and urban India. NABFINS is a subsidiary of NABARD, world renowned apex development bank of India and pioneered the world's largest microfinance movement.

NABFINS is currently operating mainly in the southern states of India but are planning to expand in the following years to the northern states of India. To date, NABFINS is present in 75 districts across Karnataka, Tamil Nadu, Andhra Pradesh, Maharashtra, Chhattisgarh, Kerala, Mizoram, Telangana, and Madhya Pradesh. An expansion in the rural unbanked areas of Odisha, Jharkhand, Madhya Pradesh, and Rajasthan is planned.

A lot of micro finance companies have been accused of being loan sharks, mainly because they are charging high interest on loans offered to their clients. These MFIs often call themselves social investors, even though their main purpose is to make a profit out of those loans offered to the poorest. One of the main reasons why NABFINS was created is to demonstrate that it is possible to offer low interest loans and still be profitable. The average lending rate for MFIs is 22-24%, however NABFINS is lending at about 16%. "At affordable rates, it is possible to give financial services at the doorstep of people in rural areas" (Business Line, 2014). NABFINS is able to offer low interest rates, mainly because of their easy access to capital from their parent company NABARD, who lends at 9.6-9.7%, which leads to a margin of 2-2.5% for NABFINS (Business Line, 2014).

Portfolio Diversification Project

As said earlier, India's population is getting richer, and consequently, people are looking forward to satisfy some new needs. In the last decade, the number of poor has decreased by almost 140 million people and the poverty ratio passed from 37.2 to 21.9% (Government of India, 2015). These people used to live in survival mode and are now looking to start businesses, buy land and play a more important role in their community. Even though they are able to invest a part of their savings in those projects, they still need some funding to help them achieve their goal. This is where MFIs like NABFINS can benefit from this opportunity by lending money to those groups of people who are not the poorest of the society, and are often un-bankable and unable to get financing from more traditional institutions. By outreaching to those customers, NABFINS will be able to provide loans to a larger segment of the population which will ultimately increase financial inclusion in India and contribute to the rural economic development of the country. To face this modern reality, the product innovation team of NABFINS has been developing three potential new products to respond to the change in different needs. Our internship mainly focused on assessing the feasibility of these three products and there is a brief introduction below.

Trader's Loan

Small trader shops are found in every village or city in India and are exploited by proud owners who often have invested all their personal savings into the business. Regardless of whether it is a small convenience store that serves consumers' daily needs or general stores that act as an economic driver for an entire village. They both have an important role in the socio-economical life of their community. A lot of these traders are working in a confined space, with limited access to resources, and restricted access to capital. Some of them do not even have their own shop, they simply work at different markets and rotate every day/week, depending on where demand is high. The service sector is the largest in India and it accounts for about 60% of the total GDP (Government of India, 2014). Retailers are an increasing aspect within the service industry in India and it accounts for 14% of the GDP (Dikshit, 2012). The consumer demand is constantly rising and it is predicted to be the world's fifth largest consumer market by 2025. (Mckinsey Global Institute, 2007).

Even though some commercial banks are already offering loans to such traders, they are often demanding for collateral and documents, that most merchants are not able to offer. On the other side, there is also a bunch of people that are trying to start their business and need more funds for working capital or simply to buy inventory to get it going. These potential traders are quite risky and will not be able to receive a loan from a commercial bank either. Most of the traders right now are lending from money lenders at high interest rates. It is easy and convenient for them and there is no documents and/or bookkeeping required. This market segment has not been served and this is mainly due to its high risk, however a short overview of all challenges will give a better understanding:

1. Traders have no fixed shop location
2. Traders do not own the property
3. No complete business model and no collateral
4. Traders lend money within family and there is no transparent documentation of where the money is
5. Banks do not see the growth potential in small shops, even though it contributes a lot to the overall society/economy of India

In this context, NABFINS recognized the opportunity to launch a new product that will focus on those who are currently un-bankable all kind of traders. The target segments of this study are businesses that require money for expansion or simply as working capital for the day-to day business. The reason NABFINS chose to work with this industry is because this sector of the Indian community is growing and there is increasing potential. Due to the immense growth in the service sector, it aligns with NABFINS' interest in fostering the economic development of India. This loan will help the society to further thrive and accelerate in every sense.

Industrial JLG Loan

The Small and Medium Enterprises (SME) sector in India has matured tremendously over the last few decades, providing employment opportunities to millions of people and bringing several industries to the rural areas. Although 95% of micro, small, and medium enterprise units are informal in nature, the contribution of the sector to India's GDP has been growing consistently at 11% per annum, higher than overall GDP growth of 7-8% (Trading Economics, 2016). NABFINS sees the potential in this area hence its willingness to diversify into an Industrial JLG to serve this segment of society. The JLG model focuses on small groups consisting of about five people each whom signs a formal agreement between one another, to take on a loan as one unit and then start their own business ventures. Depending on their capabilities, different loans will be allocated to each group.

Although the sector has shown impressive potential, it also faces a number of challenges to its growth. Lack of adequate and timely access to finance has continued to be the biggest challenge that SMEs in India are facing today. To address such issues, various central and state government schemes have been rolled out supported by government bodies, banks and financial institutions to infuse funds in this sector. But there is still a huge credit gap for those enterprises and most of them are still unable to get funding from commercial banks and other existing banking systems that caters to this sector.

The credit gap in the sector is a combined result of demand-side challenges such as the legal structures of enterprises, as well as supply-side gaps, such as a lack of investment funds focused financial products on SMEs. Financial institutions have limited their exposure to the sector due to a higher risk perception and limited access of SMEs to immovable collateral. Some of the challenges are:

1. Micro and small enterprises have limited access to equity and, in many cases their ownership structure prevents infusion of external equity.
2. Banks adopt conservative policies that minimize both credit risk and cost of delivery; thus, they focus more on the less risky small and medium enterprises than on micro enterprises
3. Nearly all banks prefer to lend to SMEs only against collateral, but most of the entrepreneurs lack adequate collateral
4. Lack of comprehensive formal documentation relating to accounts, income and business transactions
5. There are also some challenges related to their operations that they face like the problem of delayed payments from their buyers, which are mostly large corporations. This adversely impacts their working capital as well as their next cycle of production by affecting their ability to service existing debt
6. Many times lack of adequate and timely finance put their current projects at risk or even rejection consignment or an order

NABFINS wants to have a product for financing micro and small enterprises. By adopting a JLG model to cater for their various credit needs, it will result in having adequate capital to meet the growth aspirations of the business, but without diluting their ownership. Also, it will allow businesses to make investments in marketing, brand building, creation of distribution network, technical know-how, R&D, technology upgrade, etc. and to raise finance on the strength of their business and cash flows rather than asset cover/collateral security.

Housing Loan

"The current low income housing market is worth USD 424 billion […] one billion individuals around the world, that is 1/6th of humanity live in slums and inadequate housing." (Samaranayake and Budinich, 2011) In India alone, 65 million people live in slums (Rukmini, 2013). Despite the huge demand for affordable housing, the private sector does not see it as a good investment as it carries huge risk. This insufficient supply and large demand for affordable housing creates big discrepancies in the market leaving many people in the state of homelessness. To experience healthy growth in India, access to affordable housing needs to be provided.

The housing sector is showing massive potential for growth especially as India's economy flourishes. However, the risks associated with the low income segment requiring affordable housing are high. This high risk deters private organizations and banks to lend loans out. To address the discrepancies, there are some microfinance institutions that serve this market. Some of these MFIs that currently serve this market are: SKS Microfinance, Madura Microfinance, and Micro Housing Finance Corporation Limited (Ramalingam, 2009). But still there is a huge gap in the supply for the sector versus the demand as some of the challenges with this segment which leave so much of this sector underserved are:

1. Private institutions are not as interested in serving this low margin sector
2. Commercial banks have conservative policies which often require steady revenue streams
3. Business people lack the business acumen to mitigate risks associated with seasonality issues
4. Collateral available is often insufficient for commercial banks
5. Lack of comprehensive formal documentation relating to accounts, income, and business transactions
6. By providing secondary financing, this creates large risk of default payment.
7. The income stream coming from MSE suffer the high cost of credit which does not reach them on time or is as liquid
8. Internal lending to family causes illiquidity of assets, in turn, raising risk levels

NABFINS wants to provide a product to fill the gap between the demand for affordable housing and the lack of supply that is available. The segment NABFINS will target will be the low income sector primarily living in rural places where basic essentials such as food and water are not easily accessible.

Methodology

Mission Statement and Main Objective

After providing a deep understanding of the current situation of NABFINS and a comprehensive description of the three different products, we can now talk about our methodology of how we are going to work on this project to consult NABFINS in the best way possible and to make valuable recommendations. This project was based on our mission statement: 'Help NABFINS to further diversify its portfolio to be able to serve more needs and customers.' We fully included this mission in every decision we are making. To achieve our mission, we evaluated and analyzed different alternatives of three potential new products and will recommend the most viable option and suggest an implementation strategy.

How Did We Achieve This Objective?

The first step in our methodology was to conduct market studies in three different geographical locations which were determined by NABFINS' product innovation team. A macroeconomic analysis of each product was done beforehand to increase our understanding as well as generating questions for our upcoming interviews. These questions were built in an unstructured manner. Primarily, we were trying to receive information about the individuals to categorize them into groups. Depending on their responses, we then continued asking questions about their business, their financials, possibly existing loans, and future plans. Due to a high degree of diversity within all the potential clients, all questions depended on the product and each individual. We were facing different backgrounds and different stages in their businesses and life. This is why we chose an unstructured interview versus a structured interview. Also, we were visiting the clients with the district manager of each location and he was our translator to conduct the interview. We understand, this could cause a bias, therefore we were trying to ask the questions as simple as possible but collectively exhaustive.

Once we had all primary data we combined it with secondary research found, regarding these different products and the economy in India in general. Needs, opportunities and risks were tested and followed by a market segmentation. We categorized the potential clients according to their characteristics. This segmentation was created for each product so we could assess all opportunities and risks respectively in further steps. To fully obtain a big picture of all options possible we generated alternatives that will determine who to target. Different target strategies gave us an idea of where the most opportunities are given but also, the level of risk.

As soon as we selected target segments, we evaluated them with the help of a framework. This framework contains criteria, which need to be fulfilled to be eligible for a loan. It will allow NABFINS to assess the trader's capability of repayment, the risk of default, their personal identification, and motivation/purpose. After considering the framework, NABFINS will be able to select the right traders and ultimately minimize their level of risk. However, there will be a different framework provided for each product due to different circumstances, but all of them were drawn mainly on diversification and low risk, to be in line with NABFINS' scope. The final decision will imply the increase of customer's outreach and the diversification to mitigate risk. Ensuring the emphasis is on the mission statement when deciding for one target strategy, we will continue with the key steps of implementation to give NABFINS a general idea of how to take off successfully with the three products.

For a detailed description of the problem statement, we completed a worksheet, which includes various criteria and constraints of the project which can be found in appendix 1. To keep track of our goals we defined a roadmap for all required activities, which can be found in appendices 2 and 3. This contributes to solve the problem stated beforehand and to ultimately create value for the client. To obtain a more detailed understanding of the issue at hand, we also created a logic tree to divide our project objective into three main parts (Appendix 4), and then subdivided these into various sub-issues (Appendix 5). Using the logic tree and moving forward to an issue hierarchy we can make sure we meet our deadlines as well. Even though we mostly worked together in a team on the primary research, we did assign issue based tasks to each other regarding secondary research only and to have experts in one field respectively.

Why Did We Choose an Interview Approach Instead of a Survey?

In this context, one of the most important factors is trust. Trust is a key player in NABFINS' business model and asking the people face-to-face helps us to assess trust amongst themselves through internal lending, trust between them and their customers through credit selling, and the usage of trust through buying raw materials. Compared to simply handing out surveys, it provides a much more comprehensive understanding which is hard to realize in identical surveys. This also combines the fact of diversity. We were more efficient reacting on each individual's story separately than generalizing it in a pre-made survey. In addition, a survey is handy to use when sent out online to a great variety of people, which would not have been applicable in this case. Overall, the mission statement of NABFINS is to be a trusted institution, which serves the unorganized sector, and we worked within these constraints.

Trader's Loan

Data Collection

The data collection for trader's loan was taken placed in Mysore, a city about 150 kilometres southwest of Bangalore. It is the third most populated city in the state of Karnataka (Census Population Data, 2015). As some research had been done by the product innovation management beforehand in Mysore, high demand was recognized in terms of business expansion. Mysore is a growing city in terms of population and its GDP. It is also a very popular destination for tourists in India (Invest Karnataka, 2016). This raises an opportunity for traders to start new businesses or simply expand their current offerings.

To get a substantial understanding of all traders in Mysore and its surroundings (urban and rural areas), we went on field visits for four days consecutively (May 17th – May 20th). On the first day, the manager of the product innovation department of NABFINS joined us and introduced us to the financial services officers in Mysore. We had a comprehensive and detailed discussion about the objectives and opportunities, hence we adjusted our questions towards the given information. An overview of our interview questions is attached in appendix 6, however the following list will provide a brief understanding of the elements we were trying to analyze when interviewing potential clients:

Motivation: By understanding the motivation behind the need for a loan, NABFINS can gauge the client's long term plan, certain level or viability, and risk levels.

Risk: Risk will be calculated considering a multitude of factors such as the amount of savings, whether they have had previous loan experience (loans outstanding or not), level of defaults, the necessary discipline, business existence, etc.

Mobility: An important factor in the trader's industry is whether the shop is at a fixed location or is commuting every now and then (eg. markets). This will lead to higher risk.

Credit Selling: Whether the client sells on credit, how long they have been selling on credit, and the types of relationships the client has with their customers.

Identity: Know Your Customer (KYC) provides information on the client and makes it easier to assess and keep track of filing. As well, their educational background and training will assist in assessing risk.

Relationships: The relationships that potential clients have with their suppliers and their customers will determine a certain risk level. Better built relationships determine lower risk.

We started our research at a local market located on Chamundi Hill. On the hill, there was the famous temple of Sri Chamundeshwari and a medium sized market which held small shops that sold things such as flowers, fruits, small trinkets, toys, and clothing. Some of the products sold were seen as offerings, others were simple trinkets and clothes for tourists. We interviewed many of the merchants using our pre-made questions as well as ones which we identified as necessary during the time, depending on their responses. It was a very busy and hectic area, with a big crowd of people and many opportunities for traders to make sells. No matter whether interviewed SHG members or non-SHG members, they both showed a great ambiguity of how to run a business. Most of the interviewees wanted to expand their business, though when we asked how their expansion will be laid out, they did not know. Mostly, they responded they want more products. That's it. There was no knowledge about cash flows, which put us in a difficult situation of asking straight forward questions. In contrast to mainly good relationships to customers, the relationships towards suppliers varied. Some merchants bought their products depending on where they can get it for the cheapest price, which shows a weak relationship with suppliers. It is rather a matter of cutting costs in any way possible. Another factor that contributes to the low-pricing method of suppliers is the mobility of the traders. The traders commute from place to place depending on demand, season, and suppliers. The first day helped us to develop a strategy for further interviewing and specific questions, especially when adjusting to different individuals. We continuously modified our questions and style of research over the next couple of days including experiences and information which we kept gathering.

On Wednesday, we went to a rather rural area called Heggadadevankote and we mostly asked merchants who are members in SHGs already. These shops varied from pharmacies, to clothing stores or bakery shops. It was interesting to see that mostly the pharmacies have a real business model, and were operating in a complete different range of funds and assets than everyone else. These traders were bankable already and were thinking of a much wider spectrum of business expansion than everyone else. However, we also noticed a greater level of knowledge in terms of business and book keeping for all SHG members. The differences to the merchants from Chamundi Hill were very obvious.

On Thursday, we went to the city vegetable market called Devaraja. One major aspect we came across in this market was credit selling. Many traders have good relationships with their customers and will allow them to pay whenever they have the money. This makes it difficult to assess the financial situation, as well as it reduces the working capital for the merchants. On the other side, we interviewed merchants that were acting as wholesalers. They managed to grow their business in a matter of supplying to other merchants instead of selling to random customers. Another majority of the traders were actually employees of agencies to sell fruits and vegetables for them and receive a fixed salary. This system seemed to be very common in the perishable product industry.

On Friday, we had a meeting with the district manager in the office in Mysore, to go through our findings and to combine them with his perspective as being a local. It was beneficial towards our data analysis, so we are certain that we understand all criteria and different business systems in the trader industry in Mysore. Overall we conducted 15 interviews with traders operating in all kind of industries including fruits and vegetables, jewelry, school furniture, textile, clothing, snacks, general items, and medicine. About 33% of people interviewed were already part of a SHG. The unstructured interview method supported us to have a more flexible and adapting style of talking to potential clients throughout. To sum up, book-keeping was not available as well as clear business plans. The motivation behind a loan needed deviated from different merchants; hence we categorized the key findings into two groups to concentrate on the most important components and to be consistent for the analysis:

Criteria	Micro Business	Small Business
SHG Experience	Yes	No
Length of Operation	Less than a year	More than a year
Employees	0-5 employees	5-20 employees
Financial Stability	Fluctuation possible	Stable
Assets and Collateral	Lack of assets and collateral	Lots of assets and machinery, collateral already used to cover commercial banks loans
Existing loan	No loan contracted with commercial banks, use of equity to start their businesses	Received a loan of about 10-20 lakh from commercial bank at 8%-12%
Needs	Need funds for expansion (PPE) and working capital	Need working capital to sell on credit and work with gap between purchase and sell
Profit	20,000 – 100,000/month	2 lakh/month
Loan Amount Requesting	Primary Financer	Secondary Financer
NABFINS Positioning	1-3 lakh	3-5 lakh

Data Analysis

After a thorough research on trader's loan including primary and secondary sources, we classified two categories to sum up all our data collection at once. The market segmentation leads to the following step of looking at several options of target segments. We agreed on three different target options as followed:

1. Target experienced traders
2. Target new entrants
3. Target all traders possible (including experienced and new traders)

For the decision-making process of the best alternative, we will look at opportunities and risks for each option, as well as focus on the mission statement for our project. Once a target segment is identified, we will continue with key steps for a potential implementation strategy.

Experienced Traders

Looking back at the data we have collected in Mysore, we can see that traders that have been operating in their business for longer than at least two to three years, have experience and their knowledge about business is much more applicable than others. Most of them already know, what they need the loan for. Transaction costs are dramatically reduced when handling with more knowledgeable people, because a lot of training and education or even defaults will be minimized and the procedures will take place faster and more efficiently. This also leads to the next point of having experiences with loans. The more experiences the people have, the greater the knowledge and the faster the process. All these advantages of a more efficient, less risky loan procedure opens up the path for NABFINS to lend individual loans. This option will not raise any internal group issues as opposed to being a member in self-help groups or join-liability groups. Internal lending and group payments will be avoided which reduces difficulties. Individuals are responsible for themselves only. Traders are mostly looking for a bigger amount, however for a short period of time. It is rather a tool to increase the size of the shop and expand on their inventory. There is no loan needed for constant support and growth, simply for a quick boost. All of these factors mentioned, create opportunities for NABFINS to launch this loan. Due to the amount of traders operating in Mysore already, there is a growing demand for a business expansion. It also seems to be an easy and quick process, with rather knowledgeable business people that only need money for a short period of time.

On the other side, NABFINS will also have to face some risks regarding this strategy. Because of the traders being in the business for quite a while at this point, the risk of being a secondary financer is quite high. As we mentioned loan experience as an opportunity beforehand, in this case, the issue occurs when loans are still outstanding and not paid back yet. On top of that, the low to no transparency of documents fosters this problem even more. Most of the times there is no documentation available and if it is, NABFINS might not ever get to see the originals. This is all also a matter of trust, which is highly recognized in NABFINS' business model. Nonetheless, an experienced trader does not ultimately make them trustworthy if they are not a member of a SHG. Quite a few traders have to face seasonality with their products and therefore cash flows, which is difficult to assess especially with low transparency. One of the main differences to new entrants is mainly the consistency of the experienced traders in the way they are doing their business and also what products they are selling. There is hardly any differentiation which is problematic due to a lot of competition. They are usually stuck to their style and will not make any changes.

New Entrants

Targeting the trader's loan only to new entrants on the market seems like a small portion of the market, however, there is a lot of opportunities for NABFINS. India's economy has been growing at more than 7% per annum over the last few years (Trading Economics). This is a great opportunity for NABFINS to support the economic growth, by providing loans to new entrants. If this is the case, this product would be within NABFINS' scope of helping the poorest people and not simply providing loans similar to commercial banks. Focusing on women is another aspect for NABFINS money lending. The number of women wanting to start their business is increasing and they bring advantages with them anyways, so it could make the procedure easier as well as aligning with the company's business model. They also possess a higher degree of flexibility and creativity which is important when starting a business for a greater differentiation, which can lead to improved success.

The downsides for new entrants are very similar to the ones from experienced traders. Multiple loans, no transparency, seasonality, low trust (if not a SHG member) are always the risks in this sector. In addition to these common risks, new entrants do not have any business acumen. They have never acted as a business owner, and do not know what to keep in mind, what to make sure of, etc. There is a lot of training and education needed, which slows down the loan process and difficulties can occur any time. Since they have not been operating in a business, or recently started, the income is very instable. It might not just be unstable, there is also no book keeping to assess and evaluate the business situation.

Recommendation and Implementation

After a thorough analysis of all data collected and evaluating different alternatives by deliberating all opportunities and risks, we have come to a conclusion and we recommend to go ahead with option three; target all traders possible including experienced and new traders. As our mission statement stated, NABFINS' goal is to diversify its portfolio and to serve more customers. This was our mission to fulfill and we put it to high priority when making any decisions. By targeting both types of traders, we are increasing our customer base and thereby increasing the bottom line of poverty as well as supporting ongoing businesses. In addition, it will diversify the product itself and lower the risks that each target comes with. The majority of the risks are similar, however the low differentiation and high competition for experienced traders is the opposite regarding new entrants. The high product differentiation is an opportunity to manage the ongoing competition in this industry. The main risk of no business acumen in this segment is mitigated by the great knowledge for experienced traders. The opportunities and risks equal each other out and seems to be the best option. We have also seen demand in both areas, therefore we see a great opportunity to foster the economic development in general. Nevertheless, we will differentiate between the types of loan depending on the client's experience. We understand, there is a lot more to evaluate and assess when deciding for the eligibility of a loan, and all criteria will be included in the implementation strategy. Nevertheless, this gives us a great way to start the decision-making process.

We defined key steps for an implementation strategy for our target recommended, which NABFINS can elaborate on further, to successfully launch the traders loan. As mentioned before, we defined the business existence of traders to be the major criteria when segmenting the market. Therefore, we are looking at the experience first whether it is over two years or less. We understand it is not the most important criteria to choose from, however we feel confident to state that this is the start of our decision tree. If we look on the 'Yes' side, all applicants still have to respect all other criteria that is required to be eligible for a loan. We created a draft of a framework that contains all elements that were part of our data collection on the fields. Since it is a very complex loan model, there will always be adjustments and changes needed. You can find the framework in the appendix 7. Once the criteria are respected, an individual loan will be given out. If not, the application will be denied and not accepted until all criteria are met. Turning to the business existence of less than two years, our first priority goes to members with SHG experience with NABFINS. If they have this experience, and respect all other criteria, an individual loan will be approved. If the criteria are not met, one more loan cycle with NABFINS needs to be completed and the applicants can re-apply. On the other side, when there is no SHG experience with NABFINS available, we will take a different approach. Once all criteria are respected, we will provide a JLG loan. We want to give non-SHG members a chance to develop themselves in the economy the same way as others. Since we do not have any trust and knowledge in non-SHG members and transparency and collateral are low, being in a group is less risky for NABFINS and a good start to get to know the clients and at some point turn the JLG lending into an individual loan. If the criteria are not met, we will simply deny the application because there is no method to evaluate the people. You can see the decision tree in appendix 8.

Industrial JLGs Loan

Data Collection

The data collection for the industrial JLG loan was held in Hosur. It is an industrial town located 35 kilometers away from Bangalore. Hosur is the largest town in the Krishnagiri district situated in the state of Tamil Nadu. The city is well known as an industrial hub for several automobile and manufacturing industries. The major companies include TVS Motors, Ashok Leyland, Titan, Hindustan Motors, Kamaz Vectra Motors, Alstom, Faiveley Transport, Caterpillar Inc., Carborundum Universal, Exide Industries Ltd, Hindustan Motors, Hindustan Unilever, Schaeffler, TTK Prestige, Bata Shoes and Del Monte Foods. Recently, State Industries Promotion Corporation of Tamil Nadu Ltd. (SIPCOT), has established a major industrial complex at Hosur. The goal of this complex is to increase industrial development in the area and encourages entrepreneurs to open small shop and factory. In this context, MFIs like NABFINS see a huge potential in this market and try to cater to industrial JLGs needs. In the days leading to our field visit in Hosur, we carried out an exhaustive research of the industry, the region, and the different type and needs of customers we were susceptible to meet in this city. Further, to measure the feasibility of an industrial JLG, our team drove to Hosur on two separate days; Wednesday May 25th and Thursday May 26th 2016.

On the first day of our trip we also met the district manager of Krishnagiri, who gave us more information on NABFINS' expectations regarding the Industrial JLGs loan. We learned that NABFINS has an interest to introduce a new product for this segment with an objective to provide loans for working capital and business expansion. During this meeting, we also learnt more on the financing needs of the sector. They are different depending upon size of operation, industry, customer segment, and stage of development. The smaller the entity, the greater is the reliance on debt as a primary source of finance. In addition, micro enterprises principally rely on debt for both, early and growth-stage financing. Micro and small services enterprises primarily transact in cash and tend to keep minimal records.

Next step was to go into the field and assess the feasibility of the loan. During these two days, we conducted seven interviews with JLGs member operating businesses in several industries. The majority of them were working in the automobile industry, which is not a big surprise considering the number of large car manufacturers who have a factory in Hosur industrial complex. We also visited several factories that were producing different items such as watches, medical equipment, door locks, and ceramic tiles. We interviewed the clients using an unstructured interview approach; some questions from the primary research can be seen in appendix 9. The questions were based on some of the components below:

Market: Questions regarding the market allow us to understand the supply and demand. If demand exceeds supply, the client has a huge potential for earning money. We also considered the number of competitors to gauge risk.

Business Maturity: Depending on the stage of the business, the amount of loan should vary. The more mature the business, the lower the interest rate.

Identity: To understand business owner's educational and training background. It will allow NABFINS to categorize people into groups and assess loan potential.

Expansion Strategy: To understand the level of risk, a thorough understanding of the potential client's expansion strategy should be explained, and whether they are focusing on the long term such as investing in technology.

Risk: The level of risk when providing a loan is the most important. From these questions, we want to understand things such as their loan experience, whether they have ever defaulted on their loans and the percentage in which their products were recalled and if the company has lost money.

During our time in Hosur we observed that the growth of the industrial district could be an opportunity for NABFINS. We also noticed two distinct segments on the ground; a well-established business in a growth phase and a start-up launching their operations in one of those promising industries. As we spoke with different potential clients from both segments, we realized that they had distinctive features from each other and divergent needs. In the following table, you can find our observations for each segment:

Criteria	Micro Business	Small Business
SHG Experience	Yes	No
Length of Operation	Less than a year	More than a year
Employees	0-5 employees	5-20 employees
Financial Stability	Fluctuation possible	Stable
Assets and Collateral	Lack of assets and collateral	Lots of assets and machinery, collateral already used to cover commercial banks loans
Existing loan	No loan contracted with commercial banks, use of equity to start their businesses	Received a loan of about 10-20 lakh from commercial bank at 8%-12%
Needs	Need funds for expansion (PPE) and working capital	Need working capital to sell on credit and work with gap between purchase and sell
Profit	20,000 – 100,000/month	2 lakh/month
Loan Amount Requesting	Primary Financer	Secondary Financer
NABFINS Positioning	1-3 lakh	3-5 lakh

Data Analysis

Once the data was collected, we decided to take a look at NABFINS' alternatives regarding which segment should be targeted to ensure a successful introduction of the industrial JLG loan. Following our field visit, we agreed that three options were possible:

1. Target micro businesses and position NABFINS as a primary financer
2. Target small businesses and position NABFINS as a secondary financer
3. Target both segments and position NABFINS as a primary and secondary financer

To help us to choose the best alternative, we analyzed the opportunities and risk for each option and then recommend the best segment to target. Once the target segment is clearly stated, we will provide an implementation strategy that will suit the target chosen.

Micro Business

Micro businesses are growing quickly in the Hosur industrial complex and many of these groups show a lot of potential to become reliable and safe clients for NABFINS. Usually micro businesses are owned by a single person only and there is not enough collateral to make the company eligible for a commercial bank loan. Since the market for that kind of product is relatively new, this micro business segment represents an untapped market and a great opportunity for NABFINS. Additionally, this segment contains new entrants that will need large amount of capital for expansion and purchase of assets. This demonstrates a great opportunity for NABFINS to develop a long term relationship with new customers with a lot of growth potential. Finally, dealing with micro businesses, it is relatively safe compared to SHG or trader's lending, mostly because micro business owners have a strong educational background or the required field experience. Strong bookkeeping skills, clear business expansion ideas, and stable connections with suppliers and customers are also found, which express a high level of discipline.

Dealing with micro businesses also brings several elements of risk for a lender like NABFINS. Even though micro business owners represent a safer option than SHG, their absence of credit history does not make them illegible for an individual loan. This is why they are forced to work in a JLG. Some micro business owners have no experience in financial lending and are not aware of the process. This makes the process of creating a JLG more challenging and increases the risk of default payment. Furthermore, a lot of these businesses are only dealing with one or two customers and/or suppliers. This makes the micro businesses to be more sensitive to customer's demand and supplier's ability to deliver raw materials on time. Another risk factor is the exposure to the price volatility of raw materials. Often micro businesses only produce one product and are operating on tight margins. A small increase in the raw material price can turn into a profit loss. Finally, unlike bigger businesses, micro business's sales, profit and cash flows are less stable and predictable which increase the difficulty to assess their repayment capabilities.

Small Business

The industrial hub in Hosur is growing exponentially. Businesses are starting as well as current businesses are reaching their limits and require more funds. The small business owners with whom we spoke clearly made us understand that even though they already received loans from commercial banks, they were still looking for a new industrial loan. The main reason why small businesses are still looking for funding is to stay afloat with their working capital expense, especially for manufacturing enterprises and order-driven services companies. These tend to need more financing because of their longer working capital cycle and higher capital expenditure. These potential clients represent a safer choice than the micro business owners. Their sales, profit, and cash flows are more stable and predictable. Usually the transaction cost of dealing with these businesses is smaller mainly due to high business acumen of their owners and partners. Another positive aspect of dealing with small businesses is their quick turnover cycle for funding.

Most of them need funding for working capital which means; they have short term needs and require money on a constant basis. This represents a huge opportunity for NABFINS to collect interest on big loans repeatedly at a very low risk.

On the other side, there is a multitude of risks associated to lending money to micro businesses. Initially, there is a scope issue, many of the businesses found were already bankable and were clearly thriving. NABFINS' mission is to focus on helping people living at the bottom of the pyramid. We quickly realized that a lot of them were managed by wealthy people, who were already bankable with commercial banks. That being said, we disagree making them automatically illegible to the industrial JLG loan, however, we strongly believe that a more extensive debate should take place between NABFINS' executives to define what is the scope of the institution, more precisely. Nevertheless, this decision making is not part of our project, and we recommend NABFINS for further analysis. Then, as said earlier those businesses are for the most part already eligible to a commercial bank, by lending to those businesses, NABFINS would become a secondary financer. This can be considered as a threat for NABFINS for two reasons. First, given that most of the businesses give more importance to their relation with commercial banks than with MFIs, they could repay NABFINS only after they repaid their primarily institution. If the cash flows of the company are low, that could increase the risk of default for NABFINS. Secondly, the fact that small businesses might already have contracted a loan with a private bank also means that their most important assets are already serving as collateral. This situation would increase drastically the risk assume by NABFINS, which would find itself lending with almost no collateral to back up the loan and relying only on trust. Finally, there is also a risk that this segment is not interested to be part of a JLGs structure. Mostly because at this stage, business owners already have a personal loan through a private bank and do not see the benefit of sharing knowledge and expertise with other JLGs member who are considered as competition.

Recommendation and Implementation

Considering all the risks and opportunities of both alternatives, we strongly recommend targeting both segments and position NABFINS as a primary and secondary financer. We understand that targeting both segments at the same time could increase the transaction costs associated to launching this new product, but we strongly believe that the aggregate benefits of targeting both segments outweigh this risk. Targeting only one segment would not only discriminate an important group of business owners, it would also require a lot of time and energy to make sure businesses respect all criteria of this particular segment. Our field visits taught us that it is not as black and white as it may seem, especially when it was time to segment businesses. Some micro businesses may have some features usually associated to small businesses and vice versa. This is why we suggest a more exhaustive approach. Targeting both segments will give NABFINS more flexibility and autonomy and will assist them in picking the best business owners for the industrial JLG loan.

Creating an efficient JLG is not an easy task due to a strict set of criteria that enable you to target a greater audience. Furthermore, small business owners might not be interested in cooperating with a group consisting of other small business owners. As said earlier, they see these as competitors and do not see any advantage in sharing knowledge and expertise. A group only composed of micro business owners is not ideal either due to their lack of knowledge and their poor credit track record, which makes them riskier. Things could be different, if JLGs were formed of micro business owners and small business owners. Less experienced managers could learn from the more experienced ones, who would not see a threat in competition. On the other side, small business owners will also benefit from being part of mixed JLGs. It could be a great way of meeting new suppliers or contractors with whom they could start a relationship. For NABFINS, those mixed groups would also be a great way of mitigating the risks associated to lending to less credit-worthy micro business owners. You can find the framework which helps us to elaborate the recommendations in the appendix 10.

On a strategic point of view, launching a new product on two different segments might represent a challenge; this is why we created an implementation strategy to help NABFINS achieve their goal. This strategy should not be seen as a complete step by step approach, but more a map showing the key steps to achieve to be successful. The goal here is to show NABFINS what to look for when assessing the potential of a new client. For micro businesses, the first step consists of a complete analysis of the industry in which the business is operating. Since the business' success is highly correlated to its ability of growth, it is primordial to see if there is place for new entrants in this specific industry and the growth perspective on a long term scale. Secondly, an analysis of the financial situation of the company must be done. This step might be more difficult for several reasons, some micro businesses owners do not keep track of financial records and others might be reticent to show bookkeeping for tax evasion purposes. With that being said, it is essential for NABFINS to have a basic idea of the financial situation of the company before providing any loans to these businesses. Finally, we understand that micro businesses sales, profit, and cash flows fluctuate a lot. To mitigate the risk of default, we suggest that the lending parameters to this segment focus on long tenure so the repayment amount can be smaller. By doing so, the business owners will have more flexibility to manage their cash flows and should be able to repay the loan more easily.

For small businesses owners, the implementation strategy is slightly different. Given that they are more mature and have more experience, an industry analysis is not required. It is never a bad idea to do it, but we feel comfortable with going right away to the financial analysis of the company. As usual, this step is essential to be eligible for a NABFINS loan. It should be easier for NABFINS' officers to access financial records and bookkeeping, mostly because they are bigger and they need those records to keep track of every transaction. Secondly, a deep analysis of the assets should be required. Many have already taken a loan with a commercial bank and the majority of their asset is already used to cover that loan. It is important for NABFINS to know which asset is still available to back up their loan and mitigate their risk. Finally, we strongly recommend imposing a short tenure, generally to avoid being paid after the commercial bank. This would increase the risk of default. Imposing a short tenure should not be a problem for small businesses, because of their short term needs and should encourage them to be more disciplined to be eligible to a second or third round of financing.

Housing Loan

Data Collection

To get a better understanding of the demand for a housing loan, NABFINS sent us to Hassan; a district within Karnataka which is home to a population of 2,117,386 (Census Commission of India, 2001). This rural district mostly exposes agricultural businesses such as selling coconuts, milk, and water. The fields we visited were generally construction sites starting from the foundation only, mud houses, and homes in their final stage of construction. Regardless of the stage of construction, we interviewed a great variety to understand all needs and purposes.

The first day on the field in Hassan was spent in NABFINS' district office and we had a meeting with the district in charge. At the office, he gave us a brief overview of the area and his interpretation of what objectives a housing loan should contain. A few key points were very useful to our structure of interview questions: first, the blueprint requirement and secondly, the use of land as collateral. By having a blueprint, NABFINS will gain a better understanding of what still needs to be completed and approximately the amount of cash that would be needed. As well, by collecting collateral, this will ensure some stability for NABFINS. He was also very clear in depicting the type of villages we would be visiting and the different stages of building we would be seeing. From there, we developed questions catered for each stage of construction. For the next day, we prepared some questions which contained the components below. Some of our questions can be found in appendix 11.

Demand: Whether the loan type was actually demanded in the area; as well as, the range amount in loans.

Customer Type: By understanding the type of customers, it will be easier for us to do a thorough categorization for the analysis.

Business Type/Income Stream: By assessing the type of business they are in as well as the steadiness of their income, this show whether they are knowledgeable enough about how to mitigate risks associated with seasonality. It also shows a certain level of stability which reduces risk of default.

Expansion/Building Strategy: We need to gain an understanding of why customers want to expand their homes. Blueprints can be useful to provide a building strategy and show us exactly what is needed and how it will be achieved.

Savings/Down payment: The savings and down-payment amount shows the capability for potential clients to not default on their loan payments. It is also a quantifiable measure of their seriousness and whether they are able to save money each month. This type of capability reduces risk.

Land Ownership: We need to assess whether people own the land or not. This could be a mitigation of risk in the further analysis.

Transparency: A high level of transparency is required as many of these potential clients have dependents which would increase the level of risk taken by NABFINS.

Collateral: Since NABFINS will be taking their land ownership as collateral this will be a necessary component of the interview questions.

Multiple loans: Assessing whether clients have already had loans in the past and whether loans are still outstanding.

Risk: The level of risk when providing a loan is the most important. From these questions, we want to understand things such as their loan experience and whether they have ever defaulted on their loans.

The second day on the field in Hassan was spent speaking to primarily homeowners and some merchants that wanted a loan to buy land. Overall we realized there was generally three different types of potential clients. Some people did not even own a land but were looking at buying one to build a house. The second type of group was somewhere in their construction, either just finished the foundation, or already ongoing with the actual building. The last group was consisting of people that were looking at funds to finalize their construction, to expand their homes or renovate them.

Many of the villagers we met had dependents and very volatile income streams as well as no formal bookkeeping records, which is very ambiguous. Because of this, they were not eligible to receive a loan from commercial banks or housing finance companies. Although many of the clients were able to save money and would be able to make down-payments, they were also lending that saved money to family members. This raises some risk as it shows some illiquidity. Many of the homes that had no house construction and only broken raw materials on the land had contractors on site. From that, we learnt that contractors are hired every day since these people had little long term planning with regards to their finances and since their income stream was volatile, they were unable to hire long term contractors.

Although not that common, it was also interesting to see that some of the potential clients had family members who were previously part of SHG. The amount of loan and the level of risk deviated between potential customers. For the third group, some of the potential clients already had internal loans within their families. However, they still needed more money to continue their construction or expansion. Due to some differences between the groups, mainly with land and without, we categorized the key findings into three main groups to concentrate on the most important components and to be consistent for the analysis. This table can be found below. We also added a graph that represents the housing finance market in India to enhance the understanding of this situation, which can be found in appendix 12.

Criteria	No land	With land, at low construction stage	With land, at high construction stage
SHG Experience	Yes/No	Yes/No	Yes/No
Construction	0%	<50%	> 50%
Business size	Small	Varies	Varies
Financial Stability	Fluctuation possible	Rather stable	Stable
Assets/Collateral	Low	Limited	Common
Existing loan	No loan contracted	Received loan from internal lenders or other sources	Received loan from internal lenders or other sources
Needs	Need loan to buy land and build house	Need loan to build house	Need loan to expand or finish construction
Profit	5,000 /month	20, 000 /month	20, 000 /month
Loan Amount Requesting	Primary Financer	Secondary Financer	Secondary Financer
NABFINS Positioning	15 lakhs	5-15 lakhs	5 lakhs

Data Analysis

Following data collection, a look at NABFINS' alternatives regarding our target segment will be assessed to ensure the successful viability of the housing loan. After the field visit, secondary research, and a careful understanding, we agreed that three options were possible:

1. Target customers with no land
2. Target customers with land, which were starting construction
3. Target customers with land, which were finalizing construction

To help us choose the best alternative, we decided to list the opportunities and risk for each option and then recommend the best segment to target. Once the target segment is clearly identified, we will provide an implementation strategy that suits the alternative chosen.

No Land

There are many opportunities and risks that arise with approaching customers that have no land. For a housing loan, the market segment has yet to be tapped into especially as India's economy is growing, people are becoming more wealthy and demand for affordable housing is increasing. Since the risks are high, commercial banks are uninterested and money lenders charge high interest rates. There is a large customer base with people and no land. With a loan, potential customers will be able to purchase land to build a house. It gives NABFINS the opportunity to start from scratch and lead the customers in the direction they want the product to be focusing on. This makes the process easy and convenient because all of the people will start at the same stage. In addition, since there is little due diligence that can be done, this reduces transaction costs. With no land and usually not many assets, the potential client has no outstanding loans, allowing NABFINS to act as primary financers for this segment, ultimately reducing the level of risk.

The segment runs the risk of having the government takeover the land since many of the potential clients in which we approach did not have formal documents to show ownership. If NABFINS were to do business with these clients, and money is lent to them, NABFINS ends up causing more problems, increasing transaction costs that should not have been spent in the first place. This segment of the unorganized sector means that little due diligence is possible since most of the business that is done does not have formal bookkeeping nor any other documentation. With that said, there is high risk associated with that. And with no collateral, even if the potential client defaults on the loan, NABFINS has little to hold onto. And lastly, with no blueprints, no ownership of land, and no formal planning, this raises the risk of ambiguous capital spending. The timeframe required will be hard to calculate since no construction has started.

Starting Construction

By targeting customers with land, NABFINS will be able to collect land and whatever stage of development built on top of the land as collateral when lending a loan, and as a result, this will reduce the level of risk for NABFINS. This also represents the fact that the loan can be lent for a shorter period of time, posing as a relatively safer business transaction compared to that of targeting customers with no land. Their income streams are also more stable as the businesses associated with this segment have usually been in business for a longer period of time. And lastly, most of this segment already has construction plans such as architectural blueprints. With these blueprints, NABFINS will be able to assess approximately how much money will be necessary to build. With more to assess, it is less risky for NABFINS to take on this segment.

With all new opportunities comes the risk associated with dealing with customers starting new construction. Many of the people we met allowed us to understand that these borrowers often had a plan of what they wanted to do but did not have a plan of how they wanted to finance the project. With that said, it raises the level of risk that NABFINS takes on when doing business with this segment. In particular, potential customers that did not even have basic infrastructure showed even less planning as they were even unsure of whether what they wanted built was suitable. And although they had blueprints, they were often unsure of how much capital needed to complete the project. If there is an underestimation of how much capital is needed, then the potential customers will take on another loan, which would then result in a risk of default. In addition, many of these clients in the segment mentioned that they had certain liquid assets however they were all lent to family members. And although the potential clients mentioned that they would be able to retrieve those assets when they needed it, that may not always be possible, especially considering each family's situations and demand for money.

Finalizing Construction

At a high construction stage, this segment poses the least amount of risk. Most of these potential clients need a loan for finalizing their construction, expanding or renovating their current homes. This allows loan periods to be short term and for less amounts of money. The segment also had concrete construction plans of what they want completed and since most of the business people had more stable income streams. They had been in business for an extended period of time and already had houses in which they felt comfortable living in, merely needing small expansions or slight renovations. Since this segment also has collateral which NABFINS can take, for example the land as well as the building which is on top of that land, it poses as the least risky.

Although it is seen as the least risky of the three alternatives, there is still some risk. For example, since most of these projects will be almost finished by the time NABFINS steps in, NABFINS will act as secondary financers. Many of the potential clients we visited that were in this stage of their development already had initial loans for the first part of their house or business. Therefore, potential clients could run the risk of default on the secondary loan since the clients will pay back the primary financer first. These primary financers are usually commercial loans and the clients value that relationship more than with MFIs due to low interest rates and higher amounts of funds. Family is also a huge component of the Indian culture. There is a tendency for family members to help each other out financially. However, when we spoke to these potential clients some of their money which is said to be used for the down payment is internally lent to family members. Although it is said to be highly liquid and that the money would be easily given back, it still raises risk levels because it is not immediately usable for the down-payment required for the building of a house. It may also be difficult and/or time consuming for the potential clients to get back their money. And lastly, the risk of true transparency still poses as a downfall since many of the borrowers seemed to have many dependents. If the potential client is not fully transparent with the amount of dependents they have and their financial plans for then following five years this could result in default of payment.

Recommendation and Implementation

The final recommendation for the housing loan is to target all potential clients who have the rights to their land; this includes potential clients that already have basic infrastructure built and potential clients that need a loan for finalizing, renovations or extensions, usually with more than 50% of the house built. We chose to exclude potential clients that do not have rights to land as there is too much ambiguity and complexity involved which ultimately raises risk that NABFINS should not be taking on at this time. The land is the main asset and collateral in this context, and the only way how to start a construction. You can find the framework which helps us to elaborate the recommendations in the appendix 13.

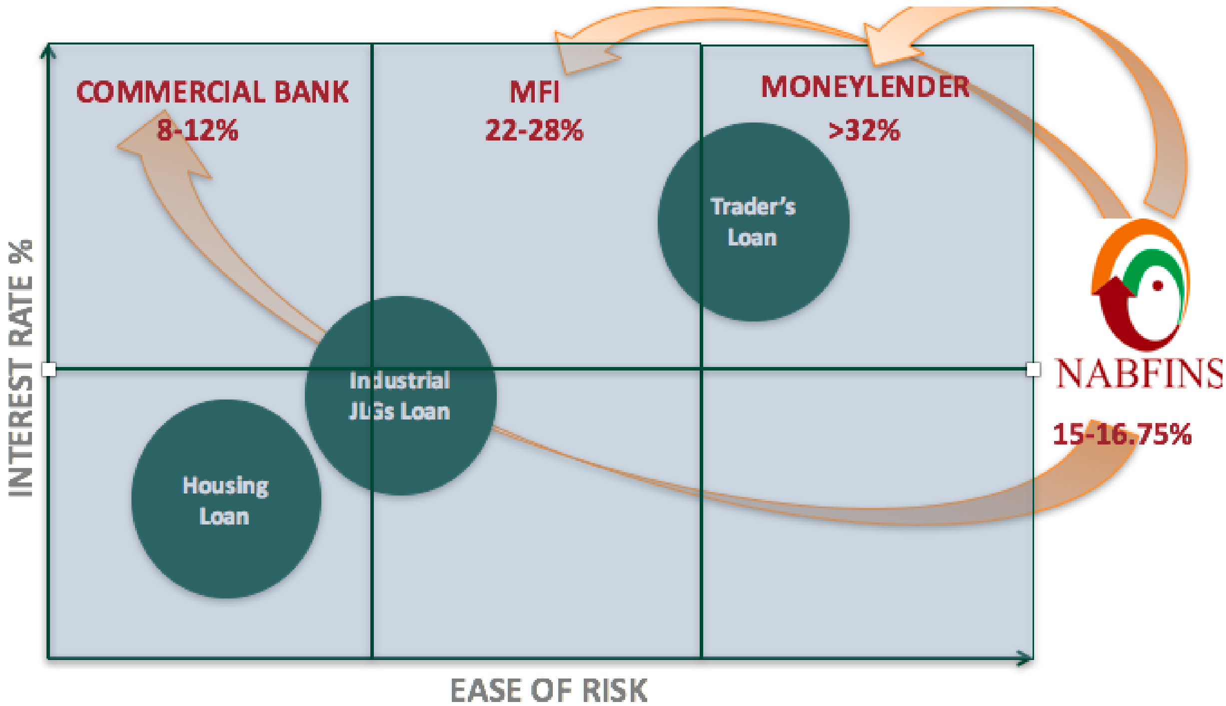
The implementation strategy is broken down into seven main components. First off, the potential customers need to be land owners. Regardless of what stage of construction they are, they must own the land otherwise, they run the risk of the government taking over the land. Secondly, NABFINS must ensure that these potential customers have the necessary documents; for example, they must have formal proof of land ownership. The third component of this implementation strategy is to assess and evaluate the stage of construction. This includes collecting formal architectural blueprints, to have a basic understanding of how the loan will be used, and an assessment of the timeframe that will be necessary to carry out the necessary construction. The fourth component consists of providing financial literacy. Essentially what that means, is to provide education to clients on how to spend the money, how to save the money, and how to make the money. Next, we want NABFINS to be assessing the clients' repayment capabilities. This will be the most tedious part of the implementation strategy since a lot of this will be based on trust. The Indian community places high value on trust; as a result, as part of our process of implementation, this is heavily taken into consideration. In trusting that the potential clients will be fully transparent with us, we will assess their income streams, including book-keeping. Their saving capabilities will take into consideration the number of dependents and their five-year financial planning to make sure the clients are disciplined. In addition, whether a member of the family was previously in an SHG will be considered since this shows a level of consistency and reliability. If the SHG member is part of NABFINS records, then assessment can be easily done. The sixth requirement of the strategy is to collect 10-20% as part of the down payment for the loan. The percentage will vary depending on the previous aforementioned requirements. The more down-payment that the potential client has, the less risky it will be for NABFINS. Last but not least, the land and whatever they have built on top of it will be taken as collateral.

Market Positioning

Following a detailed analysis and our final recommendation, we want to make sure, we provide a brief overview of NABFINS' market positioning. This is important to ensure their reputation and to stay reliable towards clients and to themselves. When we look at the positioning within the banking industry, we want to differentiate between two main elements: Interest rate and the ease of risk. Choosing the loan type is dependent on what the client demands and identifying the eligibility of a client by an institution are always based on how risky it is and subject to that, the interest rate. Therefore, the rates are dependent on the level of risk, as you can see in the graph below.

To differentiate the products easier, we divided the chart into three categories of lending institutions: Commercial bank at 8-12%, microfinance institutions at 22-28% and moneylenders starting at 32%. In this order they increase by interest rates and by their level of risk which they are serving. Next, we assigned each product in the right categories. Housing loan, is the least risky product and we see it as a product that would be served by a commercial bank. Industrial JLG loan is mostly in the area of microfinance institutions, however depending on what company the client has, they could be seen as a client from commercial banks. The businesses vary a lot regarding assets, profit, size, and experience. A big step further away, we can find trader's loan. Throughout our analysis we have seen that it is the riskiest product, and it is mainly served by money lenders who start their rates at 32% but it can go way above that. As you can see in the graph, we did put trader's loan mostly in the category of money lenders, however, it is overlapping with microfinance institutions. Again, there are some traders which are ready to receive money from them, nevertheless they are not serving that industry just yet.

NABFINS is working at an interest rate of 15-16.75% depending on the size of the loan. We position NABFINS in the market with the same interest rates but acting as one of the other institutions contingent upon the products respectively. It is not a matter of NABFINS changing their rates or business models, rather supporting the clients in the way the other lenders would. To conclude, NABFINS supports all products in a different perspective but keeping the same interest rate and mission of the company. This contributes to an overall growth in the economy.



Conclusion

We would like to finish this report by recalling our main objective, which was: evaluate and analyze different alternatives of three potential new products and recommend the most viable option and suggest an implementation strategy. This objective was designed to help NABFINS respond to the broader problem: How can NABFINS diversify its portfolio and be able to serve more needs and customers? We used this as a mission throughout our project. The requirement to diversify and to offer more specific products is critical due to an increase of wealth in India. It is essential for MFIs like NABFINS to adapt their offer to remain competitive and ultimately achieve their goal, which is to provide micro finance services and other facilities to needy and disadvantageous sections of the society for securing their prosperity in both rural and urban areas.

To help NABFINS to diversify their portfolio, we assessed the potential of three new products: trader's loan, industrial JLGs loan, and housing loan. These three products were very different from each other. They all had precise features, target markets and geographical areas. For each product, we adopted the same methodology which was divided into three specific steps: data collection, data analysis, and decision making. Our data collection was always separated into two parts. First secondary research to have a better understanding of the macro environment and then combined with primary research on the field, by using an unstructured interview approach, which allowed us more flexibility in this diverse context. Once the data was collected, we performed a thorough analysis by segmenting our data, elaborating different alternatives and comparing risk and opportunities. Finally, we recommended the best target segment strategy for each product, that increases customer's outreach, diversifies NABFINS' portfolio and mitigates their risk successfully. In the table below, we summarized the final recommendations for each product.

Trader's Loan	Target all possible traders including experienced traders as well as new entrants and ddifferentiate between the type of loan depending on the client's experience
Industrial JLG Loan	Target micro and small businesses and position NABFINS as a primary and secondary financer
Housing Loan	Target customers that have the deeds to their land regardless of what stage of construction level they are at

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Appendices

Appendix 1 – Problem Statement Worksheet

Basic question

How can we help NABFINS to further diversify its portfolio to be able to serve more needs and customers?

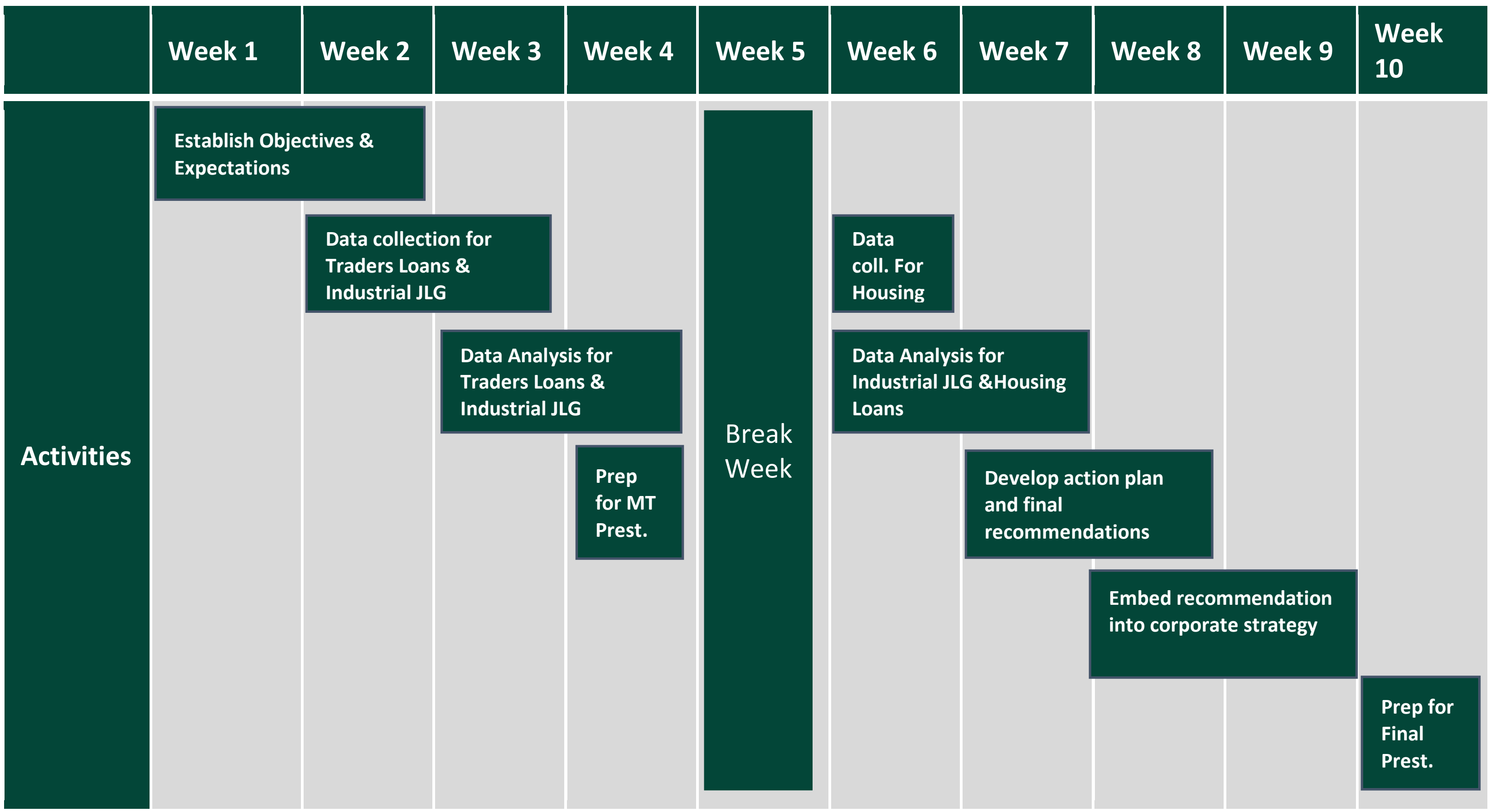
Context for Decision-Maker(s)	Decision Maker(s)
• New Regulations • High Demand of MFIs products • Competitor presence • Increase of technologies (e-commerce)	• NABFINS will decide and agree proposals • NGOs will have to work with NABFINS • Customers will need to adopt to the products

Criteria for success on project	Constraints
• Understanding of the client needs • Involvement of top management • Cooperation from potential clients	• Possible regulations in different markets • Specific culture/language barrier • Lack of infrastructure • Trust

Boundary Conditions

- Focus only on mew product ideas of portfolio diversification
- Those market studies will only take place in Mysore, Krishnagiri, and Tumkur
- Only focus on financing micro business owners

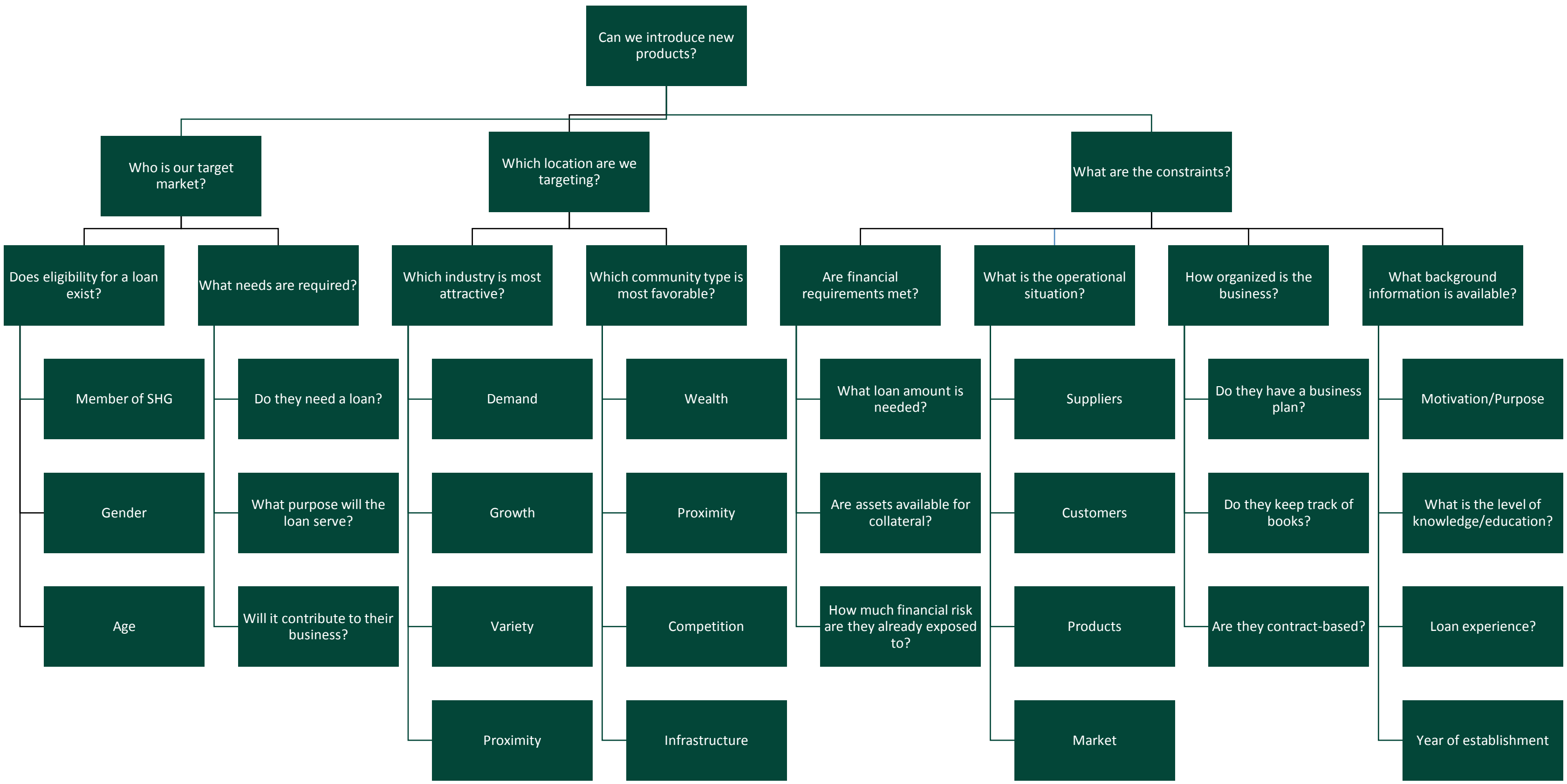
Appendix 2 – IGL Road Map of our Activities (High Level)



Appendix 3 – IGL Deliverables & Field Visits Schedule

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10 & more
Deliverables		**May 20th** Final of Project Scope & Work plan **FS/EIRs**		**June 3rd** Interim Report **FS/EIRs** + Peer Evaluation **FS**	**Break Week**				**July 1** Draft of Final report **FS/EIRs** **July 6th** Final Report **FS/EIRs** **July 7th** Final Presentation **Client**	**July 15th** Final Peer evaluation **FS** **July 22nd** Individual Dev. Log **FS**
Field Visits	**May 12th** Visit of SHG in Kanakapura	**May 17th to 20th** Interviews/Visit of traders in Mysore	**May 24th to 26th** Interviews/ visit of industrial JLG groups			**May 14th to 17th** Interviews/ visit of potential clients regarding housing loans				

Appendix 4 - Logic Tree



Appendix 5 - Issue Hierarchy Table

Issue	Sub-issue	Importance	Un-certainty	Priority	Analysis required	Data source	Responsibility	Due date	
								Draft	Final
Does eligibility for a loan exist?	Member of SHG	High	Med	High	Comparison of being a member vs not being a member Comparison of how long they have to be a member before being eligible	Interviews with current clients and possible clients Research in existing data	JM	Week 3	Week 5
	Gender	Med	Low	Med	Comparison between both genders	Research in existing groups and their experiences	JM	Week 3	Week 5
	Age	Low	Low	Low	None				
What needs are required?	Do they need a loan?	High	Med	High	Analyze their potential and evaluate whether funds is needed to continue/start the business	Interviews with potential clients	JM	Week4	Week 6
	What purpose will the loan serve?	High	Med	High	Compare the business idea with and without the loan Check whether it contributes to the society	Business plans, interviews	JM	Week 4	Week 6

	Will it contribute to their business?	Med	High	Med	Evaluate potential results of loans and assess them Profitability comparison	Checking the business plan and finances	JM	Week 5	Week 6
Which industry is most attractive?	Demand	High	Med	Med	Comparison of industries and their growth Competition comparison and their potential	Industry check online Published secondary research	PB	Week 5	Week 7
	Growth	Med	Med	Low	None				
	Variety	Med	Med	Low	None				
	Proximity	Med	Med	Low	None				
Which community type is most favorable?	Wealth	Med	High	Low	None				
	Proximity	Med	Med	Low	None				
	Competition	High	Med	Med	Assess competition of different industries Analyze the potential of each client in comparison to the competition	Published secondary research	PB	Week 5	Week 7
	Infrastructure	Med	Low	Low	None				

Are financial requirements met?	What loan amount is needed?	Med	Low	High	Comparison of each amount needed to their assets and working capital	Interviews with potential clients Existing data from SHGs and JLGs	LB	Week 4	Week 6
	Are assets available for collateral?	Med	Med	Med	Evaluate existing assets and assess level of risk	Check on finances and assets	LB	Week 5	Week 6
	How much financial risk are they already exposed to?	Med	High	Med	Check on liabilities Comparison of already existing loans	Check on finances and existing loans Go through books	LB	Week 5	Week 6
What is the operational situation?	Suppliers	Low	High	Low	None				
	Customers	High	High	Med	Analyze customers for reliability, purchasing on credit, turnover, etc.	Interviews with potential clients and customers	PB	Week 4	Week 6
	Products	High	Med	Med	Assess and evaluate type of products Comparison of pricing	Primary research on the field with interviews as well as secondary research for different industries	PB	Week 5	Week 6
	Market	Low	Med	Low	None				

How organized is the business?	Do they have a business plan?	Med	High	High	Evaluate the goals and feasibility Comparison of different business plans	Interviews and/or checking the plan if written document exists	LB	Week 4	Week 5
	Do they keep track of books?	High	Med	High	Assess different book keeping styles and compare to create requirements	Being on the field and checking the books if available	LB	Week 4	Week 5
	Are they contract-based?	Med	High	Med	Comparison of contract-based businesses and non	Interviews and check contracts if so	LB	Week 3	Week 5
What background information is available?	Motivation/ Purpose	High	High	High	Evaluate business plans and ideas Check on long-term goals	Interviews and business plan if available	LB	Week 5	Week 6
	What is the level of knowledge/ education?	Med	High	Med	Assess level of education and specialized knowledge of business and compare it	Certificates, interviews	LB	Week 5	Week 6
	Loan experience?	Low	High	Low	None				
	Year of establishment	Med	High	Med	Compare finances, stability, etc. regarding the year of establishment	Interviews and check books	LB	Week 5	Week 6

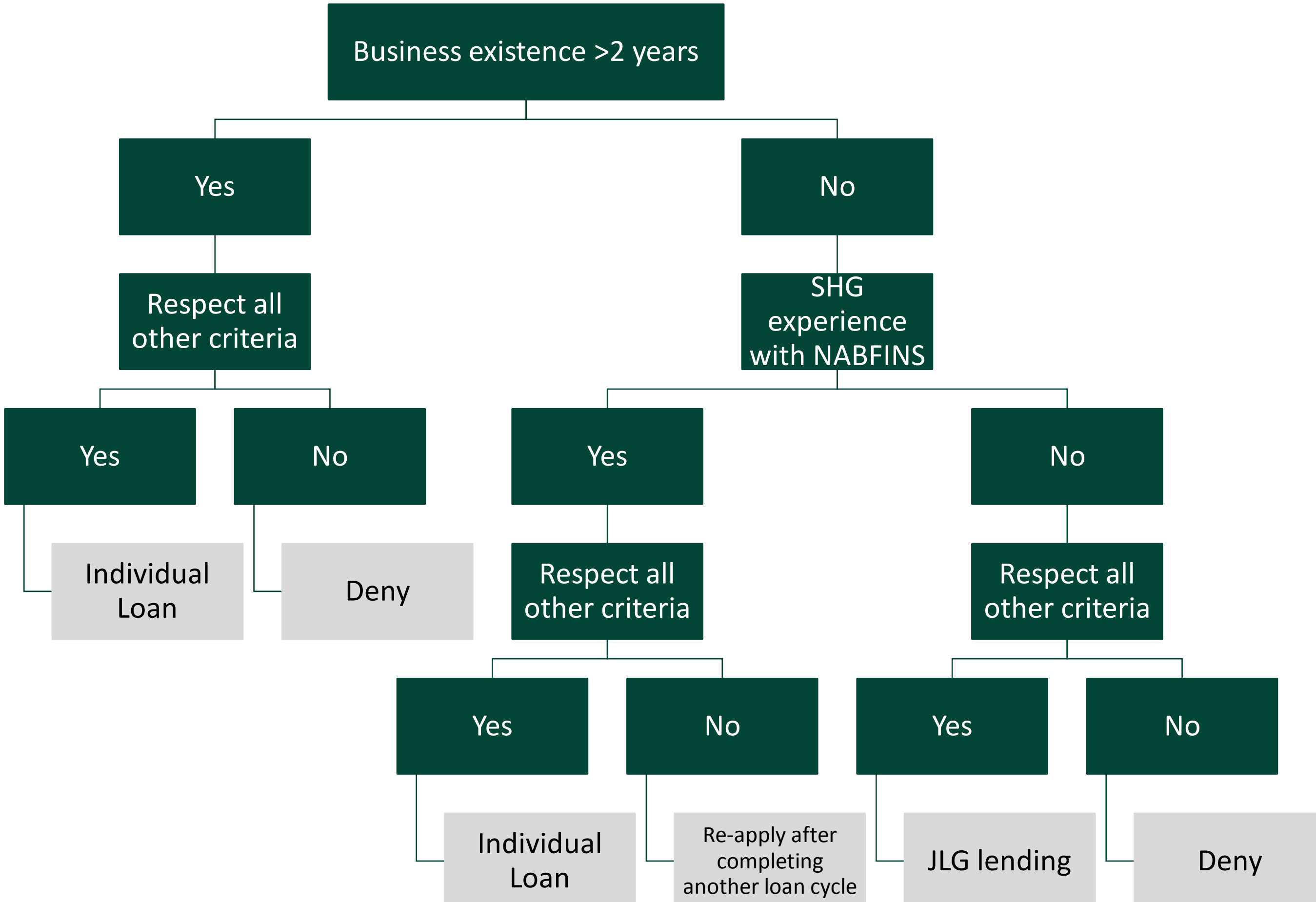
Appendix 6 – Questions for Trader's Loan

Example of Unstructured Interviews Questions for Mysore (specific sample questions in red when adjusting Interview depending on responses)
When did you open your shop? Do you have any experiences in other types of businesses? Is it a family business?
How much profit do you make a month? a. Do you know your margins? b. How many times do you buy more inventories? c. Do you keep track of your profits?
What are your plans for the next 5 years? a. Any plans to expand? b. What types of products would you like to buy? c. Why do you want to expand?
Do you want to improve your quality of life? a. How do you think your life could be better? (eg loan) b. Do you have children you need to send to school? c. Do you have any other long-term planning what you need money for?
If you had more money, what would you do with it? a. Personal or business usage? How? What kind?
Do you have more regular or random customers? a. On average, how long have you known those regular customers for? (good relationships?)
8. Why should consumers prefer your products over others? a. If no, do you have an idea how to change that? And what can you do?
Have you had any previous loan history? a. If so, from where? b. Have you ever defaulted on any of those loans? What percentage of interest rate are you borrowing at? What would make you change the lending institution?
Do you accept selling things on credit? a. If yes, how well do you know the people that you sell things on credit to? b. How long have you known those people and have they lived in the same village their whole life?
Have you ever heard of NABFINS?
Would you be comfortable to work with an agent/ Non-governmental organization?

Appendix 7 – Framework for Trader's Loan

Criteria Number	Criteria	Specifications
1	Avoid quickly perishable companies	Avoid Fruits and Vegetable stands since there's a different business model already enacted. • i.e agency business model
2	Fixed location of business	Business needs to be fixed in one location or needs to be in one location on a pre-determined schedule.
3	Need to be in JLGs	JLG should come from SHG • The SHG member should have fully paid for one cycle beforehand. • Later, individual loans can be considered after loan cycles have been fulfilled in JLG
4	No Default History	
5	Clients have or had business history with NABFINS.	Previous SHG experience
6	Repayment terms dependent on source of income and its volatility	Repayment timeframe is dependent on the stability of the business' cash flow. • i.e According to NABFINS, a maximum period of 3 years
7	Group Saving	Group Saving of 10% at the beginning of the loan
	Detailed Business Plan	A detailed business plan should be prepared • i.e what is going to be undertaken and how it will be done.
8	Same Division of interest rates as other products of NABFINS for JLGs	The interest rates are as follows: • 2 Lakh 15% • 2-5 Lakh 16% • 5+ Lakh 16.75%
Additional Notes: Services sector is the largest sector in India		

Appendix 8 –Trader's Loan Decision Tree



Appendix 9 – Questions for Industrial JLGs

Example of Unstructured Interviews Questions for Hosur **(specific sample questions in red when adjusting Interview depending on responses)**
Are you already in an existing JLG? a) If yes, how was the first JLG formed? · Do you have a good relationship with the rest of the people in the JLG? · Have you considered joining a different JLG? b) If no, would you be interested in joining a JLG for a loan? · Are there parties you know would be interested in joining your JLG? · If so, how do you know them and for how long have you known them for?
What kind of business are you in? a) What is the structure of your business like? (i.e are there multiple parties invested?) b) How long have you been in this business?
Are you investing in technology? When was the last time you invested in technology?
Where and how did you gain the skills for the trade? (considering the fact they didn't get formal institutional training) Do you have any hired help that teaches you the specific skills?
Have you ever taken out a loan? a) Have you ever defaulted on loan repayments? b) If yes, why?
How do you ensure product quality is unison? a) Have your products ever been recalled? · If yes, was there a profit loss? (How much?)
Are you already in an existing JLG? a) If yes, how was the first JLG formed? · Do you have a good relationship with the rest of the people in the JLG? · Have you considered joining a different JLG? b) If no, would you be interested in joining a JLG for a loan? · Are there parties you know would be interested in joining your JLG? · If so, how do you know them and for how long have you known them for?
What kind of business are you in? a) What is the structure of your business like? (i.e are there multiple parties invested?) b) How long have you been in this business? Are you qualified to do this? Are you teaching others your skills?
Where and how did you gain the skills for the trade? (considering the fact they didn't

get formal institutional training)
How do you ensure product quality is unison? a) Have your products ever been recalled? b) If yes, was there a profit loss? (How much?)
Have you stuck to the same suppliers for the whole duration of your business? a) Do you have a close relationship with your suppliers?
Do you sell directly to big organizations? a) How did you get in contact with these big organizations? b) How long have you been in business with them?
Do you have a lot of competition? a) How do you differentiate from your competitors? b) Do you know which are your competitors? c) What do they make?
How much profit do you make? a) Are you already with a bank? b) How much of that do you save? c) How much do you use for your daily consumption? d) How much tax do you pay?
Do you have a long term strategy for growth? a) If yes, what is it? b) How long do you think it will take to enact? Will a loan help you to do so? If yes, why? And how?
Where did they receive their educational background? What level of education do they have?
Where did they get the technical skills required for the trade? How much experience do they have in the trade?

Appendix 10 – Framework for Industrial JLG Loan

Criteria Number	Criteria	Specifications
1	JLG member	
2	Can be primary or secondary financer	Primary Financer: • NABFINS can be the first to provide the loan but the borrower must have some form of long terms assets. i.e. PPE • Focus on developing economy Secondary Financer: • Focuses more on providing working capital OR • Businesses that can't get loans from commercial banks since they've overextended. • Enterprise must be in operation for a minimum of one year
3	Business should be growing	The potential for growth should be easily seen • An analysis on cash flow; whether they are increasing.
4	Should have specialized experience in the field	Working experience in the technical field • i.e. management team has experience working in the field or hired on help that guides them into doing it.
5	Detailed Business Plan	The Detailed Business plan should include the following: • Records of working capital • Further investment plans • Show stability of cash flow which explains potential for long term growth.
6	Need to demonstrate stable relationship with suppliers	The stable relationships with suppliers may stem from relationships built around things such as contracts or extended working relationships.
7	Clear Bookkeeping records	
8	Ensure tax regulations are abided.	The business should pay taxes if they fall under the scope.

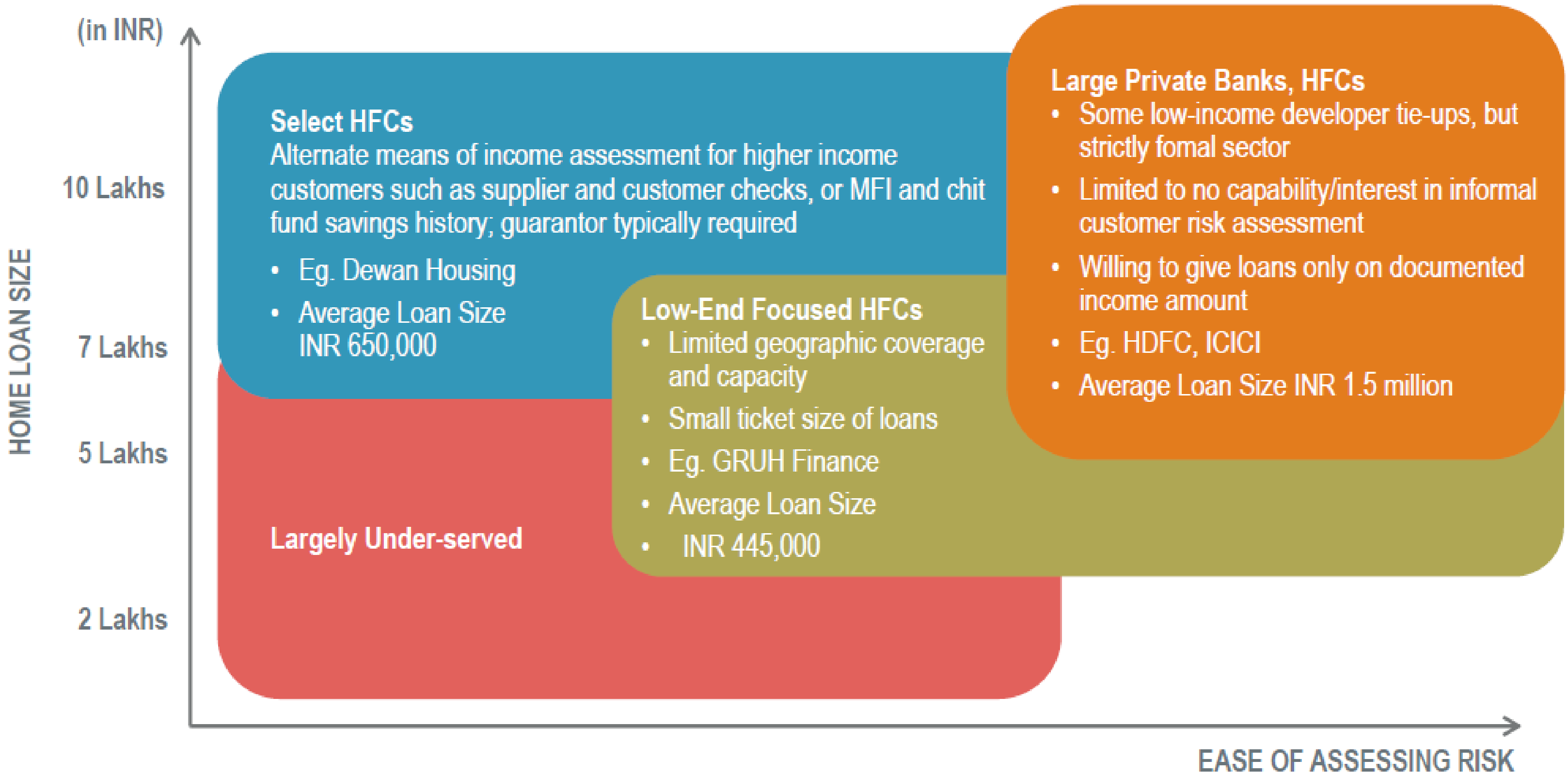
9	No default loan history	

Appendix 11 – Questions for Housing Loan

Example of Unstructured Interview Questions for Hassan **(specific sample questions in red when adjusting Interview depending on responses)**
Do you need a housing loan? How much do you need as a loan? Why?
If so, for what purpose?
Do you have any down payment or principal for the housing loan? How much of that is given to your family members?
Do you have any plans for how you will fix those things or plans for the new construction?
How do you maintain your house?
How long have you had your house for? Have you made changes to your house?
Do you consider your house as a temple?
Status of current cash flow
How do you make money? Is your income stable? How much do you make a month? Do you save? If yes, regularly? And why?
Do you have a record of income?
Do you pay income tax?
Is the income stable?
How many people are in your family? How many are dependents? Do you lend money within your family?
Do you have a good relationship amongst the income earners?
Are you in any SHGs/ JLG?
How big is your house?

Do you use your house for business at all?
How many rooms are there?
What is the cost of constructing this house? Do you have a blueprint? Did an architect consult you?
How many people live in your dwelling?
What is the distance to your workplace?
Do you own the land you want to build on? If no, are you going to buy one? Do you know how much they are? And where to find them? Why do you want to buy land?
Do you have formal proof of the land ownership?
Do you pay land tax?
Have you borrowed money before? From what organization have you borrowed from? How much have you paid back? Have you defaulted, and if yes why? Have you received money within your family before?
Is there an organization you have previously borrowed money from in which you have defaulted in payment?
Do you have a relationship with an NGO?

Appendix 12 –Housing Finance Map



Informal
- Earns in cash
- No formal income documents
- No formal residence or identity documents

- Salaried or self employed
- Significant proportion of undisclosed income
- Some residence/identity documents |

Formal
- Salaried with Pay-Slip
- Income Tax documentsResidence documents
- Identity documentsBank Account

Appendix 13 – Framework for Housing Loan

Criteria Number	Criteria	Specifications
1	Need to have a clear business plan	Blueprints done by a professional need to be completed. • Blueprint of house must not be extravagant. • Loan can be used for renovations, building new houses, or extension of old houses.
2	Down-payment	Need to have capital that is immediately accessible which can be used as a down-payment for a house. • i.e. whether with family, in cash, or in a bank.
3	Business	Business should be in growth stage
4	Mitigation of business fluctuation risk	Borrowers need to have an idea of how to mitigate their risks if their business is dependent on seasons • i.e. The milk business from a cow fluctuates; therefore, they need to ensure a specific number of cows is always producing milk.
5	Savings Habit	The borrowers need to have a habit of saving money each month.
6	Single House Owner	Owner should not have two houses or more. • Should not be collecting rent on another house
7	Borrower must be land owner.	Must be able to show legal proof that land is owned by borrower.
8	Must be a development in a rural area close to work	
10	Can be primary or secondary financer	Primary Financer: NABFINS may be the first group to loan the borrower money. OR Secondary Financer: Borrowers may already be in debt from commercial bank/ MFI/money lenders.
11	Can't have history of defaulting on loan payments	Borrowers can't have history of defaulting loan repayments; whether it is in SHG or a JLG.
12	Transparency	Require borrowers to be transparent about what dependents they have and where they plan to spend the money over the next 5 years. • i.e. Children need money for education. Health issues that will require money. • Beneficial to have previous SHG or JLG experience

Appendix 14 – NDA Agreement

This report was developed by an IGL team of MSc students from the Ivey Business School in partnership with NABFINS. It is intended solely for the internal use of NABFINS and may not be provided to any other person or entity without the express written consent of the client. While every effort was made by the students to ensure accuracy and completeness, neither the Ivey Business School nor the report authors are able to warrant the degree of accuracy or completeness of this report. This report was prepared on a best effort basis and is intended to be of assistance to management only. The reader should not rely solely on the report content, to make any business decisions.

Appendix 15– Trader's Loan Pictures

Devaraja Market in Mysore

SHG in Kanakapura

Trader in Heggadadevankote

Devaraja Market in Mysore

Chamundi Hill Market

Trader in Heggadadevankote

Appendix 16 – Industrial JLGs Loan Pictures

Auto Parts manufacturers JLG in Hosur

Watch manufacturers JLG in Hosur

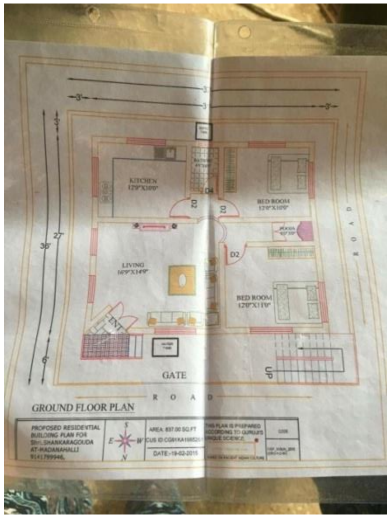
Construction of new factory in Hosur

PVC manufacturers JLG in Hosur

Machinery in auto parts factory in Hosur

Medical equipment factory in Hosur

Appendix 17 –Housing Loan Pictures



Blueprint

Construction Sites

Construction Site

House 75% Built

Construction Site

NABFINS Team