The Future Prospects for Housing Finance in India

By M. J. Pherwani

HOUSING in this country has not received the attention it deserves from policy makers. In the planning process, housing gave precedence to other sectors in terms of priority and service. With the result, the shortage of housing in the country has reached alarming proportions. The shortage which was estimated at 29 million units at the end of 1988 is expected to touch 41 million units by the turn of this century. To overcome this colossal shortage, the annual capacity for addition to housing stock will have to be stepped up to about 10 million units as against 2.5 million units at present, over the next ten years or so. This would call for a multi-pronged strategy both on the supply and the demand side of the housing market, as a part of a comprehensive national housing policy.

Principle Propositions:

Whilst addressing issues related to the integration of housing finance systems, we need a minimum framework for underpinning our technical discussions. I would request three principal propositions to be accepted as being axiomatic:

(I) Housing is not a product, but has a productive role in speeding up the process of economic development.

(2) In the long run, financial development can only be accelerated by broadening the resource base to include the domestic sector.

(3) A country's development strategy as a whole can be implemented most easily, when an efficient allocation of economic resources is both the goal as well as the process attendant to economic development.

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To quote Dr. Ramachandran, Executive Director of the United Nations Centre for Human Settlements, "housing is not only indispensable to the people it shelters, but it is commonly relied upon to pull the economy out of recession, for the construction of even one new house has a broad ripple effect on a variety of interconnected business".

Economic development can be broadly defined as a process which improves the quality of human life. Development seeks to increase the availability of the constituents of a fuller life more consistent with human dignity and emphasises the goal, firstly, of adequacy of basic human needs in terms of nutrition, health, education and shelter and thereafter fulfilment of man's meta-economic wants in terms of political freedom, social equality and cultural widening.

Whilst accepting the foregoing propositions, it is important that we have within us a common perception of what an integrated financial system implies: a simplistic definition would imply that in an integrated financial system, there are no barriers to channelising funds to their most appropriate destination within the system. These precepts become clearer when we describe the process with illustrative examples.

Before discussing the housing finance system in India, I would like to dwell upon the role of financial system in economic development and the significant changes that have taken place in the Indian financial system.

The financial system, consisting of financial institutions, financial instruments and financial markets provides an effective payments and credit system which facilitates the channelling of funds from the savers to the investing sectors in the economy. The role of the financial institutions is to mobilise the savings of the community and ensure effective allocation of these savings to high yielding investment projects so that they are in a position to offer attractive and assured return to savers. This process gives rise to money and other financial assets which have a central place in the development process. These assets provide the vital links between savings, investments and income.

For the development of the financial system, it is essential that the system functions efficiently both at the allocational and operational level. Further, the financial system should be stable and should be in a position to introduce innovations in instruments and financing techniques to meet the ever changing preferences of the community of savers and investors. In our country, the last few years have witnessed several important steps in the direction of financial liberalisation. Financial liberalisation has been taking place in several countries both developed and developing. Financial liberalisation could lead to further economic growth and enable financial institutions to respond flexibly to changes in the economic situation. Developments in the world and national economies since the seventies have strengthened the case for financial liberalisation as a means to promote growth with a measure of competitive efficiency and financial stability. The increasing globalisation of financial markets, decreasing reliance on administrative regulation and the greater use of price and market mechanism has become the order of the day. Economic growth requires the building up of financial infrastructure to help in the process of resource mobilisation and the effective and efficient use of these resources. The dichotomy of the savings and investing function which is what financial intermediation is about, is now regarded as contributing to both the augmentation of financial savings and enhancing the mobility and efficiency of capital investment financed by such savings.

Interest rate deregulation has now come to be regarded as being central to financial liberalisation and as being potentially beneficial to greater savings mobilisation and more efficient and effective credit allocation. A detailed structure of administered rates does not approximate the opportunity cost of capital. Artificially depressing rates which is what rate fixation usually does in an attempt to bring them into closer approximation with what Government is willing to pay for its own borrowing, tends to depress deposit mobilisation by the organised system.

The Development of the Housing Finance System in India

It would be useful to consider the development of the housing sector in India vis-a-vis the subject at hand, and the role of the Government in developing this sector.

Household savings mobilised by the banks, the financial institutions, and the Central and State Governments, are not presently ploughed back to households - housing being one of their prime needs - to any appreciable extent. This is a remnant of policies followed in earlier decades when the priorities of national level planning were to build up infrastructure and develop agriculture and other related activities. While the priorities should change now, a sudden shift of these resources to the housing sector may have some unsettling effect on other equally important sectors.

The development of the housing finance system in India has been dependent on institutional support from well established developmental and investment institutions. The first step towards specialised housing programmes was taken more than 20 years ago, when HUDCO was established as a government company with a strong orientation towards lower income households. A very significant impetus was provided to the sector with the promotion of the Housing Development Finance Corporation (HDFC) barely 13 years ago as a primary housing finance institution (HFI) in the private sector.

It was only 10 years after the promotion of HDFC that the Government set up the National Housing Bank, and it is only in the last few years that we have seen an increase in the number of primary HFIs in both the public as well as in the private sector. The National Housing Bank was established to develop a network of specialised housing finance institutions in the country. In fact NHB came into existence at a time when the local and regional level housing finance institutions were yet to be developed. Besides this developmental function, NHB has been entrusted with regulatory functions. NHB has been conceived as a multifunctional apex bank for the housing sector taking an integrated view of the real and financial sectors. NHB's endeavor is to operate the housing finance system at non subsidised rates of interest with full cost recovery and at the same time to induce a degree of internal cross subsidisation of interest rates with comparatively lower rates of interest being charged for the lower income households keeping in view the fiscal concessions enjoyed by higher income households.

Housing finance institutions today depend substantially on resources from the banking system, without making any major effort to diversify and broad-base the spectrum of resources raised. In this process, the financial structure of these institutions tends to get further skewed, with a dependence on wholesale resources for on-lending to a retail customer base. In the ultimate analysis, these institutions need to broad base their resources and focus on two principal markets viz. the household savings sector through the operation of innovative savings programmes including those linked to credit for housing and the capital markets, in order to raise high volume resources through a combination of cost effective debt and equity instruments.

But when we look at the development of the housing sector as a whole, there are three features that stand out prominently:

(I) The HDFC case illustrates the difficult but achievable task of developing a market oriented private sector HFI with little or no initial governmental support.

(2) Notwithstanding its private sector constitution, the activities of HDFC have proved instrumental in shaping

government policy vis-a-vis this sector.

(3) At the same time, the growth of HDFC, for a number of years, has been significantly predicated on institutional support from government owned banks and financial institutions, with an allocated credit system being the single most important component of the financing strategy.

Recognition of a Turning Point:

At the present time there is a turning point taking place as far as the housing sector is concerned:

(I) There is today the beginning of a proliferation of HFIs in India, with the corollary that each HFI would need to compete for available resources.

(2) There has been progressive dismantling of financial structures within the country, and the writing is on the wall that a regulated interest rate structure would rapidly become a feature of the past. With a move to market rates of interest, it is probable that HFIs are the most vulnerable financial institutions, in the absence of dedicated interest rate risk management.

(3) At the national level, with a paucity of domestic resources to an unprecedented degree, the entire system of allocated credit could well be at stake. Thus, in addition to competition between HFIs for allocated credit, there would necessarily be competition across sectors for funds, their management and their deployment.

India has the advantage of possessing a more developed primary housing sector than quite a few developing countries. Nonetheless, it faces the difficult task of achieving a transition to a market based economy on a priority basis. This by itself spells out the need for a very rapid integration of the HFI system with the rest of the economy. The integration process presupposes the existence of a well developed financial system and a well developed housing finance system in the country which is somewhat free from regulations.

Financial integration necessarily needs to focus at two levels in terms of:

(I) Marketing retail debt instruments to complement and eventually supplant the wholesale institutional deposit base.

(2) Greater resources being taken to the capital markets which are, by definition, a free market mechanism for allocation of resources amongst competing sectors.

The Role of Housing Finance Institutions

Viewed in this light, it is important to crystalize some of the individual components of the HFI system. Obviously, primary HFIs form the core of the system, and it is useful to discuss why, in fact, there is a need for HFIs. Conventional thought usually ascribes the creation of HFIs as a response to the failure of banks to serve sectoral needs relating to housing finance. It is also a widely accepted tenet that this form of specialisation is in fact beneficial, and achieves most importantly, management expertise in a sector that has its own unique requirements.

As a corollary, it could perhaps be postulated that with growth taking place within the primary HFIs there is again a secondary level of specialisation needed vis-a-vis the full range of functions undertaken by an individual HFI. The arguments for further specialisation and the creation of additional specialised institutions remain equally valid. It would be counter-productive for any HFI to undertake all functions related to its operations, in much the same manner as every company in the manufacturing sector routinely engages in make-or-buy decisions in relation to components required.

Thus, as the first step towards financial integration, it must be recognised that if loan origination is the focus of HFI activity, loan sell down and the development of the secondary market is perhaps an activity that calls for additional specialised institutions.

Accessing Public Deposits

I have advanced the hypothesis that in the wake of changes in the national economy, the allocated system of credit would undergo change. As a corollary, it is imperative that steps be taken rapidly by the more mature HFIs to extend their resource base on a retail basis.

Over the past few months, I have had occasion to review some of the initiatives taken by HFIs in this regard, especially with respect to contractual savings plans that permit leverage in accessing loans at a later point in time. Such savings plans have been in vogue now and offered to the public at large for a few years, and I think it is a fair statement that the results have been less than satisfactory.

This is in part due to the less than dedicated efforts in marketing the schemes by both commercial banks as well as HFIs. But I suspect that such contractual savings plans have intrinsic limitations as far as the Indian market is concerned. Without getting into a detailed review of the costs and benefits, I think all of us are aware of the very rapid inflation that we have witnessed in the housing sector.

I propose four specific steps to integrating the deposit market for HFIs with the deposit market of other mobilisers of savings:

(I) The Indian investor is fiscally oriented, and a very large proportion of savings accessed by the government are the result of fiscally oriented schemes. Curiously, I find that in the housing sector, fiscal benefits are more oriented towards borrowing, with loan repayments to HFIs qualifying for tax deduction of upto Rs.10,000. Would it not in fact be more appropriate to postulate that savings by the investors upto this level qualify for tax exemption ? In an economy where resources are scarce, it would be more meaningful to provide inducements for savings, rather than fiscal benefits for borrowings.

(2) The second issue relates to the vexing problem of HFIs requiring to deduct tax at source, with an unequal resultant status vis-a-vis commercial banks and others.

(3) At present HFIs are precluded from accepting deposits with maturity below 25 months. Unless this stipulation is reviewed and access to short-term deposits is made available for HFIs, it would be difficult for them to mobilise household savings which should in fact form the foundations of their operations.

(4) Retirement funds in many countries constitute an important source for investment in housing. At present, these are deployed for developmental activities in accordance with the guidelines prescribed by the government. It is necessary that a sizeable proportion of these funds be earmarked for housing, as the principal motivating factor for such savings is in fact housing.

Approaching the Capital Markets

The capital market in countries the world over, is a great leveller. It is in fact a level playing field, and I mention this phrase, as the need for a level playing field is a frequent plea that I come across during my meetings with the HFIs.

It is somewhat curious, and a striking anomaly, that very little effort has been made to tap the capital markets by HFIs, notwithstanding the vibrancy and depth that it has displayed over the past five years.

The principal reason for the foregoing is, of course, that there has hitherto been little motivation for HFIs to seek capital market resources, given historical levels of allocated credit. Concurrently, even HDFC which has turned in a brilliant operating performance, is not viewed by the investor as positively as is warranted by financial performance and earnings per share. There are two principal causal factors in this regard:

(l) Shares of HFIs are today regarded by the investing public as being 'widow's' shares.

(2) Routine lending operations by HFIs do not create the spectre of capital appreciation that is so important for the lay investor.

It is not too difficult to address these twin issues. HFIs can be seen to be dynamic institutions, and as institutions that innovate new products. HDFC has already initiated the creation of a secondary market, and is today well on its way to concluding its first issue. Other such innovations would impress upon investors that there is more to the housing sector than pure spread based lending.

Secondly, the spectre of capital appreciation which I referred to earlier can only come about if HFIs engage in incremental activities that are perceived by investors as being prone to capital appreciation. There is an opportunity here for more mature HFIs to extend their role to development of properties, and take a stake in township development.

And it is here that I would strongly disagree with conventional wisdom that segregates the requirements of urban infrastructure, or regards the provision of urban infrastructure to be purely the task of government. While HFIs need not fritter away resources for this purpose, they can certainly collaborate with other institutions in the provision of serviced land and townships, in a form and manner that would capture enhanced land values.

Finally, HFIs need to market to investors. There is little point in having a very high book value without shareholder participation in reserves through bonus issues. High dividend payouts by themselves are not really necessary. But a defined policy of shareholders reward could well turn the more mature HFIs in this country into stock market favourites.

The Indian Legal System

The integration of HFIs to the financial system within the country would result in numerous activities including, inter alia, the creation of secondary markets. As the investing public gets more actively involved on the supply side of financing HFIs, a natural concern relates to investor protection.

For the secondary mortgage market to function effectively, the following conditions need to be satisfied. The instruments to be traded in the market should possess marketability, which implies that there should be uniformity in mortgage deeds irrespective of the source from which they originate. There should be a wide range of participants and institutions. In fact, the functioning of an effective secondary market requires a variety of institutions with specialisation in organising and servicing of mortgages. This will help transform a number of scattered local markets into a national market. Finally, there should be strong linkages between the primary and secondary markets.

In order to bring greater confidence to the players in the secondary market, it is necessary to have some sort of mortgage insurance. In India, we do not have any laws that provide such insurance. Mortgage insurance, particularly government sponsored, can act as an instrument of national housing policy and as a means of promoting financial integration. While there is no gainsaying of advantages of mortgage insurance, the advantages are not one sided. Mortgage insurance is apt to increase the cost of housing finance. Mortgage insurance is likely to lead to complacency on the part of the primary lender. As a consequence, the lender's present problem of recovery may be shifted to the insurers who are subrogated to the lender's rights against the borrowers. Any success in housing finance is predicated on the primary lenders enforcing the mortgage and recovering its dues. This will add to the credibility of the housing finance system.

The existing legal enactments are not conducive for the creation and development of a secondary mortgage market in India. Amendments of existing legislation are conditions precedent to create the necessary environment. It is also essential to streamline and strengthen the existing primary mortgages by adopting uniform documentation, speedy credit delivery and simplified foreclosure laws. Meanwhile it is important to recognise that the refinancing arrangement provided by NHB serves the same purpose in augmenting the resources of the primary lender without at the same time transferring the credit risk from the primary lender. NHB can float bonds backed by mortgages of primary lenders. In fact this is one of the mediums through which NHB can meet the specific long-term investment outlets sought by some of the financial institutions. This arrangement can continue until legal reforms are enacted. Over a period of time, I would expect that efforts in initial wholesale placements would transcend to placements for short tenors with individual investors. As the holder of the mortgage backed security, it is incumbent on the system to provide for adequate safeguards. We can speak at length on the inefficacy of legal systems not only in India but in other parts of the world, where socially oriented legislation renders repossession and eviction difficult, if not impossible.

The Role of the National Housing Bank

As the apex institution, NHB has been mandated with the truly daunting task of establishing a sound, healthy, and viable housing finance system based on full cost recovery. The regulatory role of NHB is its principal responsibility: this responsibility becomes all the more relevant, as the HFI system enters the secondary phase of development in terms of integration with the debt and capital markets. As a potential holder of increasingly large blocks of depositors' savings, HFIs have an awesome fiduciary responsibility. Without in any manner going against the free market approach, it is necessary for NHB to create the wherewithal for an efficient system by taking on the administrative responsibility: we simply cannot afford a system where credit has no guardian.

The case for regulation of the financial system rests on the obvious ground that its safety and stability is so paramount a need, that if economic growth and institutional development are to take place, it is necessary to ensure confidence in the system, particularly of the investing public. In this sense, regulation can be regarded as having a promotional context, in that it is designed to provide a sound basis for growth and stability.

NHB role is to support and facilitate the development of HFIs and the system as a whole. And it is here that I perceive a strategy that focuses on the complementary role of private sector players and public sector institutions. We are, in fact, at an opportune time in this country to strike in the direction of creating such an enabling strategy, in our search for market driven solutions and a collaborative public/private sector approach. This is the second most important task facing NHB.

Finally, it is my assessment that we cannot today afford the luxury of permitting the secondary evolution of the HFI system to take place at its own pace and in its own direction. Having successfully triggered the creation of a core group of primary HFIs, we need to learn from other developed economies in providing the direction for future growth, without in any way inhibiting the interplay of free market forces. Providing such leadership through policy measures and moral suasion is thus the third important role to be undertaken by NHB.

<u>Conditions Precedent to Financial Integration</u>

The following conditions are essential for effective financial integration to take place:

(l) A market oriented approach should be in existence

(2) A free flow of resources between competing uses should be possible.

(3) A secondary market should exist for trading of securities.

(4) An information system that would allow the free flow of information should also be in existence.

<u>The Need for an Investment Banking Interface</u>

The creation of a secondary market necessarily entails:

(l) Loan origination and servicing

(2) Sale of loans to institutional investors, commercial banks and HFIs.

(3) Managing the mortgage portfolio to ensure timely payment of interest and principal to investors.

In the initial stages, the secondary market process in any developing country is necessarily focused around institutional wholesale investors. In the secondary stage, mortgages are marketed through the capital market with a two-way quotation being offered for the purchase and sale of securities. This function is in fact far removed from the extension of housing loans as we now see it in India: the functions are more co-generic to the activities of investment banks and money market players.

To this extent, there is a need to recognise the nexus between the investment banking system and HFIs. It is only a close cooperation between these two diverse institutions that could pave the way for a rapid integration of HFIs with the banking sector and, indeed, the lay investor.

Recently, in India, this trend has been illustrated through the close cooperation between the infrastructure Leasing and Financial Services Limited (IL&FS) and HDFC in developing the beginnings of a secondary market structure, and the close co-operation between HDFC, NHB and IL&FS has already served to take the Indian HFI system one step closer towards financial integration.

Ideas for Future Action

I would like to share with you some of my thoughts with respect to the directional change that I am pursuing for the HFI system in India.

(I) Trustee Company for holding securities:

Given the imminent creation and development of the secondary market, there would be opportunities for mature HFIs to exploit their existing infrastructure in order to originate loans for other institutional lenders and emerging HFIs. In the process, the secondary market structure would require the creation of a system whereby HFIs that originate loans continue to service them, while the securities are held in trust for a floating body of investors.

To my mind, the trusteeship function is a distinct task, and one that requires a great degree of specialisation and high volumes. I would hence recommend that an important component of integration be the promotion of a specialised institution for this purpose-the Indian version of Fannie Mae.

As HDFC has been in the forefront of developing the secondary mortgage market, I have proposed that HDFC along with IL&FS and NHB take steps in promoting this institution. As and when additional HFIs desire to participate in the secondary market, they could also subscribe to the shareholding of this trustee Company.

Initially, the costs involved in setting up a new Institution would perhaps be marginally more than the costs related to undertaking the trusteeship function departmentally. Over a period of time, with growth in volumes, this would no longer be the case, and the trusteeship corporation would be professionally managed, would grow to be an institution in its own right, and would prove to have a major role in the integration of the financial markets.

(2) Real Estate Mutual Fund:

I referred earlier to the need to offer the spectre of capital appreciation to potential investors, as a pre-requisite to the HFI system accessing funds from the capital markets. Here again HDFC, in its role as the largest and most developed HFI, has taken the lead in working with IL&FS towards the promotion of a Real Estate Mutual Fund. It is my belief that a Fund of this nature is the ideal instrument to progress further the evolution of HFIs in India, combining capital market resources with the responsibility to develop properties, and increase the supply and quality of housing stock.

(3) Inducting the Informal Sector:

Although India can be proud of a mature primary market, it is indisputable that efforts of all HFIs and banks, including the foreign banks, tend to be focused around the formal sector i.e., on the employee class. To some extent, housing loans are also being accessed by professionals such as lawyers and doctors, but by and large, the informal sector comprising of smaller businessmen, traders and others has not even been conceptualised as a target market for housing finance.

This is a pity; as India has progressed to an economy where the service sector dominates, it is the small businessmen and trader who offers the maximum potential for growth. His requirement of housing loans is no less than the requirement for housing of a young professional starting out in life.

There are of course factors that preclude the provision of financial information by borrowers in this sector in a form and manner that is susceptible to computer based processing. Nonetheless, it is my belief that efforts should be made in this direction, in order to build up a credible data base of information and modes of evaluation of loan proposals emanating from this sector.

I do not have any ready-made solutions to offer in this regard and I would be glad to hear of alternative mechanism by which this problem has been tackled in other developing economies. Equally important, of course, is the need to maintain the privacy of information collected. The loan processing exercise cannot be made available to other statutory authorities.

Inter-se Distinction Between HFIs

There is critical feature that we need to recognise as far as the HFI system is concerned. For an apex institution such as NHB, all HFIs are equal, but some would be more equal than others, in view of their greater financial strength, and more mature level of operations. NHB of course has deep pockets, but the depth is unfortunately of a finite nature. There simply are not enough resources available compared to the demand for such resources.

As an organisation committed to the HFI system as a whole, it is necessary for NHB to be more supportive of smaller organisations in terms of primary re-financing. As a corollary, NHB would be equally more supportive of the larger HFIs in their endeavour to diversify their portfolios, expand their resource base and tap the capital markets. Thus there would be, over a period of time, a sectoral inducement as a policy measure, in order to permit larger HFIs to seek new pastures and foster further innovation.

On the supply side, the role of the public agencies would have to be re-oriented from that of shelter construction per se to land development activities without shelter construction. The responsibility for shelter construction should ideally be shifted to the private sector and the informal sector. Such a change would not only optimise public investment but also assist the land market to respond to the needs of low income households. This would also call for proper co-ordination between public agencies and private developers with regard to provision of basic infrastructure like water supply, sewage, power and road access.

Considering the magnitude of the housing shortage, it is doubtful if dispersed house building activities can offer a viable solution. There is a need to formulate and execute mass housing projects by involving public agencies to a much larger scale than hitherto, for providing serviced plots to the private developers to supply constructed units. There is also a need for the government to adopt a pragmatic urban land policy to make access to land in cities affordable to the citizens. The main ingredients of urban land policy would be provision of major infrastructure, the implementation of appropriate spatial strategies and settlement patterns aimed at improving quality of life, and promotion of smaller towns and intermediate cities to reduce the rate of migration from rural areas to urban areas.

Interest Rate Management

Recent developments in the Indian economy would lead to interest rate management being a critical facet of HFI operations. Hitherto, HFIs have only faced a mis-match between the duration of their loans, and the period for which they have accessed deposits. By and large, the interest rate mismatch problem was minimal, given the stability in the managed system of interest rates.

I think this era is fast drawing to a close, and even without the creation of the secondary mortgage markets, interest rate management would be an important feature. With the secondary market developing, we are essentially entering a system of financing where long term assets are financed on a roll-over basis by accessing short term investors. This methodology of financing has been prevalent in developed economies for decades and while this may be intuitively uncomfortable, it cannot be wished away. Instead, HFIs and their investment bankers need to foster the necessary managerial and other resources to address this problem.

With the integration of financial markets, both deposit rates and lending rates need to be market oriented. There would be a real need to induce investors to choose the HFI sector as against the industrial sector, and within the HFI sector, individual HFIs would need to compete for investors and to offer inducements, be it rates, financial performance or other incentives.

In the process, subsidies cannot be the basis for on lending. Such an approach is fully self defeating as the created quantum of resources would diminish, instead of the pattern feeding itself and growing over a period of time.

The NHB as Lender of Last Resort

Earlier in this address, I had referred to the regulatory role of NHB, and to the directional policy that NHB would foster in terms of governing the permissible range of assets and liabilities of individual HFIs within the system.

There is, of course, a corollary. Even in developed economies, there is an established mechanism and principle that it is the responsibility of the Central Bank or the appropriate agency to be a reliable source of liquidity even in difficult money market conditions. NHB would be glad to fulfil this role, and be the lender of the last resort in respect of the secondary market structure. NHB is well equipped to play such a role, and it is perhaps a critical role in terms of the development of the secondary markets.

Conclusion

Thus, as far as India is concerned, I see quite clearly that the primary phase of institution building is almost over and the future task is to induce HFIs into the capital markets for both debt as well as equity support. This transition would need the creation of specialised institutions and a new management focus in terms of the array of assets to be created.

India is of course a developing country, but I suspect that in terms of some of the financial systems and infrastructure,

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rope. Council of Mortgage Lenders, May 1990, provides a more recent view of developments in Europe.

[27] For a recent analysis of the building society sector, see 'The development of the building societies sector in the 1980s' in the November 1990 *Bulletin*, pages 503-10. Also reproduced in Housing Finance International Vol. 5 No. 3, March 1991.

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we could definitely be compared to some of the more advanced countries. To that extent, it is my belief that the secondary stage of evolution of HFIs in terms of integrating themselves into the financial sector is a task that is relatively easy, and one that is within our reach. It only requires a positive will on the part of HFI management, with an appropriate framework for operations established by various regulating agencies including NHB.

In future we will have to examine specifics and to seek *practical* solutions which are replicable. Other developing countries will have to assess for themselves the precise stage of development that they are in. The major HFIs in India can be of assistance to those countries which are still at the nascent stage of creating primary lending organisations. ■