

## **Special Section 1**

### **Low Income Housing in Pakistan: Opportunities and Challenges**

According to resolution 22/2 of the Governing Council of UN-HABITAT on affordable housing finance,

*Encourages all member States, including the regional ministerial conferences on housing and urban development, to establish sound and conducive frameworks and mechanisms to enable extended public and private investment in slum upgrading and prevention, affordable housing and urban development including infrastructure and basic services.*

Housing is one of the most important sectors of the economy with large positive externalities in terms of economic growth, public health and societal stability<sup>1</sup>. Provision of adequate housing<sup>2</sup> is a necessity for survival and is considered a vital investment in health leading to increase in productive capacity and overall well being of a person and his/her family<sup>3</sup>. Importance of housing can be gauged from the fact that Article 25 (1) of Universal Declaration of Human Rights, Article 11(1) of International Covenant on Economic, Social and Cultural Rights, United Nations Declaration on Social Progress and Development (1969) and the United Nations Vancouver Declaration on Human Settlements (1976), all recognize adequate housing as the right of everyone<sup>4</sup>.

Despite the fact that housing constitutes one of the basic human rights, more than a billion people around the globe, including over 14 percent of the population of South Asia, live in inadequate housing<sup>5</sup>. Pakistan is no exception to this problem. According to some estimates housing shortage in the country has reached around

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<sup>1</sup> Abhas K. Jha (2007), Low-income Housing in Latin America and the Caribbean, Enbrve No. 101, World Bank

<sup>2</sup> United Nation's Special Rapporteur on the Right of Adequate Housing's working definition of the human right to adequate housing is the right of every woman, man, youth and child to gain and sustain a secure home and community in which to live in peace and dignity.

<sup>3</sup> Speech by Mr. Muhammad Shamsul Haque, Deputy Managing Director, Operations Wing, Islami Bank Bangladesh Limited, at Workshop on Housing Finance in South Asia, May 28, 2009, Jakarta.

<sup>4</sup>Source: <http://www.ohchr.org/Documents/Publications/FactSheet21en.pdf>

<sup>5</sup> Source: "Expanding Housing Finance to the Underserved in South Asia: Market Review and Forward Agenda". Presented by Ms. Tatiana Nenova, Senior Economist (South Asia) World Bank Group, at South Asia Regional Housing Finance Conference January 27-29, 2010, New Delhi, India.

7.57 million units in 2009 with nearly 80 percent of the shortage attributed to lower and middle income groups<sup>6</sup>.

Like other developing countries, rapid urbanization over the years in Pakistan has resulted in growth of slums in urban areas of the country, adding pressure on low income housing demand. This rising trend of urbanization compounded with a rapidly growing population<sup>7</sup> implies that demand for housing is increasing at a high pace. According to some estimates, housing deficiency in the country has been increasing by 300000 houses annually<sup>8</sup>.

Given the importance of housing and prevailing shortfall of housing facilities in the country, this special section discusses supply side issues of housing finance, while focusing on low income housing in particular. It concludes with some policy recommendations.

### **Housing Finance Portfolio in Pakistan**

In Pakistan most of the housing finance is arranged through personal resources. The formal financial sector caters to only 1 to 2 percent of all housing transactions in the country<sup>9</sup>. Within the formal sector, commercial banks and House Building Finance Corporation (HBFC), a specialized housing finance institution, are providing housing finance.

With expansion of HBFC over the years the institution's present loan portfolio covers 80 cities and towns of the country with a target to expand its business to 150 towns and cities<sup>10</sup>. On the other hand, housing loan portfolio of commercial banks is generally confined to major metropolitan cities of the country<sup>11</sup>. Further analysis of housing finance portfolio shows that the share of HBFC in overall housing finance portfolio has witnessed a fall from 55 percent in 2004 to 21 percent in 2009. Consequently the gross outstanding housing finance portfolio of HBFC decreased from Rs 20.3 billion in 2004 to Rs 15.6 billion in 2009 (see **Figure SS 1.1**).

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<sup>6</sup> Source: Special Address by Kamran Shehzad, Deputy Governor, State Bank of Pakistan, at South Asia Regional Housing Finance Conference January 27-29, 2010, New Delhi, India.

<sup>7</sup> Population growth rate in Pakistan currently stands at 1.7 percent.

<sup>8</sup> Presentation by Kamran Shehzad, Deputy Governor, State Bank of Pakistan on Housing Finance Market in Pakistan, at World Bank- IFC Conference on Housing Finance, May 27-29, 2009, Jakarta.

<sup>9</sup> Speech by Kamran Shehzad, Deputy Governor, State Bank of Pakistan, at Workshop on Housing Finance in South Asia, May 27, 2009, Jakarta.

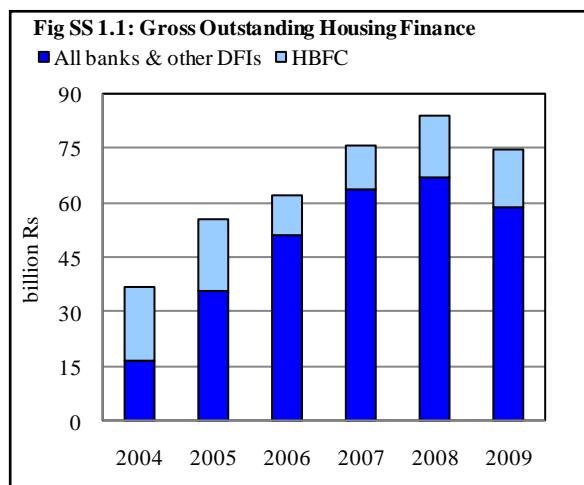
<sup>10</sup> Source: [www.hbfc.com.pk](http://www.hbfc.com.pk)

<sup>11</sup> Source: [http://sahf-forum.info/Presentation/Rizvi\\_SessionOverview\\_RegionalCountriesPresentations.pdf](http://sahf-forum.info/Presentation/Rizvi_SessionOverview_RegionalCountriesPresentations.pdf)

One of the reasons for this decrease in HBFC share is rise in NPLs<sup>12</sup> that have led to low disbursement in the subsequent period. On the other hand, banks and other DFIs witnessed an increase in their outstanding portfolio from Rs 16.6 billion in 2004 to Rs 67.0 billion in 2008 before registering a decline in 2009 to reach Rs 58.8 billion. However, in terms of number of borrowers HBFC still caters around 76 percent of the total borrowers in the housing finance sector. This implies that HBFC generally disburses smaller amount of loan to a larger number of borrowers, as compared to commercial banks and other DFIs which are more inclined to disbursing larger amount of loan to relatively smaller number of borrowers.

It is important to note that since the active involvement of commercial banks in housing finance, the overall housing finance portfolio grew significantly from Rs37 billion in 2004 to Rs84 billion by December 2008. However, in 2009, the housing sector witnessed downturn as housing finance portfolio experienced a dip of 11 percent, reflecting the impact of economic slowdown, and now stands at around Rs74 billion by the end of calendar year 2009 (see **Figure SS 1.1**).

Despite showing an increase in overall housing finance portfolio, the current level still remains insufficient<sup>13</sup> to address the housing needs in the country. In particular, lower income groups seem to be deprived of housing finance facilities, as numerous barriers prevent the poor from accessing financing from formal financial institutions including lack of formal employment, regular incomes and formal credit histories<sup>14</sup>. Given the importance of housing finance, several policy initiatives have been taken over the decades, with a focus on expanding housing finance activities in the country. Some of these are discussed below.



<sup>12</sup> NPLs of HBFC have increased from Rs 6.2 billion in 2008 to Rs 6.5 billion in 2009.

<sup>13</sup> Consumer financing by commercial banks for house building/construction/renovation constitutes only 2.5 percent of the overall private sector business.

<sup>14</sup> Source: GH Bank Housing Journal, Volume 3 Number 8, July-September 2009.

### **Policy Initiatives in Pakistan**

As an initial step HBFC was established as a statutory federal body in 1952 with the objective of providing financial assistance for the construction of houses. However, after the establishment of HBFC, no major steps towards providing housing facilities were seen until the establishment of Pakistan Housing Authority (PHA) in 1999. PHA is a subsidiary of Ministry of Housing and Works and was established to undertake construction of approximately 4500 apartments at affordable prices for low and middle income groups. PHA has so far undertaken 18 projects involving 4476 housing units in four major cities including Karachi, Lahore, Islamabad and Peshawar<sup>15</sup>.

In 2001, National Housing Policy was initiated realizing the fact that housing is one of the major pillars of the macro-economy and that there is ever increasing short fall of housing stock in the country. The policy emphasised on resource mobilization, increasing land availability, provision of incentives for home ownership, provision of incentives to developers and constructors and promotion of research and development activities to make construction cost effective<sup>16</sup>.

Apart from the above mentioned steps various other initiatives have also been taken for improving housing facilities in the country. Amongst these are the Prime Minister's housing programme that was announced in 2008 under which one million housing units would be constructed for government employees, media men and general public at affordable cost mainly through foreign investment and joint ventures. Such a step on part of the government is appreciable but the focus of this scheme does not seem to be on low income housing.

State Bank of Pakistan is also striving hard for improving housing finance activities in the country<sup>17</sup>. In this regard the central bank is working with the International Finance Corporation of the World Bank for the establishment of Mortgage Refinance Company (MRC), for availability of low cost housing finance and establishment of an observatory for real estate market. Housing Advisory Group (HAG) has also been established by the SBP in order to carry out a comprehensive analysis of the current regulatory and policy framework regarding housing finance.

In order to improve human capital related to the housing industry, SBP has launched a comprehensive housing finance training program covering all aspects

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<sup>15</sup> [www.pha.gov.pk](http://www.pha.gov.pk)

<sup>16</sup> Source: Board of Investment, Government of Pakistan.

<http://www.pakboi.gov.pk/pdf/Sectoral%20Policies/National%20Housing%20Policy%202001.pdf>

<sup>17</sup> For details see <http://www.sbp.org.pk/SME/pdf/DFG-Dec-09.pdf>

of housing finance from product development, loan marketing and origination to loan underwriting, servicing, and risk management.

In accordance with the recommendations of HAG, SBP in coordination with Association of Mortgage Bankers is also working towards the development of web portal aimed at providing reliable information on various factors of housing/mortgage industry.

### **Challenges & Way Forward**

Though various steps have already been taken for providing housing base in the country, a high number of people still remain without access to adequate housing finance. Lower segments of the society, particularly in the urban areas<sup>18</sup>, still remain deprived of appropriate housing facilities.

The widening gap between demand and supply of housing in the country can be seen as an opportunity by private entrepreneurs and developers. However, incentives are necessary in order to attract entrepreneurs and private developers. Global experience shows that in order to attract private developers into low-income housing construction, governments use wide range of incentives at the central and local level, including tax deductions, density bonuses, direct subsidies, land grants, land classification shifts from commercial to residential use, and bureaucratic and administrative streamlining to reduce processing costs and time<sup>19</sup>. Given the labor intensive nature of construction in the country, growth in the construction activities also has the potential of bringing major socio-economic impacts in the country including generation of job opportunities as several industries are directly or indirectly linked with construction activities<sup>20</sup>.

However there are several challenges confronting the domestic housing finance industry at present. These include: (a) shortage of finance especially for low income housing; (b) limited land registration information system; (c) lack of proper legal framework protecting rights of house owners; (d) issues in land availability for construction purposes especially in urban areas; (e) limited targeted subsidy programs for low income housing; (f) inadequate research for introducing cost effective construction techniques; and (g) lack of incentives for private developers to enter low income housing schemes. It is therefore necessary

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<sup>18</sup> Over 45 percent of the total urban population is believed to be living in slums, Source: Development of Strategic Goals for Housing Finance in Pakistan (2009): Infrastructure and Housing Finance Department State Bank of Pakistan

<sup>19</sup> Source: Low-Income Housing Policies: Lessons from International Experience: Observations and Suggestions, Asian Development Bank (ADB) 2009.

<sup>20</sup> Source: GH Bank Housing Journal, Volume 3 Number 8, July-September 2009

that all housing finance stake holders put concerted efforts for improving housing base in the country. Some of the measures that can serve towards betterment in providing housing finance facilities are discussed below.

A major step towards improvement can be the introduction of appropriate legal reforms ensuring private property rights that augment housing finance activities. There should also be proper documentation, computerization, and automation of title registration and title transfer.

Given that major urban centers of the country are already densely populated, one of the options available with the government is to start housing and infrastructure improvement programs in the suburb areas of urban centers. However such an effort is both costly as well as difficult. Therefore priority can be given to improvements in the already existing poor communities (see **Box 1**).

One of the major steps towards provisioning of affordable housing to lower and middle income groups can be the reduction in overall cost of construction activities. In this regard improving land availability for construction activities can help in reducing land price escalation in the country. This can be achieved by utilization of vacant public land for construction activities especially for low income housing schemes<sup>21</sup>. Moreover construction of high rise buildings accommodating a large number of people, can also serve to solve the problem of land availability.

Micro housing finance is another area that can be explored for enhancing the access to finance for lower and middle income groups. Though SBP has already made amendments in prudential regulation for microfinance banks (PR 10), whereby maximum loan size up to Rs 500,000 to a single borrower with household annual income up to Rs 600,000 is allowed, this area is still in its infancy stage. Micro housing program of Grameen Bank Bangladesh shows that such programs can help in providing housing facilities to low income groups (see **Box 1**).

Given that access to adequate housing facilities cannot be provided to lower income groups without government intervention it is therefore necessary that appropriate subsidy programs should be developed with a focus on the poor segments of the society. Since government has already introduced various safety net programs, data available from such programs can be used to identify potential

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<sup>21</sup> Source: Recommendations for Nationwide Provision of Housing Finance, Housing Advisory Group (HAG), State Bank of Pakistan.

recipient of these subsidy programs. Such subsidy programs are already prevalent in the regional economies and have remained successful, e.g., India, China, Hong Kong, Malaysia, and Indonesia, provide subsidies targeted for low-price housing<sup>22</sup>.

### **Conclusion**

Domestic housing finance sector has shown growth over the years but the present level still remains far below the housing requirements in the country. Given the huge backlog in housing sector and an increasing housing deficiency in the country, opportunities remain abundant especially if efforts are concentrated in the lower and middle income groups which form a major part of the housing backlog. Present housing finance portfolio seems to be concentrated in the upper income groups and appropriate targeted schemes for lower income groups remains a challenge.

Though several policy initiatives have already been taken but there is still room for improvement. Joint efforts by all housing finance stakeholders particularly, the public sector-federal government, provincial governments, and housing finance institutions are required. Such joint efforts will increase both transparency as well as efficiency for providing adequate housing to lower and middle income segments of the society.

#### **Box 1: Low Income Housing (Success Stories)**

**Housing Micro Finance Grameen Bank Bangladesh.** Grameen started providing housing micro finance in 1984. Loans are provided to customers on group basis and cost efficient houses are built according to functional design/technology specified by Grameen Bank. The repayment period is 5 years with a concessionary interest rate of 8 percent per annum. As of March 2010, the total outstanding loan of housing finance stands at US \$ 2.67 million with overdue loan accounting for only US \$ 0.162 million.

**Saiban Pakistan.** Saiban incremental housing has been operational in Pakistan for the last 20 years providing housing needs to poor segments of the society through Khuda Ki Basti's (KKBs). According to the scheme after necessary verification, an onsite plot is provided to a family with payment in installments. Construction is initiated by the family on an incremental basis subject to their financial means with technical and other support in construction provided by the management. The program requires the fulfillment of on-site living conditional for a non-transferable ownership of the plot to the family.

Each KKB offers regular and prime plots. The regular plots are provided on no profit no loss basis to low income families earning between Rs 5000 to Rs 15000. The remaining plots are sold in the open market for profit. Presently, fourth KKB project is operational in Lahore in association with

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<sup>22</sup> Source: GH Bank Housing Journal, Volume 3 Number 8, July-September 2009

Acumen Fund of USA. According to some estimates, over 30000 people have so far benefited from the KKB schemes.

**Metro Manila Slum Resettlement: Philippines.** In 1997, for expansion of Metro Manila Railway tracks, around 80000 slum dwellers had to be evacuated. The National Housing Authority constructed a rehabilitation program for which financing was provided by a Chinese government consortium. According to the resettlement program, land at subsidized cost (US \$ 2200) along with housing material (US \$ 870) and cash for labor (US \$ 220) was provided to the people on cost-recovery basis. The total amount of US \$ 3290 is to be repaid in 30 years at 6% annual interest, in monthly payments. As of 2005, 7297 families from Metro Manila have been relocated.

**Phnom Penh, Cambodia.** Since 1998 organized poor communities of Phnom Penh along with district, municipal and national governments and support from UPDF (the local community development fund) are working collectively for developing housing and settlement improvement projects for nearly one third of city's poor communities. According to the scheme municipality and government pays for new land where local people design and build their own houses. For construction activities, UPDF provides soft housing loans and infrastructure subsidies. Available data shows that the partnership has planned, built, managed and paid for 3,000 houses in 108 communities since its inception.

**Lyari Expressway Resettlement Project, Pakistan.** For resettlement of more than 250,000 people displaced due to construction of Lyari Expressway, Karachi, a resettlement program was initiated by the government. According to the program land and financial compensation for construction at newly developed suburbs in Hawk's Bay, Taiser Town and Baldia Town was provided to the displaced people. These suburbs are properly planned with utilities, transport, schools, parks and roads. Thus people living in unplanned localities at the banks of Lyari River were resettled at comparatively better living environments.

**Baan Mankong Up-gradation Program Thailand.** Since 2003, Thailand's Community Organizations Development Institute (CODI) has started a slum up-gradation program named Baan Mankong, for poor urban communities. According to the program local communities create slum up-gradation plans that can be accomplished in three years. Communities create collective savings accounts while government provides funds in the form of infrastructure subsidies and soft housing loans directly to those communities. The local community carries out improvements to their housing, environment and basic services and manage the budget themselves. Approximately 54,000 households are directly receiving CODI's financial resources and technical support under the program.

**Sources:**

- GH Bank Housing Journal, Volume 3 Number 8, July-September 2009.
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- [http://www.gcgf.org/ifcext/economics.nsf/AttachmentsByTitle/CON\\_Housing-Regional\\_SouthAsia\\_May2009\\_RizviLowIncomePaper/\\$FILE/Rizvi\\_LowIncomeHousingPakistan\\_overviewpaper.pdf](http://www.gcgf.org/ifcext/economics.nsf/AttachmentsByTitle/CON_Housing-Regional_SouthAsia_May2009_RizviLowIncomePaper/$FILE/Rizvi_LowIncomeHousingPakistan_overviewpaper.pdf)
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