Barriers Constraining the Low and Middle Income Housing Finance Market in Bangladesh

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BARRIERS CONSTRAINING THE LOW AND MIDDLE INCOME HOUSING FINANCE MARKET IN BANGLADESH

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ACKNOWLEDGEMENTS

International Finance Corporation-World Bank Group's (IFC-WBG) Finance and Markets Global Practice has produced this report in partnership with the Government of the Netherlands. The report's author was Harish S. Khare, and it was developed under the leadership of Ananya Wahid Kader. Our thanks go to all the representatives of banks, non-bank finance companies, specialized housing finance lenders, microfinance institutions, Bangladesh Bank, Government of Bangladesh, real estate developers and other stakeholders who were interviewed for this report. Their willingness to share their knowledge have helped the WBG to charter a course of action in improving the housing finance ecosystem for the low and middle income segments in Bangladesh.

A special note of appreciation is extended to Friedemann Roy and Simon Christopher Walley who have enriched the research with their insights on global best practices and international experiences in low and middle income housing finance. We are grateful for the valuable guidance from Niraj Verma and Jennifer Isern. The report has been made possible through the support from other officials of IFC Bangladesh including Wendy Werner, Francesca Lo Re, Upoma Dutta, Takreem Riwan Siddiqui and Nazia Muzfara Islam.

We would like to thank the National Housing Authority, Bangladesh Bank, Microcredit Regulatory Authority, Bangladesh Bureau of Statistics, Bangladesh Institute of Development Studies, Centre for Urban Studies, Real Estate and Housing Association of Bangladesh (REHAB) and Sheltech for access to their data and market insights. Their contributions were invaluable to the development of this report.

ABBREVIATIONS

1	Annual Exponential Growth Rate	AEGR
2	Bangladesh Bank	BB
3	Bangladesh Bureau of Statistics	BBS
4	Bangladesh House Building Finance Corporation	HBFC / BHBFC
5	Bangladeshi Taka	BDT
6	Corrugated Iron	CI Sheet
7	Credit Information Bureau	CIB
8	Delta Brac Housing Finance Corporation	DBH
9	Development Financial Institutions	DFI
10	Dhaka City Corporation	DCC
11	Financial Institutions Group	FIG
12	Foreign Commercial Banks	FCB
13	Finance and Markets Global Practice	F&M GP
14	Government of Bangladesh	GOB
15	Gross Domestic Product	GDP
16	House Building Finance Corporation	BHBFC / HBFC
17	Housing and Settlements Directorate	HSD
18	Housing Microfinance	HMF
19	International Development Assistance	IDA
20	International Finance Corporation	IFC
21	Low and Middle Income Housing Finance	LMIHF
22	Microcredit Regulatory Authority	MRA
23	Microfinance Institutions	MFI
24	Ministry of Housing and Public Works	MoHPW
25	National Housing Authority	NHA
26	Non Government Organisation	NGO
27	Non-Bank Financial Institutions	NBFC
28	Palli Karma Sahayak Foundation	PKSF
29	Private Ccommercial Banks	PCB
30	Pro-poor Slums Integration Project	
31	Rajdhani Unnayan Kartripakkha	RAJUK
32	Small and Medium Enterprises	SME
33	South Asia	SA
34	Specialised Commercial Banks	SCB
35	State-Owned Commercial Banks	SOCB
36	United Leasing Company	ULC
37	World Bank Group	WBG

Prevailing Exchange Rate used in the Report:1 USD=79 BDT

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EXECUTIVE SUMMARY

The lack of available and accessible housing finance has been identified by the Government of Bangladesh (GOB) as one of the biggest hurdles in improving the housing conditions for lower and middle income households. Poor living conditions, particularly in urban areas, continue to undermine economic growth and poverty reduction efforts. The need for improvement in the existing housing finance system and expanding access to underserved segments has been highlighted in several studies by different government and international agencies. The Finance and Markets Global Practice at the World Bank Group (WBG) has been consistently working in partnership with GOB, regulatory and apex institutions and private sector players in financial services. This study is a continuation of WBG's past efforts towards improving and deepening the housing finance markets in Bangladesh.

The specific objectives of this study are: (a) assessing current and future demand for low and middle-income housing finance (LMIHF) in Bangladesh, (b) identifying constraints impeding the development of LMIHF market with recommendations to address the barriers identified and (c) developing a roadmap of interventions that can be adopted by various development financial institutions (DFIs) to create an enabling environment for improving access to housing finance.

For the purpose of this study, low and middle income households have been defined as those whose monthly household income is within the upper ceiling of BDT 60,000 (USD 760). In the mortgage refinance scheme of 2008-2009, Bangladesh Bank used a similar definition for monthly household income with an income ceiling of BDT 50,000 (USD 633).

Chapter I provides the study methodology, the economic context and an overview of the financial sector situation in Bangladesh including the latest trends in housing finance. Over last two decades, Bangladesh has made significant gains in economic growth, development and poverty reduction. Average annual GDP growth has exceeded 6% a year on average during the past five years despite adverse impacts from the global recession, political turmoil, structural constraints and frequent natural disasters. The economy, however, still faces several challenges, such as a growing infrastructure deficit and skill shortages, a weak business environment and a de-facto onerous regulatory regime. While financial markets have steadily evolved over the years, concerns remain when it comes to strengthening financial stability and enhancing financial intermediation. Only 31% of adults in Bangladesh have access to a bank account. Further, under-developed insurance and pensions markets, mortgage market (mortgage debt to GDP is about 3%) and long term capital markets, means that sources of long term financing are limited and constitute severe impediments to financing Bangladesh's development needs.

Chapter II of this report captures the housing conditions, construction costs and the supply side situation in Bangladesh. The urbanization process in the country is as yet unsaturated, and rapid urban growth shall continue in the coming decades fuelled by growth in metros. Dhaka, being a megacity, is the most urbanized district by virtue of its agglomeration economy, which provides diverse opportunities and hence attracts most of the rural out-migrants. Dhaka City is set to grow from a population of 18.9 million in 2011 to a projected 27.4 million by 2030, with an implied growth rate of 4.3%. While other cities will also grow, their proportion of the total urban population is expected to decline or remain static.

Over 85% of all rural, and over 70% of urban dwelling units fall under inadequate / deficient categories, which signifies the scale of housing needs in the form of housing upgrades, improvements or new construction. Bangladesh will need to construct approximately 8.5 million new houses in the next five years to overcome the existing shortage in urban areas and meet the future demands of housing. Most of the need is concentrated in the lower and lower-middle income groups. Against this demand, REHAB (Real Estate and Housing Association of Bangladesh) estimates that currently around 25,000 units are supplied each year, of which its member developers are supplying around 15,000 units.

On the supply side, the real estate sector in Bangladesh is still recovering from the setback it suffered in 2011-2012. Private developers cater only to the upper and upper-middle income groups, while the middle and low income segments are still largely untapped. The development of affordable housing is in a very nascent stage, with volumes of barely 2% of all newly constructed apartments. The sluggish and stagnant sales situation is continuing for over four years now. The current price levels, which have seen a 20-25% correction in recent years, are still high.

Based on extensive research and analysis of secondary data, this study has estimated the housing finance demand over the next four years. The analysis in Chapter III shows that the gross projected housing finance demand arising from low and middle income segments (urban, rural and microfinance borrowers) is estimated at BDT 205 billion (USD 2.6 billion) annually, which translates into BDT 820 billion (USD 10.4 billion) over the next four years. To put these consolidated figures into perspective, the cumulative demand projected over the next four years is 167% of the total 2015 housing loan outstanding across Bangladesh's financial sector and possibly 6-7 times the total housing loan disbursements per annum. These figures represent only the additional demand over and above the formal housing finance being accessed by higher income segments.

Chapter IV details various suppliers of housing finance and the structure of the existing housing finance market. It delves into different categories of lenders including commercial banks, non-bank finance companies (NBFCs), specialised financial institutions such as the House Building Finance Corporation (HBFC), microfinance institutions and government funded housing schemes and programs. The total outstanding housing loans as of June 2015 stood at BDT 490 billion (USD 6.2 billion) which represents only 8.8% of total credit to the private sector. In recent years, significant changes have taken place in gross housing loan portfolios. Commercial banks have a dominating presence, with a market share of 75-80%. The banks have gained at the expense of specialised housing finance providers such as HBFC and Delta Brac Housing (DBH, a leading private NBFC). Within the banking sector, private sector banks have been expanding their housing loan portfolios and now have the largest exposure of BDT 266.0 billion (USD 3.37 billion) in outstanding housing loans as of June 2015. The state owned commercial banks had the second largest exposure of BDT 108.5 billion (USD 1.37 billion).

Due to overheating of urban property markets during 2010-2012, the portfolio quality of most banks suffered and their exposure in mortgages and real estate was identified as one of the principal reasons for stress in the financial sector. Consequently, Bangladesh Bank imposed stiff regulatory restrictions on banks and even NBFCs to discourage further exposure in mortgage loans, including retail home loans. While the retail housing loan portfolios of NBFCs have performed reasonably well, with gross non-performing loans (NPLs) at 1.87% in 2015, their exposure in real estate and construction finance to developers indicates a relatively difficult situation with NPLs rising to an unsustainable level 10.7% in FY15. This deterioration in asset quality is a direct consequence of the crisis in the real estate sector in 2011-12.

The traditional housing lender, the state owned HBFC, is in a precarious financial situation and currently relies on loan recoveries to support its lending activity. Despite noticeable efforts, HBFC's market share fell from 48% to 17% from 2001 to 2011 and is now much below 10%. The HBFC, which is charged with provision of housing and financial assistance for the lower income population, is short of funding resources, exposed to an excessive level of nonperforming loans, and crippled by improper procedures and systems. Besides, HBFC's governance and administration is largely with the Ministry of Finance and it is not regulated by the Bangladesh Bank, which possibly has an adverse effect on its operating and financial performance.

Primary mortgage lenders including banks and non-banks are constrained to rely on short-term financing for loans, and as a result, mortgage finance is available only to higher income households. The government subsidized housing finance and intermediation by specialised financial institutions (e.g. HBFC) also does not succeed in targeting lower and lower-middle income groups. Micro-lenders such as Grameen Bank have been scaling back their housing loan portfolio, and as on date, there are hardly any housing microfinance products on offer in spite of a well-entrenched and thriving microfinance sector in Bangladesh. While the penetration of traditional mortgage finance market in Bangladesh is already miniscule, the penetration of low income housing finance is almost non-existent.

Chapter V outlines in detail the prevailing policy, regulatory and legal environment in the area of housing and housing finance, and identifies different issues and constraints that limit the growth and expansion of LMIHF in terms of policy aspects, supply side challenges and concerns relating to the financial sector and operating environment for the primary lenders. Further, the chapter goes on to suggest some avenues for reforms, recommendations and strategies that could be considered by GOB and other stakeholders to suitably address these barriers. Broadly the issues are categorised under the following:

- Low-income housing and infrastructure access for urban poor residing in slums
- Underdeveloped real estate market and supply side constraints in affordable housing
- Financial sector weakness and lack of depth in the mortgage market
- Operating and enabling environment for primary lenders

Among various impediments that the housing and housing finance sectors are facing is the inefficiency of the regulatory regime, including foreclosure, land administration frameworks, poor legal infrastructure, deficient financial systems, a dearth of long-term funding and limited avenues for developer finance. Insufficient developed land and inappropriate land planning and urban development policies are driving up real estate prices. Land and titling procedures, registration procedures and costs, and a poor regulatory framework for real estate stifle the market, as does the lack of an organized database and key information on the housing sector. Sound and balanced prudential regulations for housing finance, innovative housing finance products, and increased mortgage affordability will contribute to an expanded market for housing and to vibrant and fast-growing housing finance systems. Islamic housing finance is an area that could match demand in underserved market segments, and it needs to be developed. A sharper focus on secondary market finance will be appropriate and mortgage refinancing could be key to the provision of long-term funding, standardization, and stabilization of mortgage markets.

For Bangladesh to develop its housing and housing finance markets such that these are both sound and accessible, the markets would need balanced funding models and a diversified toolbox of instruments for different categories of lenders. Based on the study's findings, Chapter VI – which is the final chapter of this report, proposes a roadmap of strategic interventions in the form of project initiatives and investments that could be undertaken by the Government with support from international DFIs and donor institutions.

CHAPTER 1

BACKGROUND AND CONTEXT

1.1 Introduction and Objectives

The lack of available and accessible housing finance has been identified by the Government of Bangladesh (GOB) as one of the biggest hurdles in improving housing conditions for low and middle income households. Poor living conditions, particularly in urban areas, continue to undermine economic growth and poverty reduction efforts. The need for improvement in the existing housing finance system and expanding access to underserved segments has been highlighted in several studies by different government and international agencies.

Despite a multitude of factors driving an increase in the demand for affordable housing and housing finance such as high population density, continued economic growth, rapid urbanization and a young demographic profile, this has unfortunately not been matched by a corresponding increase in the supply of affordable housing and improved access to housing finance. The enabling environment presents several bottlenecks that impede the facilitation of housing finance among low and middle income groups, particularly those who do not have a formal source of income. For the purpose of this study, low and middle income households have been defined as those whose monthly household income is within the upper ceiling of BDT 60,000 (USD 760).

In this context, IFC-World Bank Group conducted an assessment of the housing finance sector in Bangladesh to identify interventions across multiple stakeholders that can be implemented to develop and grow the low and middle-income housing finance (LMIHF) markets. The specific objectives of the present study are:

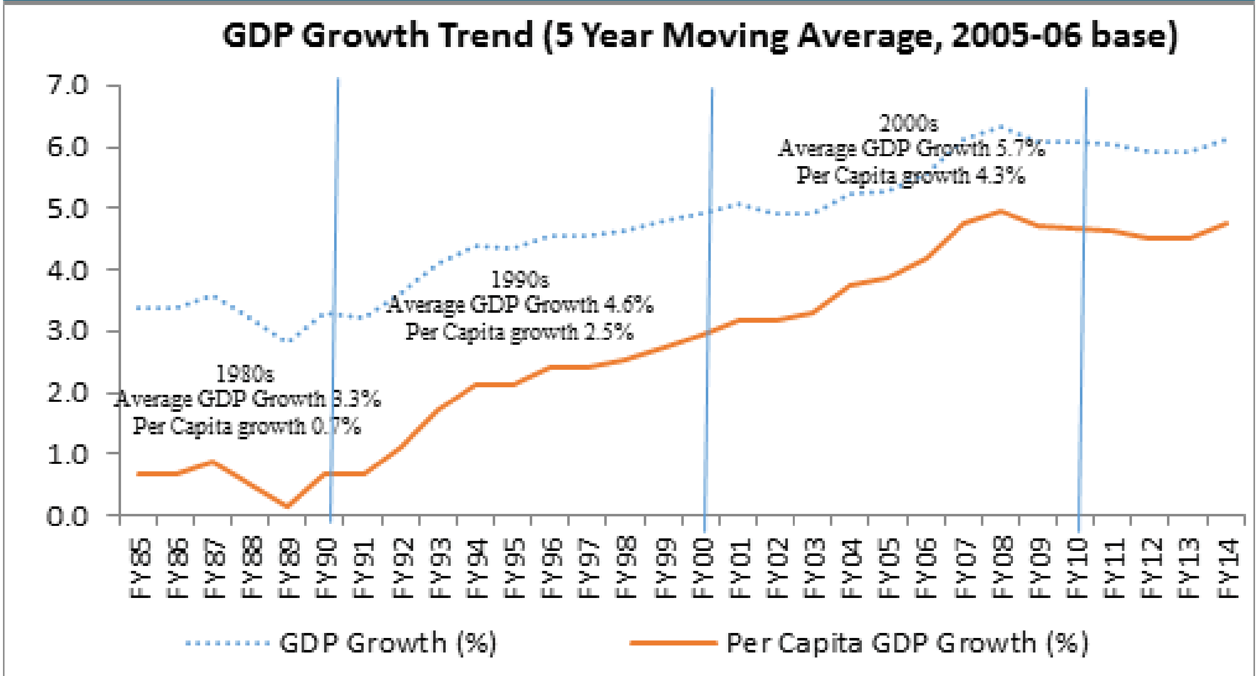
- Assess the current level and future trajectory of demand for LMIHF in Bangladesh
- Identify constraints impeding the development of the LMIHF market, and develop recommendations for multiple stakeholders to address the barriers identified
- Develop a roadmap of interventions that can be adopted by various DFIs to create an enabling environment for improving access to LMIHF in Bangladesh

The present study intends to build on the past and ongoing efforts of various public sector institutions, and multilateral and bi-lateral DFIs operating in Bangladesh. The recommendations aim for expanding access to housing finance, with particular emphasis on improving the enabling environment for both primary lenders as well as suppliers of affordable housing so as to build their presence among the lower and middle-income segments of population.

1.2 The Macro-economic Context

Over the past twenty years, Bangladesh has made significant gains in economic growth, development and poverty reduction. Average annual Gross Domestic Product (GDP) growth has risen steadily (see figure below), and grew by more than 6 percent a year on average during the past 5 years despite adverse impacts of the global recession, political turmoil, structural constraints and frequent natural disasters. Factors such as the evolving structure of the economy explain its resilience to global and domestic shocks so far, including good macroeconomic fundamentals, resilience of exports and remittances, relatively under-developed and insulated financial markets, and a pre-emptive policy posture.

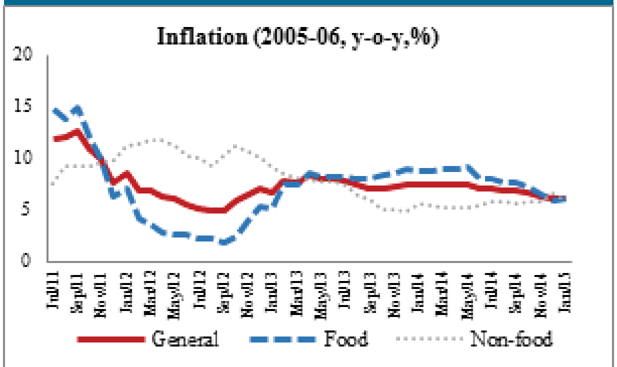
Figure 1: GDP Growth Trend



Source: Bangladesh Bureau of Statistics and WB Staff

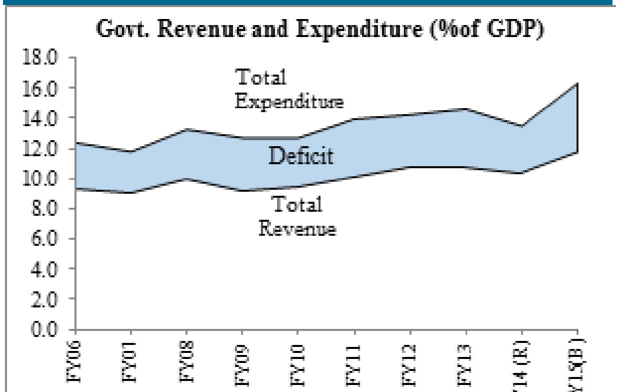
Since 1990, Bangladesh's GDP has been growing at around 5% in real terms, and the number of people living below the poverty line has reduced from 49% in 2000 to 32% in 2010. Bangladesh has also made noteworthy gains in education and health. Despite these gains, Bangladesh remains a poor country, with a GDP per capita of USD 958 (2013). Favourable international commodity price trends, a stable nominal exchange rate and prudent monetary policy have helped contain inflation. The 12-monthly-moving average inflation decreased from 7.6% in February 2014 to 6.8% in February 2015. On the other hand, fiscal policy has remained consistent with macroeconomic stability. The fiscal deficit was held in check at 3.1% of GDP in FY14. The shortfall in tax revenue due to the adverse impact of political turmoil was offset by better control of recurrent expenditures, particularly subsidies.

Figure 2: Inflation



Source: Bangladesh Bureau of Statistics

Figure 3: Govt. Revenue and Expenditure



Source : Ministry of Finance

Among recent economic developments, job-friendly growth gained momentum in Bangladesh in 2014 until the recurrence of political turmoil in January 2015. However growth was resilient in FY2015 despite political protests that hindered exports and private investment. GDP growth in FY2015 picked up to 6.6% from 6.1% in FY2014. Global headwinds notwithstanding, growth is expected to inch up to 6.7% in FY2016, underpinned by stronger garment exports and rising private consumption.

Foreign direct investment (FDI) though remains below 1.0% of GDP and 3.0% of total investment. The political dynamics seem to be the main uncertainty for Bangladesh's otherwise favourable economy and only continued domestic political calm will help in building confidence in consumers and investors to support the growth momentum.

Bangladesh's economy faces several challenges apart from political uncertainty: such as a growing infrastructure deficit and skill shortages, a weak business environment and a de-facto onerous regulatory regime. The goal of graduating from low to middle-income status requires much higher growth and investment, and thorough reforms to improve the business environment, boost budget revenue and strengthen financial discipline.

At the time of independence (in 1971), Bangladesh was largely an agricultural economy with a very low level of urbanisation (about 8%). Today, over 25% of the population is urban and the urban sector contributes to over 70% of the national GDP. This shift has translated into rapid migration to urban areas and metropolitan cities. Growth experiences in Bangladesh also demonstrate a tendency towards urbanization as well as uneven regional growth. The GOB in its Seventh 5-year Plan has made specific efforts to address both these dimensions of growth. On the inclusive growth front, GOB has identified reform of the financial system to provide easy access of rural households and small savers to formal financial institutions; and maintaining low inflation to facilitate more savings, as among its key priorities.

1.3 The Financial Sector in Bangladesh

The financial system of Bangladesh comprises three broad fragmented sectors: (i) The formal Sector, (ii) the semi-formal sector and (iii) the informal sector. In the context of this report, it is important to understand their distinguishing aspects as all the mortgage lenders and other providers of housing finance in Bangladesh belong to either of these sectors.

The categorization is based on the extent of regulation in the sectors. The **formal financial sector** is comprised of money market (comprising operations of the banking system, microcredit institutions, nonbank financial institutions, inter-bank foreign exchange market), the capital market (stock market operations), bond market and the insurance market.

The formal financial sector includes:

a) 56 banks and 31 non-bank financial institutions regulated by Bangladesh Bank
b) 693 micro-finance institutions regulated by Microcredit Regulatory Authority
c) Life insurance companies regulated by Insurance Development & Regulatory Authority
d) Capital market intermediaries regulated by the Securities and Exchange Commission

The Ministry of Finance also has some oversight role in certain aspects. The current size of the respective sectors measured in terms of their asset base is shown in Table 1 below.

Table 1: Size of Different Components of Financial System as Share of Total Assets of the Formal Financial Sector and as Percentage of GDP, June 2013

	Percentage Share in Total Assets of the Formal Financial Market	Size as Percentage of GDP
Banking Sector	63	60
Stock Market	20	19
Bond Market	16	15
Insurance Market*	3	3

***The figures for the Insurance Market are based on the data of year 2010**

Source: Bangladesh Bank, DSE and BBS

The financial market is dominated by the banking sector. The capital market makes up the second most significant segment of the financial system. This is followed by the bond market, dominated by treasury bills and saving instruments issued by the National Saving Directorate. The insurance sector is quite old, but its size is still relatively small.

The **semi-formal financial sector** includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Central Bank or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay (Cooperative) Bank, Grameen Bank, and financial activities/programs (lending and deposit taking) of various Non-Governmental Microcredit Organizations. The **informal financial sector** includes private intermediaries and money lenders which are completely unregulated and sometimes engaged in financial transactions that are not legally permitted.

The major participants in the money market are scheduled banks, development financial institutions (DFI), non-bank financial companies (NBFC) and Microfinance Institutions (MFI). Of the 56 scheduled banks operating in Bangladesh, 4 are state-owned commercial banks (SOCBs), 4 are government-owned specialized banks (SCBs), 9 are foreign commercial banks (FCBs) and 39 are domestic private commercial banks (PCBs) which comprise 31 conventional private commercial banks and 8 Islamic banks. The major source of funding for banks is deposits in the form of demand and time deposits from households, the corporate and non-corporate private sector, public sector entities and the government.

There are currently 29 NBFCs, of which, one is owned by the government, 15 are privately owned local initiatives and 13 were initiated as joint ventures with foreign participation. Major source of funding for NBFCs are term deposits (at least six months or more), credit facilities from commercial banks, access to the call money market, as well as securitization. As of June 2013, the NBFCs comprised only 4.8% of the total Money Market assets and their investment in different sectors included industry (43.8%), real estate (16.7%), margin loans (5.0%), trade and commerce (11.3%), merchant banking (4.0%), and others (17.7%).

The number of MFIs has grown phenomenally over the years and at present there are 693 such institutions that have been licensed by the MRA. Grameen Bank is out of the jurisdiction of MRA as it operates under Grameen Bank Ordinance, 1983. Microcredit programs in Bangladesh are being implemented by formal financial institutions, specialized government organizations, as well as NGOs. Despite the fact that more than a thousand institutions are operating microcredit programs, the 10 largest MFIs and Grameen Bank together account for 87% of total savings and 81% of total outstanding loans in the sector.

Among the biggest concerns in the overall financial system of Bangladesh is the financial health of state-owned commercial banks, which remains fragile. The financial sector has been adversely affected by a series of financial scams (mostly in the SOCBs) and this has contributed to an increase in loan defaults over the past 2-3 years. While the authorities have taken some disciplinary actions, in most cases neither the management nor the Boards of these banks have been held accountable. The overall NPL levels and other financial indicators are however better than the situation prevailing in 1999 (comparator year), although worse than 2011, as can be observed in the Tables 2 and 3 below.

Table 2: Profitability of the Banking Sector (Percent)

	Total Assets	Return on Assets			Return on Equity		
Types of Banks	**June 2013**	**1999**	**2011**	**2014***	**1999**	**2011**	**2014***
All Banks	7,52,650.18	0.2	1.54	0.61	5.24	17.02	8.36
Private Banks	4,62,820.63	0.8	1.59	0.78	15.32	15.69	8.4
Foreign Banks	46,112.57	3.5	3.24	3.48	41.84	16.58	20.14
State Commercial Banks	2,01,315.32	0	1.34	-0.09	-1.08	19.66	-2.35
Public DFIs	42,401.66	-1.6	0.03	-0.87	-29.4	-0.92	-9.46

1999 – Pre-reform baseline; 2011 – the comparator best year; 2014 – latest available; figures for 2014 are till June 2014

Source: Department of Off-site Supervision, Bangladesh Bank

Table 3: Indicators of Health of the Banking Sector (Percent)

Indicators	1999	2011	2014
Share of Non-Performing Loans: Overall	41.1	6.12	10.75
Share of Non-Performing Loans: Private Banks	27.1	2.95	5.7
Share of Non-Performing Loans: Foreign Banks	3.8	2.96	6.19
Share of Non-Performing Loans: State Comm. Banks	45.6	11.27	23.23
Share of Non-Performing Loans: Public DFIs	65.0	25.55	33.12
Risk-weighted Capital Ratio: Overall	7.4	11.35	10.68
Risk-weighted Capital Ratio: Private Banks	11.0	11.49	12.05
Risk-weighted Capital Ratio: Foreign Banks	15.8	20.97	20.61
Risk-weighted Capital Ratio: State Comm. Banks	5.3	11.68	8.65
Risk-weighted Capital Ratio: Public DFIs	5.8	-4.49	-13.68

Source: Bangladesh Bank

For Bangladesh, a well-functioning financial sector is critical - whether it is access to finance for its exporting and small and medium sized businesses that account for a significant share of employment; savings, credit and insurance services for its farmers or improving access to mainstream housing finance for the lower and middle income households. While financial markets have developed over the years, key concerns remain, in particular - strengthening financial stability, enhancing financial intermediation and improving the tax system to make it more efficient, transparent and fair. With over 70% of financial system assets in the banking system, banking assets to GDP at 77% and deposits to GDP at 60%, the prevalent risks in the SOCBs are systemically significant. The overall governance and asset quality also pose a threat to the stability of the financial sector in Bangladesh.

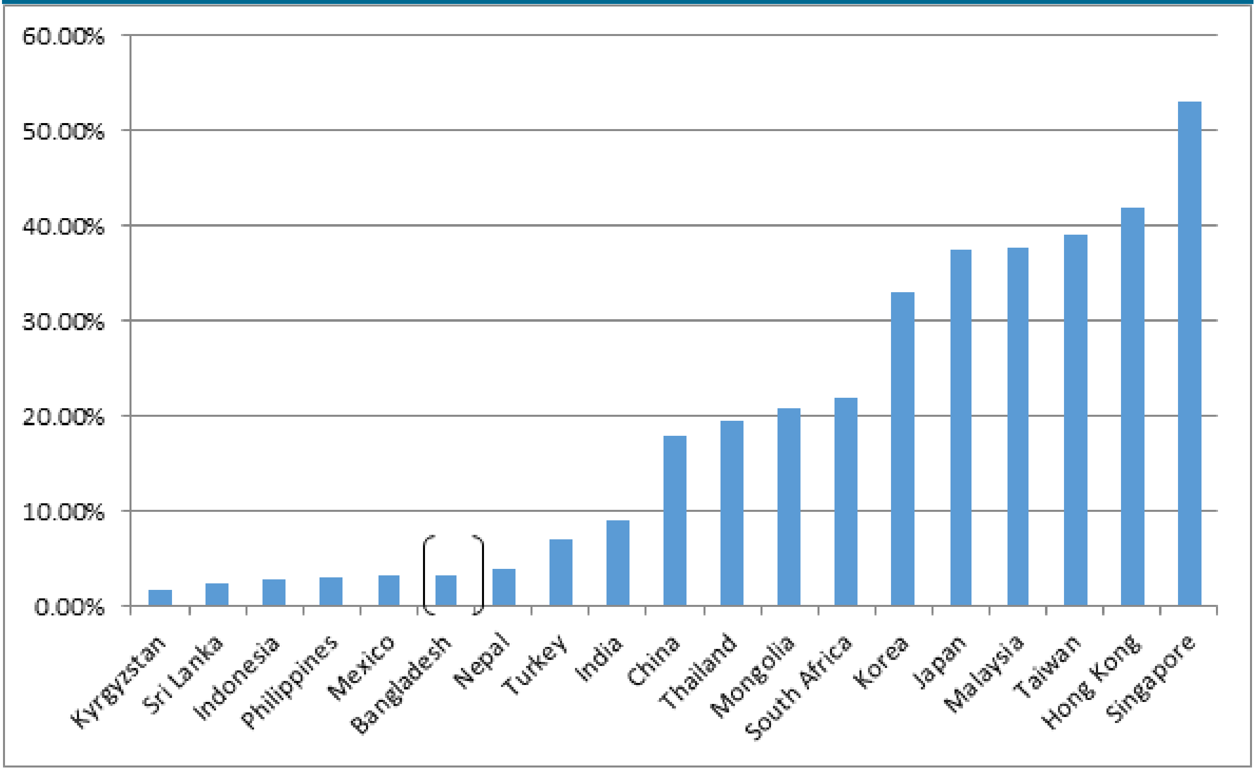
Alongside poorly performing public banks, access to credit has been identified as one of the top barriers for doing business in Bangladesh (Doing Business 2015). Only 31% of adults in Bangladesh have access to a bank account (Findex, 2014). In addition, financial inclusion remains particularly daunting for certain groups including women, small and medium enterprises (SMEs), and farmers. Further, under-developed insurance (insurance premiums are only 0.94% of GDP) and pensions markets, mortgage market (mortgage debt to GDP is about 3%) and long term capital markets, means that sources of long term financing are limited and constitute severe impediments to financing Bangladesh's infrastructure deficit and public investments needed to create jobs and manage risks and vulnerabilities.

1.4 Housing Finance Trends in South Asia and Emerging Markets

High economic growth coupled with demographic changes and growing urbanization trends signify the immense potential for housing and housing finance growth in South Asia. Household sizes are shrinking and the growing middle class comprises mostly young people who are eager to own their homes. This increasing demand is adding to the already existing urban housing shortage. The attitudes towards consumer debt have changed and there is much less aversion to borrowing for home ownership. Migration, job growth in services and manufacturing sectors and remittance flows have led to a plentiful middle class, willing and able to pay for a home; but these factors also have pushed up urban property prices.

Compared to the advanced economies of Europe and America, the Asian mortgage market is rather heterogeneous, so it is difficult to summarise its characteristics and ongoing trends.

Figure 4: Mortgage Debt to GDP (%) in select Asian countries and other EMs



Source: HOFINET, HDFC (India), Bangladesh Bank

In most Asian countries the mortgage markets are under-developed though changing rapidly. In terms of market depth and penetration, Japan, Singapore, Malaysia, Taiwan and Korea have mortgage debt to GDP ratios of 30% - 40% while China, Thailand and Mongolia are in the 18% - 21% range (refer Figure 4 above). For most South Asian (SA) countries, this ratio is in single digits which can be attributed to their stage of economic development.

In emerging economies there is usually a correlation between outstanding mortgage to GDP and GDP per capita (which is significantly below USD 10,000 for most of Asia). Consequently, the mortgage market in Bangladesh is also relatively underdeveloped. The mortgage debt to GDP is just over 3% compared with 8-9% in India and 50-70% in developed countries. In the region, the housing finance ecosystem in India has developed steadily over the past few decades and its mortgage market has performed better as compared to its South Asia peers. In comparison, Bangladesh's mortgage debt to GDP peaked at 3.51% in 2013 and has since declined to 3.28% in 2014 and 3.23% in 2015. This is partly due to Bangladesh Bank, which has been wary of a housing bubble developing in the metropolitan city of Dhaka and has imposed stiff regulatory measures to pre-empt any mortgage or sub-prime crisis.

Four key dimensions of housing finance that affect the mortgage market development include housing availability, financial instruments and institutions, low-income housing and mortgage market infrastructure. Several countries in the region are developing reform agendas that would strengthen their housing finance systems. The present housing finance system in Bangladesh is however extremely small and highly segmented. The table below illustrates the recent movement in outstanding housing loans across different lenders.

Table 4: Total Housing Loans Outstanding in Bangladesh during 2012-2015

	Total Housing Loans Outstanding							
	Jun-15		Jun-14		Jun-13		Jun-12	
Lenders Under Different Categories	BDT billion	% of Total	BDT billion	% of Total	BDT billion	% of Total	BDT billion	% of Total
a. Specialized housing finance providers	**63.6**	**12.98%**	**59.4**	**13.48%**	**55.2**	**13.11%**	**51.9**	**14.50%**
i) House Building Finance Corporation	30.3	6.18%	29.7	6.74%	28.0	6.65%	25.8	7.21%
ii) Delta-Brac Housing Finance	28.7	5.86%	26.4	5.99%	24.4	5.80%	23.6	6.59%
iii) National Housing Finance	4.6	0.94%	3.3	0.75%	2.8	0.67%	2.5	0.70%
b. Banks	**395.5**	**80.73%**	**358.0**	**81.25%**	**349.0**	**82.91%**	**286.8**	**80.12%**
i) Private Commercial Banks	266.0	54.29%	231.8	52.61%	229.8	54.59%	191.8	53.58%
ii) State Owned Commercial Banks	108.5	22.15%	95.6	21.70%	73.1	17.37%	63.4	17.71%
iii) Other banks (foreign and specialized)	21.0	4.29%	30.6	6.94%	46.1	10.95%	31.6	8.83%
c. Other financial institutions (incl. NBFIs)	**30.8**	**6.29%**	**23.2**	**5.27%**	**16.7**	**3.97%**	**19.2**	**5.36%**
d. Micro-credit lenders		**0.00%**		**0.00%**		**0.00%**		**0.00%**
Grameen Bank	0.02	0.00%	0.04	0.01%	0.04	0.01%	0.06	0.02%
Total Housing Loan Outstanding	**489.9**	**100.00%**	**440.6**	**100.00%**	**420.9**	**100.00%**	**358.0**	**100.00%**
Mortgage Debt to GDP	**3.23%**		**3.28%**		**3.51%**		**3.39%**	

Sources: Bangladesh Bank Annual Reports; Bangladesh Bureau of Statistics

The primary mortgage lenders including banks and non-banks (NBFCs) are constrained to rely on short-term financing for loans, and as a result, mortgage finance is available only to higher income households. The government subsidized housing finance and intermediation by specialised financial institutions also does not succeed in adequately targeting lower and lower-middle income groups. Micro-lenders such as Grameen Bank have been scaling down their housing loan portfolio and as on date there are hardly any housing microfinance products on offer in spite of a well-entrenched and thriving microfinance sector in Bangladesh. While the penetration of traditional mortgage finance market in Bangladesh is already miniscule, the penetration of low income housing finance is almost non-existent. Further analysis of Bangladesh's housing finance trends and growth prospects is presented in Chapter 4.

1.5 Study Methodology

The study methodology primarily comprised holding in-depth interviews and one-on-one discussions with different stakeholder groups which constitute the housing and housing finance markets in Bangladesh. The idea was to initiate and / or deepen the dialogue with leading institutions and organisations in the public sector as well as private sector which would impact and determine the future trajectory of housing finance supply and in particular, improved access for the low, informal and middle income segments of the population. Following are the different stakeholder groups that were interviewed (on the basis of customised questionnaires) during the course of this study:

- Government Authorities under the Ministry of Housing
- Regulatory Institutions
- Donors and Multi-lateral Institutions
- Specialised and Apex Financial Institutions
- Non-bank Financial Institutions
- Microfinance Institutions
- Private and Foreign Banks
- State Owned Commercial Banks
- Real Estate Developers and Brokers
- Lawyers specialising in Mortgages and Real Estate
- Association of Real Estate Developers
- Statistical & Research Organisations
- Internal Stakeholders: F&M GP team, Global Product Specialist (Housing Finance)

(Refer Annexure 1 for the full list of stakeholders / institutions met)

The discussions held with various stakeholders were complemented with research and desk-based review of qualitative sector data and information gathered from various secondary sources. This was followed by sending data requests to select organisations and institutions and doing trend analysis and forecasting using data obtained. Based on the above, the report identified the key gaps, bottlenecks and barriers that afflict the housing finance markets in Bangladesh and has proposed certain recommendations to address these constraints. Further to this, a roadmap has been suggested for the various DFIs and GOB to undertake certain strategic interventions in the near future, and potential implementation partners have been identified for these interventions.

CHAPTER 2

HOUSING CONDITIONS AND SUPPLY

2.1 Trends in Urbanisation in Bangladesh

Bangladesh has experienced rapid urbanization during the last few decades. Between 1961 and 2011, the country's total population increased from 55 million to about 150 million (about 273%) while the urban population increased from 2.6 million to about 43 million, registering a growth of nearly 1600% (source: BBS). Of the total urban population, 60% reside in City Corporations with the remainder in Pourashavas (Municipalities) and small towns. Various projections estimate the urban population in 2020 to be anywhere from 60 to 80 million, that is, one and half to nearly two times of its current number.

Despite the fact that majority of Bangladesh's population lives in rural areas, the importance of the traditional rural sector has been declining over the years. The share of the agricultural sector in GDP has come down from about 50 percent in 1972 to only 16 percent in 2015 (BBS, 2015).The rural population reached a peak of 107.8 million in 2011 and is projected to decline to 89.5 million by 2050. Conversely, the urban population, which was 43 million in 2011 is projected to reach 112 million by 2050 and would still be growing.

Table 5: Urbanization in Bangladesh (1951-2011)

Year	Urban Population (in million)	Rural Population (in million)	Percentage Urban	Urban AEGR* (%)	Rural AEGR* (%)	Differential AEGR* (%)
1951	1.82	40.24	4.33	1.69	-0.05	1.74
1961	2.64	48.20	5.19	3.72	1.80	1.92
1974	6.27	65.21	8.78	6.66	2.32	4.33
1981	13.54	73.58	15.54	10.99	1.73	9.26
1991	22.46	89.00	20.15	5.06	1.90	3.16
2001	28.61	95.25	23.10	2.42	0.68	1.74
2011	42.70	107.80	28.37	4.01	1.24	2.77

*AEGR: Annual Exponential Growth Rate

Source: Population Census and GED estimations

The annual exponential growth rates (AEGR) of population in urban areas of Bangladesh have consistently outpaced the growth rate in the rural areas. In effect, all future population growth in Bangladesh will be urban. This implies that all natural increase in rural areas will be offset by net rural-urban migration. Thus, Bangladesh, a small and predominantly rural country, is undergoing a transformation towards urbanization at a remarkable pace.

The components of such rapid urban growth are the following:

- A persistently high natural increase of native urban population
- Territorial extension of existing urban areas with conversion of nearby rural centres
- Rural to urban migration (which has been the most dominant component)

Rural-urban migration has a profound effect on redistribution of population in Bangladesh. The subsequent result is that the urban areas have become overburdened with problems of unemployment, shortage of housing, sanitation facilities and creation of slums. While the pull and push factors are operative, Dhaka's agglomeration economy provides diverse opportunities and hence, attracts most of the rural out-migrants. There is, however, a significant variation in the level of urbanisation by districts or administrative regions. Dhaka is the most urbanized district of the country. Other than Dhaka, the four most urbanized districts are Narayangonj, Chittagong, Khulna and Rajshahi.

Table 6: Distribution of Districts by Level of Urbanization, 2001

Level of Urbanization (percent of Population in urban area)	Number of Districts
<10	11
11 – 20	41
21 – 30	3
31 – 40	4
41 – 50	2
51 – 60	2
60>	1
Total	**64**

Source: Planning Commission, Bangladesh (Seventh Five Year Plan)

Bangladesh has some 570 urban centres, of which Dhaka is a megacity, Chittagong, Khulna, Rajshahi and Sylhet are metropolitan areas, 25 urban centres are cities (with population of over 100,000 each) and the rest are smaller towns. There are 11 City Corporations and over 322 Pourashavas (Municipalities). The distribution of large and medium size cities and towns throughout the country offers reasonable access to urban services to most areas in the country. However, **the primacy of Dhaka is very prominent** with over 44% of the total urban population and 12.56% of the total population. Dhaka's population with respect to the sum of the second, third and fourth largest cities in Bangladesh, which are Chittagong, Khulna and Rajshahi respectively, has increased from 1.50 times in 1981 to 2.26 times in 2011. In fact, population of Dhaka has multiplied almost 6 times in this 30 year period. About 80% of the garments industry in Bangladesh is located in and around Dhaka.

Table 7: Primacy of Dhaka City

Year	Population (in million)	Percent of urban population	Percent of total population	Share with respect to 2nd largest city	Share with respect to sum of 2nd, 3rd and 4th largest cities
1981	3.44	25.41	3.95	2.47	1.50
1991	6.84	30.46	6.14	2.91	1.76
2001	10.71	37.44	8.65	3.16	1.97
2011	18.90	44.26	12.56	3.58	2.26

Source: Bangladesh Bureau of Statistics

In absolute numbers, Dhaka City is projected to reach 27.4 million by 2030. This implies an average annual growth rate of 4.3 percent. While other cities will also grow, their proportion of the total urban population is expected to decline or remain static.

Increasing Metropolisation - The four metros of Dhaka, Chittagong, Khulna and Rajshahi, together they account for 63.87% of the total urban population in 2011. The domination of business services, particularly finance and real estate services is considerably higher in these four major cities relative to the rest of the country. The growth rate of metropolitan cities has been more than the urban population growth rate as a whole, underlining the fact that urbanization process is as yet unsaturated and rapid urban growth shall continue in the coming decades mainly fuelled by the growth in the metros of Bangladesh.

Table 8: Annual Exponential Growth Rates of Metros: 1981-2011

	1981-1991	1991-2001	2001-2011
Dhaka	6.88	4.48	5.68
Chittagong	5.24	3.66	4.45
Khulna	4.30	2.91	3.60
Rajshahi	7.64	2.51	5.08

Source: Bangladesh Bureau of Statistics

It is therefore apparent that urbanization in Bangladesh is characterized by predominance of a few metropolitan centres resulting in an uneven distribution of urban population and also development in the country. Despite the challenges, urban areas demonstrate immense economic potential to generate growth in the country. While urban dwellers constitute about 29% of the total population of the country, their contribution to GDP is more than 45%.

2.2 Current Housing Stock and Housing Shortage Estimates

Bangladesh is one of the most densely populated countries in the world. The pressure of rapidly growing urban population has had a major impact on the scarcity and costs of urban land for housing and other purposes. Land prices are high and permanent housing is rare —barely 4% in rural areas and 28% in urban centres. Bangladesh will need to construct approximately 8.5 million new houses in the next five years to overcome the existing shortage in urban areas and meet the future demand of housing. Most of the need is concentrated in the lower and lower-middle income groups.

Note that in Bangladesh, housing is classified into four categories:

1) Jhuprie (temporary): are shacks made from branches, bags, tarpaulin, jute, etc.
2) Kutcha (temporary): made of mud, bamboo, wood and corrugated iron sheets (CIS) as roofs
3) Semi-pucca (semi-permanent): where walls are made partially of bricks, floors are made from cement, and roofs from corrugated iron sheets.
4) Pucca (permanent): will walls of bricks and roofs of concrete.

Urban poverty is invariably associated with poor quality housing. Most urban poor live in slums and squatter settlements characterized by substandard living conditions. The rural poor, often landless or with negligible land holding, struggle to afford residential land which is generally not inexpensive owing to high population density across the country. The average housing quality is an even bigger concern in rural areas as over 85% of the dwelling units are either inadequate (i.e. semi-pucca) or temporary structures (katcha, jhuprie). BBS has categorized housing types by roof and wall material into cement/brick, corrugated iron/metal sheet, mud/un-burnt brick/wood and straw/bamboo (See Table 9).

Table 9: Dwelling Units by Type of Roof and Wall Material, 2010						
		Roof Material (% of dwelling units)				
Wall material	Total (%)	CIS/ Wood	Mud/Tile/ Wood	Straw/ Bamboo	Other	Concrete
National						
Total	**100.0**	**81.52**	**2.35**	**5.24**	**0.52**	**10.37**
Brick/cement	25.12	15.21	0.37	0.06	0.02	9.46
CIS/wood	38.46	37.17	0.21	0.50	0.04	0.54
Mud/brick/wood	16.72	13.34	1.50	1.52	0.18	0.18
Straw/bamboo/leaves	19.29	15.56	0.25	3.09	0.21	0.18
Others	0.41	0.24	0.03	0.06	0.07	0.02
Rural						
Total	**100.0**	**86.38**	**2.79**	**6.63**	**0.55**	**3.65**
Brick/cement	13.59	10.30	0.41	0.07	0.02	2.78
CIS/wood	43.24	41.89	0.27	0.64	0.05	0.39
Mud/brick/wood	20.57	16.27	1.79	2.05	0.23	0.23
Straw/bamboo/leaves	22.12	17.63	10.28	3.79	0.18	0.23
Others	0.48	0.28	0.04	0.07	0.07	0.02
Urban						
Total	**100.S0**	**68.28**	**1.16**	**1.44**	**0.41**	**28.71**
Brick/cement	56.59	28.59	0.26	0.04	0.01	27.67
CIS/wood	25.40	24.30	0.02	0.11	0.03	0.94
Mud/brick/wood	6.22	5.36	0.70	0.08	0.03	0.06
Straw/bamboo/leaves	11.57	9.91	0.16	1.18	0.29	0.04
Others	0.21	0.11	0.01	0.04	0.05	0.00

Source: Estimation from HIES Survey, 2010, BBS

The highlighted figures in the table above represent houses which could be considered as inadequate or deficient and could possibly be classified as "semi-pucca", "katcha" (durable and non-durable) and "jhuprie". Over 85% of all rural dwelling units would therefore fall under such deficient categories, which signifies the scale of housing need in rural areas either in the form of housing upgrades, improvements or new construction.

The Household Income and Expenditure Survey (HIES, 2010) undertaken by the BBS has analysed the data on type of dwelling units of rural households and size of land owned by them (see Table 10). The highest i.e. 41.89% of rural households lived in katcha durable housing structure in which the wall and roof are made of tin/CI sheet. The percentage of houses with katcha non-durable materials accounts for 34.18% where roof are made of CI sheet/wood and wall is made of non-durable material like jute stalks/straw etc. The poorest lived in jhuprie made of temporary materials like sack, polythene, straw etc.

Table 10: Type of Dwelling Unit and Size of Land Owned in Rural Areas, 2010						
Size of Land (Acre)	**Total (%)**	**Pucca (%)**	**Semi-Pucca (%)**	**Katcha-Durable (%)**	**Katcha / Non-durable (%)**	**Jhuprie/Katcha-Temporary (%)**
TOTAL	100	3.65	10.80	41.89	34.18	9.47
LANDLESS	4.59	0.11	0.38	1.28	1.91	0.90
0.01-0.49	60.50	1.59	4.55	25.38	22.76	6.22
0.50-0.99	11.62	0.42	1.25	5.56	3.48	0.91
1.00-2.49	14.60	0.80	2.59	6.39	3.82	1.01
2.50-7.49	7.59	0.60	1.76	2.92	1.95	0.36
7.50+	1.11	0.13	0.29	0.36	0.26	0.07

Source: HIES Survey, 2010, BBS

In the urban areas, housing deficit grew from 1.13 million units in 2001 to 4.6 million units in 2010. This deficit is projected to reach 8.5 million units in 2021 (See Table 11).

Table 11: Urban Housing Deficit		
Year	**Housing Deficit in urban areas (Million)**	**Total Urban Population (Million)**
1991	0.95 million units	20.87
2001	1.13 million units	28.81
2010	4.6 million units	43.43
2021	8.5 million deficit (projected)	60.00

Source: HIES, 2010; BBS, 2001; National Housing Authority, 2005, Planning Commission

Percentage distribution of urban households in terms of structure type is shown in Table 12.

Table 12: Percent of Urban Households by Structure Type		
Type of Structure	**2001**	**2010**
Jhuprie	7.58	1.56
Kutcha	47.15	41.85
Semi pucca	23.26	28.92
Pucca	22.01	27.67
Total	100	100

Source: 2010: Estimation from HIES Survey, 2010, BBS.

Nearly 44% of the urban households live in purely temporary structures while 29% live in semi-permanent structures. The overwhelming majority live in poor quality houses and only 28% of urban households live in pucca structures. So, in terms of both quantity (housing deficit) and quality, urban housing presents a major policy challenge for Bangladesh.

In urban areas, approximately 35% of the low-income housing units are in slums: informal settlements that include both private rental and private ownership housing, built on either privately owned land or illegally occupied public land. Other categories of low-income housing include pavement dwellers and government-provided squatter resettlement camps - plots of land with basic services that are provided on a leasehold basis. Overcrowding has increased at these settlements due to an influx of rural migrants to work in the expanding garment industry. E.g. 89% of poor households in Dhaka live in one-roomed homes where the floor area per person is as small as 1.2 Sq.m. Slums are usually vulnerable to floods as they are located in low-lying areas near rivers or on stilts over drainage channels.

Both Dhaka and Chittagong suffer from acute shortages in housing stock. Over 3 million people in Dhaka are estimated to live in slums, and over a million in Chittagong. 60% of housing in Dhaka is classified as informal or illegal, and therefore ineligible for government and donor sponsored funding for home improvement and retrofitting. This is mainly because the current building standards are not affordable for majority of urban residents.

Sanitation: Most urban residents in Bangladesh (including Dhaka and Chittagong) do not have a connection to a public sewerage system. The simple latrine connected to septic tank system is the most widely used form of sanitation. However, the use of sanitary toilet facilities in urban areas has increased quite significantly during the last three decades, from 32.4% of urban households using sanitary toilet in 1981 to 76.12% in 2010.

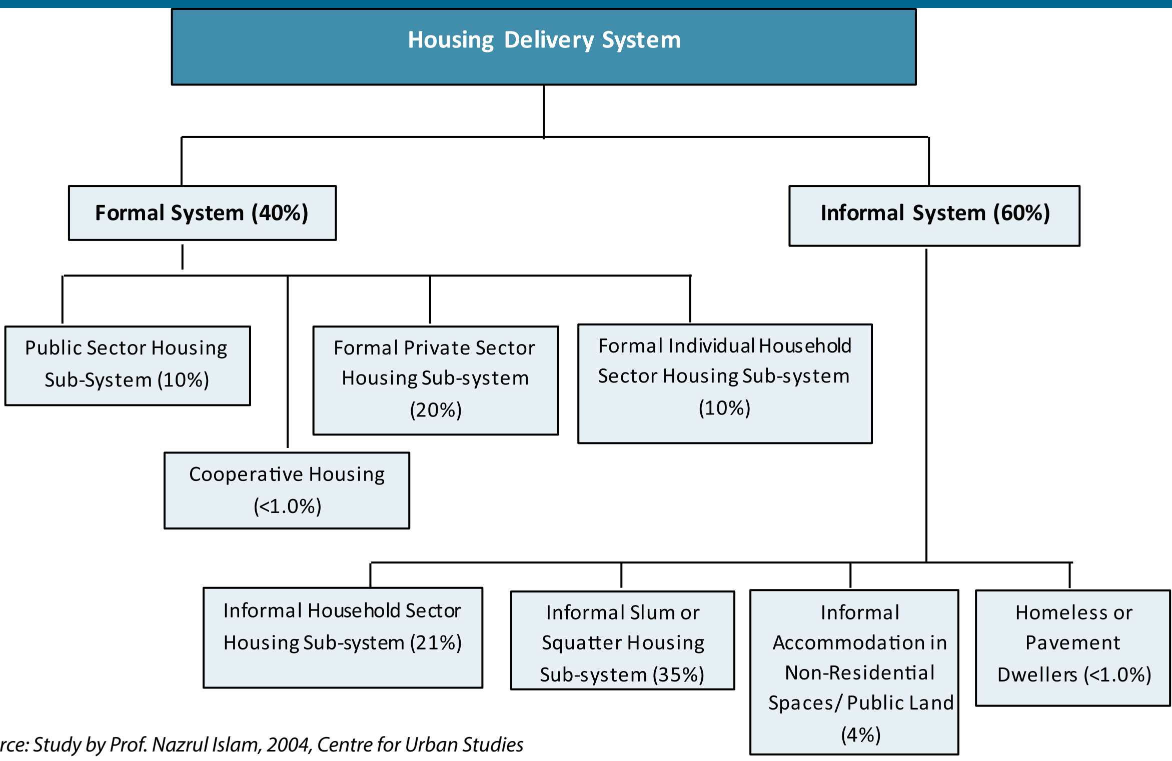
2.3 Housing Supply from Developers / Public Sector / Individuals

The urban housing delivery system consists of mainly two groups - the formal sector and the informal sector. An array of subsystems together makeup the delivery system:

Public Housing Subsystem: In urban areas the public sector has probably contributed directly and indirectly to more than 10% of all urban housing activity during the last 40 years. The Public Works Department under the Ministry of Housing and Public Works (MHPW) supplies rental housing to government employees. This is in the form of readymade apartments, independent houses, or duplex housing units. The housing is categorized by salary grades and supply is small compared to the demand. A lot of prime urban land is taken up by the government for its staff housing throughout the country.

The former Housing and Settlements Directorate (HSD) and now National Housing Authority (NHA) in the past supplied various types of housing to low and middle income households such as refugees, squatters and general public. Activities included site and services schemes, slum upgrading, resettlement, infrastructure improvement, and supply of core houses and flats. After construction, NHA and other development authorities transfer the leasehold rights to the beneficiaries. The local development authorities in Dhaka (Rajuk), Chittagong (CDA), Khulna (KDA) and Rajshahi (RDA) supply serviced plots among city dwellers, which although subsidized, can be afforded only by middle and high income groups.

Figure 5: Housing Delivery System in Dhaka City (Rough Estimates)



Source: Study by Prof. Nazrul Islam, 2004, Centre for Urban Studies

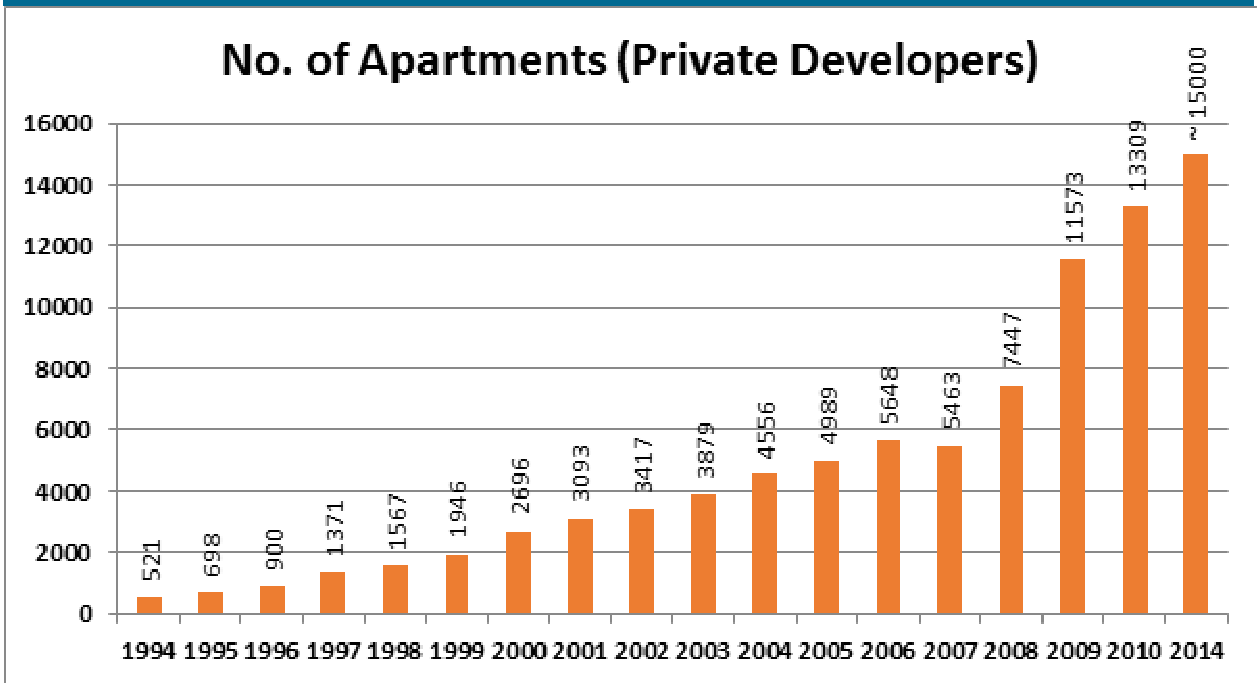
Cooperative Housing Subsystem: These are associations of groups registered under the Cooperatives Act, 1985, for those who wish to invest in land and housing. Cooperatives are usually formed by a group of people with similar economic and occupation status. Housing cooperatives normally buy land in urban fringe areas where large tracts of undeveloped land are available at low cost. In Bangladesh, cooperative housing has not succeeded as they did not receive any support in the form of funds for land and infrastructure development.

Slum and Squatter Housing Subsystem: Slums are created by individuals and owners of private land to supply low cost rental accommodations to the urban poor. With growth in informal and unorganised sector activity, the business of slum housing is thriving. Squatting occurs on public or semi-public land by very poor migrants. Squatters typically settle on road and railway sides, open spaces, vacant plots, embankments etc. Services are non-existent, though in a few big settlements common services are provided by NGOs and Pourashavas.

Private Formal Subsystem: This includes middle and high income group housing (mostly apartments), led by private developer initiatives mainly in Dhaka and metropolitan cities. In Dhaka there are about 1000+ companies registered under REHAB which have built about 0.15 million units till date. There is a growing demand for such housing and the range of type, size and price is quite varied depending upon the location and price of land. Often these residential projects are undertaken in joint venture with private land-owners.

Private Informal Subsystem: This is a process by which individuals construct their own houses through procurement of land. Land is getting fragmented to meet the demand for housing in Dhaka and other cities. A lot of informal housing development can be seen by way of extension, redevelopment and conversion of old private houses into apartments.

Figure 6: Annual Supply of Apartments by Private Developers



Source: SHELTECH 2011; SERAJ, 2012

The formal private sector has become visible recently but its presence is mostly limited to Dhaka and Chittagong. Real estate business took off in Bangladesh in 1970 with only five registered firms and by 1988 there were 42 developers in business. At present, more than 1500 real estate firms/companies are active with 1081 of them registered with REHAB. Over the past four decades, private developers have supplied approximately 150,000 apartments (see chart above) and they will add another 50,000 units in the next three years. The market though is highly segmented, based on location, price of land and size of apartments.

REHAB claims that currently about 25,000 units are supplied each year of which the private developers (members) are supplying around 15,000 units. Among REHAB members, the top 20 companies hold 80% of the market share. The rest of the units are built by individual land owners and independent developers who are not members of REHAB.

2.4 Real Estate Market and Price Trends (Land & Apartments in Dhaka)

The real estate sector in Bangladesh is still recovering from the setback it suffered in 2011-2012. Private developers have traditionally been catering to the upper and upper-middle income segments while the middle and low income households are still largely untapped. The development of affordable housing is in a very nascent stage. The sector had been performing well from 2004 to 2009 but the prices started to increase sharply in 2009-10 due to influx of huge undisclosed monies, mostly from the capital market. After the stock market crash in 2010-11, the sector was severely impacted in terms of expansion, new development and turnover. The stagnant situation is continuing for over four years now. While genuine demand is still high, the volatile political situation has reduced the investment appetite in the sector. Also, the prevailing price levels, which have seen a 20-25% correction in recent years, are considered high in terms of affordability of middle income households. Interest rates on housing loans have come down significantly in 2015 and the reduced prices coupled with lower interest rates have revived buyer interest to some extent. However, in anticipation of further price correction most customers are still holding back.

In case of joint venture projects, developers are either renegotiating the terms of under construction projects or offering lower consideration to the landowners for new projects in their quest to reduce the price of the apartments. But landowners are not agreeing to such proposals, owing to which ongoing projects are either stuck or have slowed down and the number of new projects has vastly reduced. The developers are mostly involved in completing and selling unsold apartments of the projects they have signed earlier. They are facing difficulty in matching the prevailing market rate compared to the high consideration they have paid or committed to the landowners to entice them to these projects.

Trends in recent housing prices can be observed in the context of Dhaka and its suburbs where market data is more easily accessible and price trends in the capital city are generally advance indicators of trends across Bangladesh. In the decade of 2000-2010, the percentage increase in per square feet price of apartments in Dhaka was exponentially high, compared to the price increase in the earlier decade of 1990-2000 (See Table 13).

Table 13: Average Apartment Prices (BDT/Sq. ft.) & % Increase During Past 2 Decades

AREA	1990	1995	2000	2005	2010	1990-2000	2000-2010
DHANMONDI	2,150	2,200	2,400	3,300	14,000	12%	483%
GULSHAN	2,115	2,080	2,450	4,500	14,000	16%	471%
BANANI	1,750	1,950	2,200	3,100	12,500	26%	468%
BARIDHARA	1,850	1,950	2,150	4,000	20,000	16%	830%
LALMATIA	1,800	1,950	2,400	3,400	8,500	33%	254%
MIRPUR	1,250	1,300	1,500	2,500	5,500	20%	267%
UTTARA	1,650	1,750	2,000	2,700	5,300	21%	165%
SHANTINAGAR	1,850	1,900	2,200	2,700	5,000	19%	127%
SIDDESWARI	1,450	1,800	2,250	2,750	5,500	55%	144%
MALIBAG	1,600	1,850	2,250	2,500	7,000	41%	211%
MOHAMMADPUR	1,450	1,600	1,800	3,500	4,500	24%	150%
SHAMOLI	1,350	1,500	1,600	2,100	7,000	19%	338%
KOLABAGAN	1,800	2,000	2,250	2,100	5,500	25%	144%
MONIPURIPARA	1,850	2,000	2,250	3,300	5,500	22%	144%
GREEN ROAD	1,600	1,700	2,000	2,500	5,500	25%	175%
ELEPHANT ROAD	1,600	1,800	2,200	2,500	5,500	38%	150%
SEGUN BAGICHA	1,450	1,550	1,900	2,500	6,000	31%	216%

Source: REHAB, 2013

Correspondingly, during 2000-2010, the land prices increased very steeply across Dhaka city. Compared to the increase in previous decade, the prices almost doubled, and in some areas the prices went up by three to ten times. There is no direct government control over the increase in land prices within the city. This sharp increase has had a direct bearing on prices of finished apartments and consequently on the purchasing power of potential buyers.

Note that in South Asia, including in Bangladesh, land is measured in units known as 'katha'. 1 katha is approximately equal to 720 square feet (sq. ft.) in the Bangladeshi real estate market. However, in other South Asian countries, a katha may denote a different size of land.

Table 14: Average Land Prices (BDT/Katha) & % Increase During Past 2 Decades

AREA	1975	1990	2000	2010	1990-2000	2000-2010
BARIDHARA	25,000	600,000	5,000,000	40,000,000	733%	700%
GULSHAN	25,000	600,000	2,200,000	25,000,000	267%	1036%
BANANI	25,000	600,000	2,000,000	15,000,000	233%	650%
MAHAKHALI	25,000	600,000	1,800,000	12,000,000	200%	567%
DHANMONDI	25,000	600,000	2,200,000	20,000,000	267%	809%
LALMATIA	20,000	600,000	1,800,000	15,000,000	200%	733%
AZIMPUR	175,000	600,000	1,600,000	5,500,000	167%	244%
MOHAMMADPUR	25,000	500,000	1,200,000	7,000,000	140%	483%
SHANTINAGAR	20,000	500,000	1,500,000	10,000,000	200%	567%
SHAMOLI	17,500	300,000	1,000,000	4,500,000	233%	350%
UTTARA	20,000	300,000	1,000,000	7,500,000	233%	650%
CANTONMENT	20,000	400,000	1,000,000	7,500,000	150%	650%
KOMLAPUR	17,500	400,000	800,000	4,000,000	100%	400%
GENDARIA	10,000	400,000	700,000	3,500,000	75%	400%
BASABO	2,000	300,000	800,000	3,500,000	167%	338%
KOLLANPUR	17,500	300,000	800,000	3,200,000	167%	300%
MIRPUR	10,000	200,000	700,000	4,000,000	250%	471%
BADDA	4,000	200,000	600,000	3,000,000	200%	400%
GORAN	4,000	200,000	600,000	2,600,000	200%	333%
DEMRA	4,000	200,000	600,000	18,000,000	200%	2900%
MOTIJHEEL	50,000	1,200,000	3,500,000	20,000,000	192%	471%
KAWRAN BAZAR	41,500	1,000,000	2,500,000	15,000,000	150%	500%

Source: REHAB, 2013

As a result of the depressed property market from 2012 onwards, realtors were compelled to slash apartment prices during 2013-2015. According to a study by Sheltech, a leading private developer, apartment prices in Dhaka are nearly 25% cheaper than three years ago, when they were at their peak. In 2012, each square foot of a flat in Dhaka sold for BDT 12,273 (USD 155) on average. The average prices came down to BDT 11,136 (USD 141) in 2013, BDT 10,182 (USD 129) in 2014 and BDT 9,091 (USD 115) in 2015. However even such reduced prices have not been sufficient to reinvigorate the market.

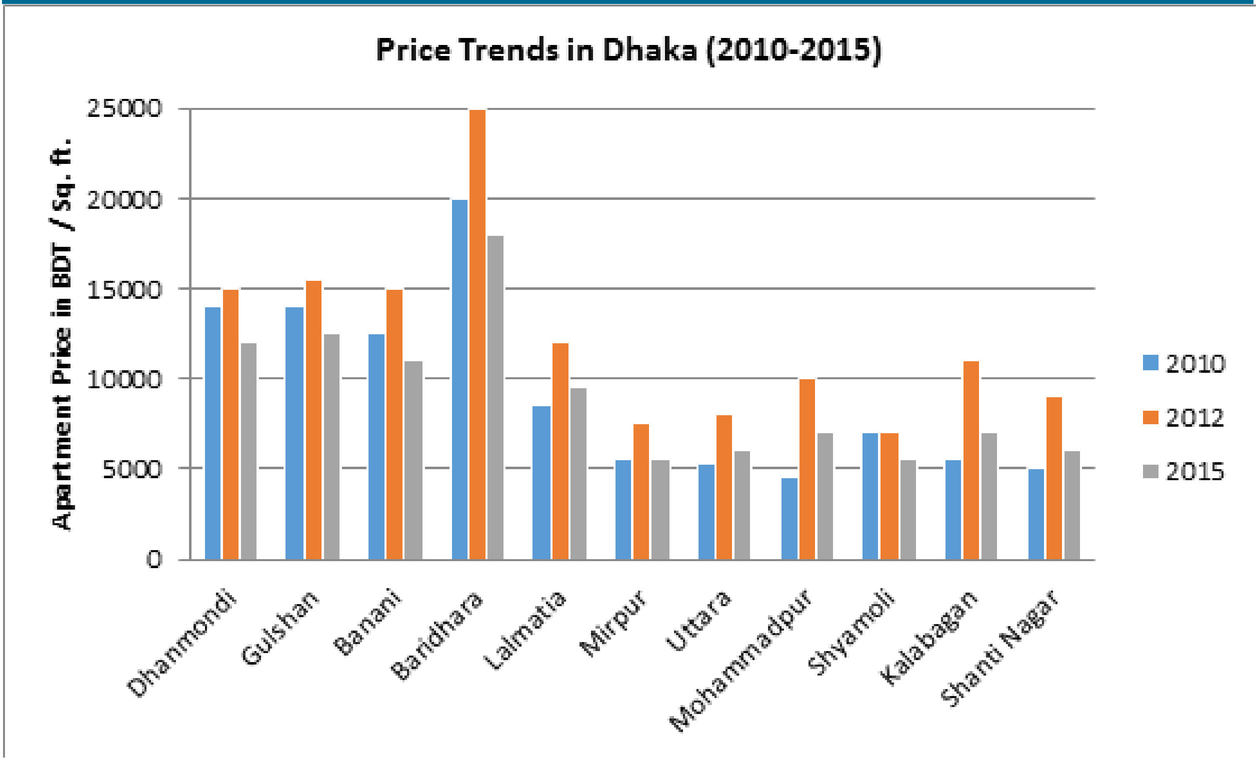
Sheltech, which conducted the study in 2015, after obtaining data from leading real estate companies, found that Dhaka has an unsold inventory of around 20,000 flats. The highest numbers of unsold flats are in Uttara, followed by Mirpur. Banani saw the highest fall in prices over the previous year (2014), by 15%, followed by Uttara and Shantinagar at 14%, and Mohammadpur and Kalabagan at 12.5%. The table and chart shown below illustrate the downward trend in apartment prices in Dhaka across different suburbs and it is evident that in most residential areas the 2015 prices are closer to the price level in 2010.

Table 15: Apartment Prices (BDT/Sq. ft.) Dhaka – 2010-15

RESIDENTIAL AREA IN DHAKA	2010	2012	2015
DHANMONDI	14,000	15,000	12,000
GULSHAN	14,000	15,500	12,500
BANANI	12,500	15,000	11,000
BARIDHARA	20,000	25,000	18,000
LALMATIA	8,500	12,000	9,500
MIRPUR	5,500	7,500	5,500
UTTARA	5,300	8,000	6,000
MOHAMMADPUR	4,500	10,000	7,000
SHYAMOLI	7,000	7,000	5,500
KALABAGAN	5,500	11,000	7,000
SHANTI NAGAR	5,000	9,000	6,000

Source: REHAB, 2013; SHELTECH STUDY, 2015

Figure 7: Apartment Price Trend in Dhaka City during 2010-2015



Source: REHAB, 2013; SHELTECH STUDY, 2015

At present, Mirpur and Shyamoli are the most affordable locations with an average price of BDT 5,500 (USD 70) per sq ft. Baridhara is at the other end of the spectrum, the average price being BDT 18,000 (USD 228) per sq ft. Land prices in Dhaka also fell on an average by 14% year-on-year, according to the study. The average land price in 2015 was at BDT 19.4 m (USD 245,570) per katha, down from BDT 22.6 m (USD 286,076) in 2014. Baridhara has the highest land price of around BDT 45 m (USD 569,620) per katha.

The recent fall in apartment prices has significantly eroded the profit margins of developers in their under construction residential projects. According to REHAB, the sales figures fell by as much as 60% in 2013 and the sluggish sales trend continues unabated till date. These developments have prompted some developers to move towards the mid-market segment by reducing apartment sizes and opting for lesser standards in finishing, fittings and fixtures so that they can bring down the prices of the finished unit to make it more affordable. Nearly half of the finished apartments in Dhaka are in the range of 1,000 sq ft. to 1,600 sq ft., with 2-3 bedrooms, which seems to be the preferred size for most buyer households. On the other hand, only 2% of the apartments are less than 700 sq ft., which indicates that the real estate sector has not quite been able to address the huge unmet demand for affordable housing. Although the developers are focusing more on economies of scale, they find it challenging to build smaller sized low-cost apartments in the capital due to the exponential rise in land prices and the steady increase in the cost of construction materials.

2.5 Construction Costs in Dhaka and Other Metropolitan Cities

The Bangladesh Bureau of Statistics (BBS) in their annual survey for 2014 (BBS Statistical Pocketbook) has assessed the increase in average building construction costs in Bangladesh over the past 12 years by indexing it to the cost in 1998-99 (base year). The components of building material cost, transport cost and labour cost add up to the general index which has seen an increase of nearly 250% over the past 10 years (See Table 16).

Table 16: Building Construction Cost in Bangladesh Base 1998-99=100

Year	General	Building Material	Transport	Labour
2002-03	114.27	113.36	116.94	116.94
2003-04	119.61	118.63	121.45	122.73
2004-05	125.18	124.60	123.95	127.25
2005-06	129.41	128.64	132.29	132.60
2006-07	138.74	136.93	148.04	144.23
2007-08	163.89	159.46	202.69	174.36
2008-09	214.06	201.58	488.29	221.46
2009-10	222.30	207.11	566.89	241.61
2010-11	256.60	230.46	843.83	282.59
2011-12	321.01	268.46	1468.70	378.69
2012-13	362.62	299.03	1639.04	439.67
2013-14	427.61	360.87	1737.52	512.85

Source: BBS Pocketbook 2014

During the five-year period between 2008 and 2013, the prices of construction materials have risen in the range of 60% - 80% on an average across Dhaka and the major metropolitan cities in Bangladesh (See Table 17 below).

Table 17: Construction Material Price Index (General Index) Base 1998-99=100

CITY	2008-09	2009-10	2010-11	2011-12	2012-13
DHAKA	191.01	204.26	233.49	308.67	344.66
BARISAL	238.79	259.39	280.48	341.81	380.05
CHITTAGONG	206.34	210.64	249.73	331.81	375.19
KHULNA	217.62	209.55	251.99	321.88	365.70
RAJSHAHI	220.89	236.64	259.61	315.38	358.53
SYLHET	209.68	223.20	244.18	307.19	351.64
BANGLADESH	214.06	223.88	253.25	321.01	362.62

Source: BBS Pocketbook 2014

In the case of self-construction of an independent house undertaken by individual landowners, the average construction cost (structure only) for a brick and concrete pucca house is currently in the range of BDT 1200 – 1500 (USD 15 – 19) per sq. ft. The construction of a typical low cost core house admeasuring 400 sq. ft. (comprising two rooms, kitchen, toilet and bath) would cost approximately BDT 0.6 million (about USD 7,500).

CHAPTER 3

DEMAND FOR LOW AND MIDDLE INCOME HOUSING FINANCE

3.1 Household Income and Expenditure Pattern

The demand for housing finance among low and middle income households is directly linked to their "affordability" in terms of disposable income available for payment of monthly instalments and surplus assets which can be liquidated to meet the down-payment costs. The level of household income effectively determines the borrowing household's capacity to pay and therefore has a direct bearing on how much housing finance they can afford.The table below provides monthly income per household, number of members / earners per household and monthly per capita income. Average monthly income per household at current prices was estimated at BDT 11,479 (USD 145) at the national level in 2010 with per capita monthly income being BDT 2,553 (USD 32). The 2016 estimates in the table have been derived assuming the same income growth as that of 2010 over the 2005 survey data. In 2016, the average monthly household income for rural households is estimated at BDT 15,347 (USD 194) and for urban households at BDT 26,360 (USD 334).

Table 18: No. of Members, Earners, Household Income, Income per Member and Earner

Survey Year and Residence	Number of Member Per Household	Number of Earner Per Household	Gross Monthly Income Per Household (BDT)	Monthly Income Per Member (BDT)	Monthly Income Per Earner (BDT)
National					
2016 (ESTIMATE)			18,366		
2010	4.50	1.31	11,479	2,553	8,795
2005	4.85	1.40	7,203	1,485	5,145
2000	5.18	1.45	5,842	1,128	4,029
Rural					
2016 (ESTIMATE)			15,437		
2010	4.53	1.27	9,648	2,130	7,592
2005	4.89	1.37	6,095	1,246	4,449
2000	5.19	1.43	4,816	9,28	3,368
Urban					
2016 (ESTIMATE)			26,360		
2010	4.41	1.40	16,475	3,740	11778
2005	4.72	1.50	10,463	2,217	6975
2000	5.13	1.54	9,878	1,926	6414

Source: Household Income and Expenditure Survey, 2010, BBS

The Household Income and Expenditure Survey (2010) conducted by the Bangladesh Bureau of Statistics (BBS) has estimated the total monthly expenditure and consumption expenditure per household by place of residence (urban and rural) and also by divisions. At the national level, average monthly expenditure per household was estimated at BDT 11,200 (USD 142) at current prices in 2010. It was BDT 9,612 (USD 122) in rural areas and BDT 15,531 (USD 197) in urban areas. The average monthly consumption expenditure in 2010 stood at 98% of the total household expenditure at the national level. The estimates for 2016 consumption expenditures have been derived assuming a 50% hike in the consumption expenditure level of 2010 (factoring inflation trends over the past 6 years). The average monthly consumption expenditure is estimated at BDT 14,154 (USD 179) for rural households and BDT 22,914 (USD 290) for urban households.

The housing and house rent expenditure is the average monthly amount spent towards housing costs including electricity, water, maintenance, upkeep and house rent in case of tenant households. The figure as a percentage of consumption expenditure (see table below) appears to be low as it is an average of both owner and tenant households.

Table 19: Average Total Monthly and Consumption Expenditure (BDT) per Household

Year	Residence	Avg. Total Exp. p.m.	Avg. Cons. Exp. p.m.	Housing / House Rent as % of Cons. Exp.	Housing Exp. Estimate
		(1)	(2)	(3)	(2) x (3)
2016 ESTIMATE	National		16,505	10.00%	1,650
	Rural		14,154	8.00%	1,132
	Urban		22,914	15.00%	3,437
2010	National	11,200	11,003	9.95%	1,095
	Rural	9,612	9,436	7.29%	688
	Urban	15,531	15,276	14.41%	2,201
2005	National	6,134	5,964	12.25%	731
	Rural	5,319	5,165	9.77%	505
	Urban	8,533	8,315	16.78%	1,395

Source: Household Income and Expenditure Survey, 2010, BBS

The average monthly consumption expenditure (2010) by Divisions is given in Table 20 below. This includes the 2016 estimates derived assuming a 50% increase over 2010 figures.

Table 20: Monthly Consumption Expenditure (BDT) by Divisions - 2010 and 2016 Estimate

DIVISION	Consumption Exp. 2010	Cons. Exp. 2016 (ESTIMATE)
TOTAL (NATIONAL)	11,003	16,505
BARISHAL DIVISION	9,826	14,739
CHITTAGONG DIVISION	14,360	21,540
DHAKA DIVISION	11,643	17,465
KHULNA DIVISION	9,304	13,956
RAJSHAHI DIVISION	9,254	13,881
RANGPUR DIVISION	8,298	12,447
SYLHET DIVISION	12,003	18,005

Source: Household Income and Expenditure Survey, 2010, BBS

The highest average monthly consumption expenditure in 2010 was recorded in Chittagong Division at BDT 14,360 (USD 182) [2016 estimate BDT 21,540 (USD 273)] followed by Sylhet Division at BDT 12,003 (USD 152) [2016 estimate BDT 18,005 (USD 228)] and Dhaka Division at BDT 11,643 (USD 147) [2016 estimate BDT 17,465 (USD 221)].

3.2 Income distribution by Deciles and Affordability

Table 21 below shows the pattern of distribution of income from percentage share of income of households. It is evident that the gap between the poorest of the poor (bottom 5%) and the richest of the rich (top 5%) is extremely high. The income accruing to top 5% of the household was 24.61%, whereas, the same was 0.78% for the bottom 5% households. The households belonging to Deciles 1-5 share only 20.33% of total income, although they comprise 50% of the population. The food expenditure as percentage of total expenditure is more than 60% for Deciles 1-6 which indicates their diminished capacity to service a housing loan from formal sources. The low and middle income households in rural as well as urban areas who can afford formal housing finance would possibly belong to Deciles 7-9.

Table 21: Percentage share of Income of Households by Decile Groups (2010)

Household Income Group	National Income Distribution	Food Exp. (% of total exp.)	Rural Income Distribution	Food Exp. (% of total exp.)	Urban Income Distribution	Food Exp. (% of total exp.)
National	100.0	54.8	100.0	58.7	100.0	48.2
Lower 5%	0.78	72.3	0.88	71.4	0.76	81.8
Decile-1	2.00	71.2	2.23	70.8	1.98	75.4
Decile-2	3.22	69.0	3.53	68.3	3.09	73.4
Decile-3	4.10	67.1	4.49	66.5	3.95	70.8
Decile-4	5.00	65.0	5.43	64.9	5.01	66.0
Decile-5	6.01	63.3	6.43	62.6	6.31	66.1
Decile-6	7.32	61.6	7.65	61.7	7.64	61.2
Decile-7	9.06	59.3	9.31	58.4	9.30	61.3
Decile-8	11.50	56.4	11.50	57.2	11.87	54.9
Decile-9	15.94	52.1	15.54	53.6	16.08	50.2
Decile-10	35.85	41.0	33.89	46.8	34.77	37.4
Top 5%	24.61	37.8	22.93	44.8	23.39	17.5

Source: Household Income and Expenditure Survey, 2010, BBS

In order to assess the affordability for formal housing finance it is important to determine the average household income against each decile in rural and urban areas. Based on the average household monthly income (2010) for urban and rural areas and the respective income distribution, the average incomes against each decile have been derived in the Table 22 below and correspondingly the 2016 income values have also been estimated.

Table 22: Monthly Income in BDT (Rural and Urban) by Decile Groups (2010 and 2016 estimate)

Decile	% of Total Popu-lation	Rural Income Distribution 2010	Derived Rural Income 2010	Estimated Rural Income 2016	Urban Income Distribution 2010	Derived Urban Income 2010	Estimated Urban Income 2016
Total/Avg	100	100	9,648	15,437	100	16,475	26,360
1	10	2.23	2,152	3,442	1.98	3,262	5,219
2	10	3.53	3,406	5,449	3.09	5,091	8,145
3	10	4.49	4,332	6,931	3.95	6,508	10,412
4	10	5.43	5,239	8,382	5.01	8,254	13,206
5	10	6.43	6,204	9,926	6.31	10,396	16,633
6	10	7.65	7,381	11,809	7.64	12,587	20,139
7	10	9.31	8,982	***14,372***	9.3	15,322	***24,515***
8	***10***	***11.5***	***11,095***	***17,752***	***11.87***	***19,556***	***31,289***
9	***10***	***15.54***	***14,993***	***23,989***	***16.08***	***26,492***	***42,387***
9.5	***5***	***10.96***	***21,148***	***33,837***	***11.38***	***37,497***	***59,995***
10	5	22.93	44,246	70,793	23.39	77,070	123,312

Source: Author's estimates based on HIES, 2010 data

Considering the 2016 estimates for household income the decile groups can be narrowed down to the following subset (which represent the low and middle income segments) based on their affordability for formal housing finance in both urban and rural geographies.

Table 23: Subset of Monthly Income Deciles (Rural and Urban) for access to formal housing finance

Decile Subset for Accessing Formal Housing Finance	Income Range – Rural (BDT)	Income Range – Urban (BDT)
DECILE 8	14,372–17,752	24,515 – 31,289
DECILE 9	17,752–23,989	31,290 – 42,387
DECILE 9.5 (i.e. DECILE 10)	23,989–33,837	42,387 – 59,995

Source: Author's estimates based on HIES, 2010 data

3.3 Housing Finance Demand Estimates for Dhaka, Metros and Cities (Formal – Urban)

The urban population of Bangladesh is growing at 4.4%, well above the national population growth rate of 2.6% per annum. Currently 34% of the population lives in urban areas, and it is projected to reach 112 million or 55% of total population by 2050. The cities and towns, numbering more than 525, suffer from acute problems of deteriorating infrastructure in the form of poor housing. Estimates of annual requirements for housing in urban areas vary from 300,000 to 550,000 units. Bangladesh's urban life is clearly dominated by lower-middle and low-income population and majority of them are employed in the informal sector.

In the current housing market, it is considered impossible for these low-income segments to own affordable houses. Hence, the only accommodation choice left to them is to rent houses and apartments that are supplied by private individuals and landowners. Table 24 below illustrates the movement of house rent indices over the past 14 years in the major urban centres of Dhaka, Chittagong, Khulna and Rajshahi. It can be observed that in the past four years i.e. from 2010-11 to 2013-14, the rents have gone up steeply, by as much as 60% in Dhaka and by around 50% in the three metropolitan cities.

Table 24: Rent Indices for Private Residential Houses in Urban Centres (Base: 1973-74=100)					
Year	**Dhaka**	**Chittagong**	**Khulna**	**Rajshahi**	**Bangladesh**
2000-01	1,683	1,160	783	1,591	1,304
2001-02	1,724	1,175	808	1,614	1,330
2002-03	1,879	1,225	827	1,692	1,406
2003-04	1,961	1,260	839	1,716	1,444
2004-05	2,031	1,307	873	1,814	1,506
2005-06	2,195	1,334	902	1,903	1,584
2006-07	2,301	1,389	929	1,963	1,646
2007-08	2,403	1,558	986	2,035	1,746
2008-09	2,653.19	1,643.54	1,039.79	2,143.25	1,869.95
2009-10	2,830.23	1,687.09	1,072.17	2,195.50	1,946.26
2010-11	3,002.65	1,801.28	1,156.84	2,360.20	2,080.25
2011-12	3,770.99	2,225.97	1,336.58	2,932.93	2,566.62
2012-13	4,398.80	2,600.44	1,508.84	3,312.33	2,955.02
2013-14	4,843.69	2,738.81	1,620.07	3,539.21	3,185.44

Source: BBS Pocketbook 2014

In the six city corporations, an estimated one million plus households live in 9,000 plus densely populated slum settlements (see Table 25 below). 87% of the slums are on private land but only 14.5% of them have any land tenure security or rights. As such, almost all urban low-income households residing in slums are excluded from mainstream sources of housing finance. The "owner" households, who can evidence tenure, might be considered eligible for housing microfinance provided the lenders are comfortable with their income.

Table 25: Population, Land Ownership and Tenure in Six City Corporations	
Slum Population	
2001 Population six City Corporations	11,210,617
2005 Population six City Corporations	15,447,046
2005 Slum Population	5,438,165
2005 Slum Population as % of total pop	35.2%
Number of slum clusters	9,048
Number of slum households	1,043,329
Slum land ownership	
Slums on government land	9.2%
Slums on private land	88.6%
Slums on "other" land	2.2%
Slum population by ownership	
Population on government land	27.1%
Population on private land	66.7%
Population on "other" land	6.2%
Tenure	
Households claiming ownership	14.5%
Households paying rent	73.8%
Household living rent free	11.7%

Source: Strategy for Improvement of Tenure Security of Poor in UPPR Towns in Bangladesh, 2009 (UNDP)

In the above context, it can be inferred that while a large proportion of tenant households would have ambitions to move into their own homes, only some of them would have the requisite means (income and assets) to afford a housing loan. Moreover, the large tenant population residing in slum settlements would not be able to avail housing loans for acquiring or upgrading their rented properties, owing to lack of tenure. Purchase in the formal property market is also ruled out due to lack of supply of affordable housing.

Therefore, the housing finance demand for low and middle income households residing in urban areas from formal institutional sources (including Banks, HFCs, NBFCs etc.) can be broadly determined through one of the following two different approaches:

(i) a "supply side" approach would entail estimating the supply of new urban housing and apartments from public sector and private developers over, say, next 3-5 years and assessing the housing finance requirements for purchase of new properties and making suitable assumptions for costs of upgradation and improvement of existing houses;

(ii) an "income – affordability" method in which the demand is derived on the basis of the average disposable household income available at each income decile; the quantum of borrowing for housing needs is a factor of affordability in terms of repayment capacity, while assuming certain minimum loan parameters applied by the lenders.

Given the small capacity and limited presence of the formal real estate sector in Bangladesh, which caters mainly to the upper income segments with virtually non-existent supply of affordable housing, adopting a "supply side" approach is likely to provide an unreliable estimate of housing finance demand in urban areas. Hence the "income – affordability" method has been used for the demand assessment as can be seen in the Table 26 below.

Table 26: Demand estimate for low and middle income housing finance (Formal Urban)

Income Decile	No. of Urban H/H (per annum)	Avg. 2016 Monthly Income (BDT)	Debt to Income (%)	Term (Years)	Interest Rate (% p.a.)	Average Housing Loan Eligibility (BDT)	Housing Finance Demand p.a. (BDT Billion)
DECILE 7	30,964	24,515	25%	10	13%	4,10,466	12.71
DECILE 8	30,964	31,289	30%	12	12%	7,14,684	22.13
DECILE 9	30,964	42,387	30%	15	11%	11,18,784	34.64
DECILE 9.5	15,482	59,995	35%	20	10%	21,75,949	33.69
TOTAL	**108,374**						**103.17**

Source: Author's estimates based on HIES, 2010 data

The above table depicts the annualised housing finance demand for low and middle income urban households (income deciles 7, 8, 9, 9.5) for the next four years i.e. FY2017 – FY2020. The average housing loan eligibility has been arrived at by assuming the typical terms (debt to income, repayment term and interest rates) offered by primary lenders in Bangladesh. The number of borrowing households has been conservatively estimated assuming that only 10% of all urban households in each decile will seek (or draw upon) a housing loan over the next four years (the table provides the no. of borrowing households per annum).

The projected housing finance demand for **urban low and middle income households** is BDT 103.17 billion (USD 1.31 billion) p.a. for the next four years, the cumulative demand estimate being BDT 412.68 billion (USD 5.22 billion, approximately 2.72% of 2015 GDP).

This figure has to be seen in the context of the total housing loan outstanding in Bangladesh which stood at BDT 489.9 billion (USD 6.2 billion) in June 2015. Further, it is important to note that this forecast pertains only to the urban low income and lower middle income segments which have largely been excluded by mainstream mortgage lenders. Therefore the derived figure reflects only additional demand for housing finance, over and above existing demand from higher income households (belonging to Decile 10).

Since this is a conservative estimate, the impact of inflation, rising population and growing urbanisation has not been taken into account. In any case, the urban housing shortage, current housing conditions, prospect of tenant households aspiring to become owners and the emergence of Dhaka and other metropolitan cities as rapidly growing economic centres would collectively imply that the assumption of only 10% of urban households (as prospective housing loan borrowers) spread over the next four years is much on the lower side. However, even this modest number would likely prove to be a huge stretch on the capacities of all primary lenders including banks, NBFCs and specialised FIs.

3.4 Housing Finance Demand Estimates for Semi-urban and Rural Centres (Formal – Rural)

The average household income in rural areas is significantly lower than in urban areas and so the affordability for housing finance is also diminished. An added challenge is the quality of title documents to the house property which may not be considered sound enough for security purpose owing to legal imperfections. Besides, rural houses may not have a ready resale market which adds to the discomfort of the lenders. The eligibility for a housing loan would hinge more on the assessed income of the applicant/s and the size of (agricultural) land owned by rural households directly impacts the stability of household income.

Table 27 below provides information on monthly household income, expenditure, family size and number of earners by size of own land in rural areas. The average income (in 2010) of the households owning land of 7.50 acres and above was BDT 29,673 (USD 376) which was 5.2 times higher than the average income of landless group. Average monthly income per household in rural areas increased with the increase in landholding. It can be observed that the largest percentage, 37.76%, owned a mere 0.05-0.49 acres, whereas 79.63% owned 0.01-1.49 acres. This suggests that typically farm sizes are very small in Bangladesh.

Table 27: Number of Earners, Monthly Income and Exp. in BDT (Rural) by Size of Owned Land

Size of Land Owned (Acre)	% of H/H	Family Size	Avg. No. of Earners	Avg. Income (2010)	Estimated Avg. Income (2016)	% of Income (Distribution)	Avg. Exp.
ALL GROUP	100.00	4.53	1.27	9,648	15,437	100.00	9,612
LANDLESS	4.59	3.83	1.31	5,713	9,141	2.72	6,507
0.01-0.04	22.74	4.09	1.16	5,973	9,557	14.08	6,735
0.05-0.49	37.76	4.53	1.26	8,602	***13,763***	33.67	9,010
0.50-1.49	19.13	4.69	1.27	10,785	***17,256***	21.39	10,518
1.50-2.49	7.09	4.88	1.34	13,198	***21,117***	9.69	12,424
2.50-7.49	7.59	5.37	1.50	19,147	***30,635***	15.06	16,035
7.50+	1.11	5.83	1.83	29,673	***47,477***	3.40	24,457

Source: Household Income and Expenditure Survey, 2010, BBS

On comparing the 2016 average income estimates in the table above with the rural income decile subset for accessing formal housing finance (refer Table 23), it can be concluded that only households with a minimum landholding of half an acre or more (i.e. higher income deciles) would have the requisite income affordability to service a housing loan. In order to have consistency, the same "income affordability" method can be adopted with slightly different assumptions to determine the rural housing finance demand (See Table 28 below).

Table 28: Demand estimate for low and middle income housing finance (Formal Rural)							
Income Decile	No. of Rural H/H (per annum)	Avg. 2016 Monthly Income (BDT)	Debt to Income (%)	Term (Years)	Interest Rate (% p.a.)	Average Housing Loan Eligibility (BDT)	Housing Finance Demand p.a. (BDT Billion)
DECILE 8	58,515	17,752	25%	10	12%	3,09,336	5.49
DECILE 9	58,515	23,989	30%	12	11%	5,74,098	13.77
DECILE 9.5	29,257	33,837	30%	15	10%	9,44,648	31.96
TOTAL	**1,46,287**						**51.23**

Source: Author's estimates based on HIES, 2010 data

In estimating the rural housing finance demand, the Decile 7 households have not been included as their income levels (average monthly income is about BDT 14,000) might be considered too low by the mainstream primary lenders. However, households in Deciles 5-7 should potentially qualify for housing microfinance loans offered by MFIs.

By applying similar assumptions (as in the case of urban housing finance demand) the total annual housing finance demand from **low and middle income rural households** (Deciles 8, 9, 9.5) is estimated at BDT 51.23 billion (USD 0.65 billion) and over the next four years (i.e. FY17 – FY20) the cumulative demand is likely to be BDT 204.91 billion (USD 2.6 billion). This figure is approximately 50% of the housing finance demand from urban areas. Since this is a conservative estimate, it is assumed that only 10% of rural households in each of the eligible deciles will seek or draw upon a housing loan over the next four years.

3.5 Demand Estimates for Housing Microfinance (HMF) - Urban and Rural

As described in Chapter I, access to the formal financial system in Bangladesh is limited mostly to upper-income groups. However, market outreach in housing finance can be stretched down the income scale through innovation and enabling regulation. But there would still be some income groups at the bottom of the scale for whom mortgages and new home purchases will remain unaffordable, even in developed markets. Microfinance institutions (MFIs) could target some of these clients for home improvement, incremental construction, and new construction housing loans. Among potential finance providers, MFIs have several comparative advantages in serving low-income clients, including prior experience and knowledge of their borrowers and access to their savings.

Some of the biggest MFIs in Bangladesh have made progressive forays into housing microfinance. In 1987, Grameen introduced its first housing loan following a devastating flood. Grameen Bank's housing portfolio exceeded BDT 0.2 billion in 2009-10, with 89% repayment rates, having cumulatively financed over 600,000 homes. Several other MFIs, such as BRAC, Proshika and ASA Bangladesh, have launched long- and short-term credit products for housing (both urban and rural), however with mixed success. Some of these products have been scaled down or even discontinued (e.g. Grameen and BRAC). Some of PKSF's partner MFIs have participated in the Grihayan Tahibil scheme of Bangladesh Bank but PKSF itself does not have a housing product or any special funding arrangement. PKSF is however making a fresh foray in 2016 by accessing a World Bank credit line for housing microfinance under the Low Income Community Housing Support Project (LICHSP).

Housing microfinance loans are usually made on the basis of established membership in MFIs lending program and a sound track record of repayment of previous loans, instead of collateral. Group pressure and mutual support (joint liability) are used as guarantees for loan repayment. The only recourse in the case of default is the persuasive and quasi legal means to recover the loan and the possible threat of future exclusion of the borrower from the credit program. The interest rates for housing microfinance are often lower than income-generating loans and are internally cross-subsidized within the MFI. This is done for the following reasons: (a) housing is considered a social good and a basic need worthy of subsidization; and (b) without subsidy the poor would not be able to afford a housing loan.

Housing loan products offered by MFIs from their own funding sources typically carried flat interest rates ranging from 10% – 15% and the effective annualised rates are 15% - 25%. These loans had relatively simple application and approval procedures and some products came bundled with construction technical assistance. As these products evolved, a few MFIs tested individual lending with mortgage of house property as security akin to their SME finance offering (home equity product). However, owing to funding and other constraints at the MFIs and issues relating to portfolio performance, these initiatives often got curtailed and could not grow into a significant component of the MFI lending activity.Nevertheless, given the tremendous success and growth of microfinance over the past four decades and the vast infrastructure and presence of MFIs across the length and breadth of Bangladesh, it can be easily concluded that housing microfinance has immense potential in addressing the challenge of housing finance access among low-income households.

It would therefore be appropriate to follow the same income-affordability method in determining the annual demand for housing microfinance in rural and urban areas. The two tables below (Table 29 - HMF Rural) and (Table 30 - HMF Urban) show the calculation for different income deciles based on their average 2016 incomes and certain assumptions in respect of the typical lending terms that MFIs might consider offering to their HMF clients.

Table 29: Demand Estimate for Housing Microfinance - Rural

Income Decile	No. of Rural H/H (per annum)	Avg. 2016 Monthly Income (BDT)	Debt to Income (%)	Term (Months)	Interest Rate (% p.a.)	Average Housing Loan Eligibility (BDT)	Housing Finance Demand p.a. (BDT Billion)
DECILE 5	58,515	9,926	20%	24	21%	38,633	2.26
DECILE 6	58,515	11,809	20%	36	21%	62,689	3.67
DECILE 7	58,515	14,372	25%	36	21%	95,366	5.58
DECILE 8	58,515	17,752	25%	48	21%	1,43,322	8.39
DECILE 9	58,515	23,989	25%	60	21%	2,21,680	12.97
TOTAL	**2,92,575**						**32.87**

Source: Author's estimates based on HIES, 2010 data

Table 30: Demand Estimate for Housing Microfinance - Urban

Income Decile	No. of Rural H/H (per annum)	Avg. 2016 Monthly Income (BDT)	Debt to Income (%)	Term (Months)	Interest Rate (% p.a.)	Average Housing Loan Eligibility (BDT)	Housing Finance Demand p.a. (BDT Billion)
DECILE 4	30,964	13,206	20%	24	18%	52,906	1.64
DECILE 5	30,964	16,633	20%	36	18%	92,017	2.85
DECILE 6	30,964	20,139	25%	48	18%	1,71,396	5.31
DECILE 7	30,964	24,515	25%	60	18%	2,41,350	7.47
TOTAL	**1,23,856**						**17.27**

Source: Author's estimates based on HIES, 2010 data

It is likely that HMF loans with ticket sizes below BDT 100,000 (USD 1,266) would be offered as group / joint liability loans as in the case of lower income deciles and the bigger ticket loans for higher income deciles could be offered as individual loans. As can be seen in these two tables, the annual housing microfinance demand has been estimated at BDT 32.87 billion (USD 0.42 billion) in rural areas and BDT 17.27 billion (USD 0.22 billion) in urban areas and over the next four years the total housing microfinance demand is expected to be in excess of BDT 200 billion (USD 2.54 billion). The assumptions in respect of interest rates, tenor and debt to income ratio may appear to be somewhat simplistic and not sufficiently nuanced. However, these assumptions reflect the prevailing market conditions and are based on inputs received from different MFIs, PKSF and MRA. This limitation exists as the housing microfinance sector in Bangladesh is very nascent and still evolving.

3.6 Consolidated Demand Forecasting (2017 – 2020)

The overall demand for housing finance among low and middle income segments can be broken down by geography (urban and rural) and by sources (formal i.e. mainstream primary lenders and informal i.e. MFIs and NGOs). The above sections of this Chapter provide the detailed calculations and methods for assessing the demand for each sub-segment. Table 31 below summarises the figures from the previous tables and presents the consolidated demand projections for the next four years (2017 – 2020).

Table 31: Consolidated Housing Finance Demand Estimate for LMIH (2017 – 2020)

SUB-SEGMENT BY GEOGRAPHY & SOURCE	Annual Demand (BDT Billion)	Cumulative Demand (BDT Billion)
FORMAL HOUSING FINANCE – URBAN	103.17	412.68
FORMAL HOUSING FINANCE – RURAL	51.23	204.92
SUB-TOTAL: FORMAL HOUSING FINANCE	***154.40***	***617.60***
HOUSING MICROFINANCE – URBAN	17.27	69.08
HOUSING MICROFINANCE – RURAL	32.87	131.48
SUB-TOTAL: HOUSING MICROFINANCE	***50.14***	***200.56***
TOTAL HOUSING FINANCE DEMAND	**204.54**	**818.16**

Source: Author's estimates

The gross projected housing finance demand arising from low and middle income segments is estimated at BDT 204.54 billion (USD 2.59 billion) annually, which translates into BDT 818.16 billion (USD 10.36 billion) over the next four years. To put these consolidated figures into perspective, the cumulative additional demand projected over the next four years is 167% of the total 2015 housing loan outstanding across Bangladesh's financial sector and possibly 6 – 7 times the current total housing loan disbursements per annum.

It is important to understand that these figures represent additional demand over and above the formal housing finance and mortgages being currently accessed by upper income segments and ultra-rich. Therefore, the challenge will be for the financial sector as a whole, including the microfinance players, to augment their capacities and geographical presence so as to meet the housing finance requirements of low and middle income households.

CHAPTER 4

PRIMARY LENDERS AND STRUCTURE OF HOUSING FINANCE MARKET

4.1 Primary Mortgage Lenders and Suppliers of Housing Finance

Much of the funds for house construction in Bangladesh come from informal sources that include cash savings, loans (and gifts) from relatives, moneylenders, shopkeepers and so forth. This sourcing can be attributed to the inadequacies of the existing formal financing system. Commercial banks and housing finance NBFCs provide the majority of formal housing finance to the "creditworthy" borrowers. Lending criteria generally reflect cautiousness, particularly through restrictive loan-to-cost maximums (generally capped at 70%, but averaging 50% in practice), a loan ceiling of BDT 12 million (USD 151,900) for all commercial banks and relatively small average loan amounts, typically in the range of BDT 2.5–3.0 million (USD 31,500 – 38,000) for many lenders. The tenor for housing loans is generally in the range of 10–20 years. Interest rates are fixed, but loan agreements typically stipulate that the lenders can change the rates at their discretion during the life of the loan and some lenders do adjust the rates in the event of money market fluctuations.

The total outstanding housing loans from banks and financial institutions as of end of June 2015 amounted to BDT 489.9 billion (USD 6.2 billion) [see Tables 32 and 33 below], which amounted to 8.8% of total credit to the private sector. The total mortgage debt to GDP had risen from 2.72% in 2010 to 3.51% in 2013 but has since fallen to 3.23% (June 2015). In recent years, significant changes have taken place in total housing loan portfolios. Commercial banks now have a dominating presence with a market share of 75% - 80%. This has happened at the expense of specialised housing finance providers such as BHBFC and Delta Brac Housing (leading private NBFC) which have been steadily losing market share.

Table 32: Total Housing Loan Outstanding for Different Lender Categories (FY13 – FY15)

	Total Housing Loans Outstanding					
	Jun-15		Jun-14		Jun-13	
Lenders Under Different Categories	**BDT billion**	**% of Total**	**BDT billion**	**% of Total**	**BDT billion**	**% of Total**
a. Specialized housing finance providers	**63.6**	**12.98%**	**59.4**	**13.48%**	**55.2**	**13.11%**
i) House Building Finance Corporation	30.3	6.18%	29.7	6.74%	28.0	6.65%
ii) Delta-Brac Housing Finance	28.7	5.86%	26.4	5.99%	24.4	5.80%
iii) National Housing Finance	4.6	0.94%	3.3	0.75%	2.8	0.67%
b. Banks	**395.5**	**80.73%**	**358.0**	**81.25%**	**349.0**	**82.91%**
i) Private Commercial Banks	266.0	54.29%	231.8	52.61%	229.8	54.59%
ii) State Owned Commercial Banks	108.5	22.15%	95.6	21.70%	73.1	17.37%
iii) Other banks (foreign and specialized)	21.0	4.29%	30.6	6.94%	46.1	10.95%
c. Other financial institutions (incl. NBFIs)	**30.8**	**6.29%**	**23.2**	**5.27%**	**16.7**	**3.97%**
d. Micro-credit lenders		**0.00%**		**0.00%**		**0.00%**
Grameen Bank	0.02	0.00%	0.04	0.01%	0.04	0.01%
Total Housing Loan Outstanding	**489.9**	**100.00%**	**440.6**	**100.00%**	**420.9**	**100.00%**
Mortgage Debt to GDP	**3.23%**		**3.28%**		**3.51%**	
Sources: Bangladesh Bank Annual Reports; Bangladesh Bureau of Statistics						

Table 33: Total Housing Loan Outstanding for Different Lender Categories (FY10 – FY12)

	Total Housing Loans Outstanding					
	Jun-12		Jun-11		Jun-10	
Lenders Under Different Categories	**BDT billion**	**% of Total**	BDT billion	% of Total	BDT billion	% of Total
a. Specialized housing finance providers	**51.9**	**14.50%**	**48.3**	**17.23%**	**44.9**	**20.72%**
i) House Building Finance Corporation	25.8	7.21%	25.1	8.95%	25.1	11.58%
ii) Delta-Brac Housing Finance	23.6	6.59%	20.7	7.38%	17.4	8.03%
iii) National Housing Finance	2.5	0.70%	2.5	0.89%	2.4	1.11%
b. Banks	**286.8**	**80.12%**	**220.6**	**78.70%**	**162.4**	**74.94%**
i) Private Commercial Banks	191.8	53.58%	147.6	52.66%	99.0	45.69%
ii) State Owned Commercial Banks	63.4	17.71%	53.0	18.91%	48.1	22.20%
iii) Other banks (foreign and specialized)	31.6	8.83%	20.0	7.14%	15.3	7.06%
c. Other financial institutions (incl. NBFIs)	**19.2**	**5.36%**	**11.3**	**4.03%**	**9.2**	**4.25%**
d. Micro-credit lenders		**0.00%**		**0.00%**		**0.00%**
Grameen Bank	0.06	0.02%	0.1	0.04%	0.2	0.09%
Total Housing Loan Outstanding	**358.0**	**100.00%**	**280.3**	**100.00%**	**216.7**	**100.00%**
Mortgage Debt to GDP	**3.39%**		**3.06%**		**2.72%**	
Sources: Bangladesh Bank Annual Reports; Bangladesh Bureau of Statistics						

Within the banking sector, private sector banks have been expanding their housing loan portfolios and now have the largest exposure of BDT 266.0 billion (USD 3.37 billion) in outstanding housing loans as of June 2015. The state owned commercial banks had the second largest exposure of BDT 108.5 billion (USD 1.37 billion) and 'other' banks had BDT 21.0 billion (USD 0.27 billion) in outstanding housing loans as of end of June 2015.

The portfolio of 'Other' banks (which comprise foreign and specialised banks) has been steadily falling from BDT 46.1 billion (USD 0.58 billion) in June 2013 to BDT 21 billion (USD 0.27 billion) in June 2015 and this is also the case with Grameen Bank, the only significant microcredit lender. Its housing loan portfolio has been shrinking over the past 6-7 years to almost nil level in June 2015. Foreign banks such as 'The Standard Chartered Bank' traditionally had a significant mortgage loan exposure among high net-worth individuals and non-resident Bangladeshis. Although it has been losing market share in the past few years, in 2015-16 the bank has begun an aggressive campaign to take over housing loans of other mortgage lenders at attractive interest rates (as low as 9% p.a. and nil fees).

4.2 Non-Bank Financial Companies (NBFCs)

Among the NBFCs, two specialised housing finance companies viz. Delta Brac Housing (DBH) and National Housing Finance and Investments (NHFIL) have been traditionally among the biggest private lenders in housing finance. They raise funds by accepting long term public deposits including some contractual deposit schemes and through bank borrowings.

DBH with over 39% market share among NBFCs, has enjoyed the status of an industry leader by virtue of its single product focus, high operating standards and consistent performance in terms of growth and profitability over the past two decades. DBH has a strong marketing liaison with most builders, and gets a major portion of its business from large-size residential projects. With its vigilant loan surveillance system, it is maintaining its non-performing loans at the level of about 0.5-0.7%. DBH has a diversified funding base, including credit from multilateral agencies and local commercial banks, public deposits and access to the Bangladesh Bank refinance window. It has a business focus of around 80% in Dhaka and 20% in Chittagong and Sylhet. During FY15, DBH opened new sales offices at Gazipur, Savar, Mirpur and Narayanganj. However, since 2010, growth at DBH has been slowing down year after year at the cost of declining market share and this suggests a conservative outlook as well as risks afflicting the real estate market.

NHFIL started operations in 1998 and it holds twin licenses – as a housing finance company and a lease finance company, with the requirement to maintain housing finance as its core business (more than 51% of its loan book). NHFIL funds its lending operations mainly from deposits, which occasionally results in a term mismatch of assets and liabilities. Since average loan size in leasing is higher than housing, and it yields better returns, there is a tendency at NHFIL to shift lending emphasis from housing to leasing. NHFIL had slowed its housing finance operations during 2010-2012 when it experienced a sudden spike in NPLs. However, it has grown well in the period 2013-2015 with a CAGR of about 33%.

Table 34 below illustrates the consolidated data from all NBFCs in respect of their individual housing loan portfolio during the recent five year period FY11 – FY15.

Table 34: Retail (Individual) Housing Loan Data for all NBFCs (FY11 – FY15)

RETAIL / INDIVIDUAL HOUSING LOAN	2015	2014	2013	2012	2011
Annual Disbursement Figures (BDT billion)	24.15	18.28	12.42	9.23	10.89
Loan Outstanding (BDT billion)	65.34	53.78	44.67	39.07	35.86
Classified Loan / NPL (% of Outstanding)	1.87%	1.50%	1.47%	1.08%	0.89%
No. of Outstanding Loan Accounts	11,410	9,887	8,616	7,848	7,444
Average Loan Outstanding (BDT)	5,726,866	5,439,309	5,184,755	4,977,717	4,816,931

Source: Department of Financial Institutions and Markets, Bangladesh Bank

The above data indicates a steady rise in annual disbursements for retail home loans and a corresponding increase in the total loan outstanding which has nearly doubled during the five year period. The average loan outstanding figure has however increased only marginally and this probably reflects the slowdown in the real estate market and reduced apartment prices. It is noteworthy that the gross non-performing loan (NPL) figure has worsened year-on-year and in 2015 (1.87%), it is more than twice the level of 2011 (0.89%). Yet, an NPL of 1.87% on the total NBFC exposure indicates reasonably well performing housing loan portfolios, particularly in the context of the adverse market conditions.

Similar data was obtained for the real estate and developer finance exposure (corporate loans) of NBFCs as shown in Table 35 below. It is likely that bulk of this exposure is towards residential projects. The consolidated figures for the period FY11 – FY15 indicate a relatively difficult situation with NPLs rising to an unsustainable level 10.7% in FY15. This deterioration in asset quality is a direct consequence of the crisis in the real estate sector in 2011-12 and it is unlikely that NBFCs will regain their confidence in the sector in the near future.

Table 35: Real Estate / Developer (Corporate) Loan Data for all NBFCs (FY11 – FY15)

CORPORATE / DEVELOPER FINANCE	2015	2014	2013	2012	2011
Annual Disbursement Figures (BDT billion)	6.16	4.88	4.42	2.00	3.33
Loan Outstanding (BDT billion)	12.89	9.11	7.45	5.45	5.21
Classified Loan / NPL (% of Outstanding)	10.70%	8.95%	3.94%	2.45%	1.90%
No. of Outstanding Loan Accounts	304	292	269	222	201
Avg. Loan Outstanding (BDT million)	42.42	31.19	27.71	24.53	25.94

Source: Department of Financial Institutions and Markets, Bangladesh Bank

Among NBFCs, recently IDLC Finance (formerly Industrial Development Leasing Company) has emerged as a strong and competitive player in housing finance with a fast growing loan book and monthly disbursements at nearly the same level as DBH. IDLC has ambitious growth plans and is keen to emerge as the largest private lender in housing finance. It is currently the second largest lender with approximately 22% market share among NBFCs.

Another niche player is United Finance (formerly United Leasing Company), which received IFC's support in the form of Advisory Services for the launch and expansion of its low-income housing finance product. The product is now offered across 33 districts through 12 branches and as at January 2016, the company's housing loan portfolio was BDT 53.5 million (USD 0.68 million) with an average ticket size of only BDT 0.12 million (USD 1,519).

4.3 Bangladesh House Building Finance Corporation

The state-owned Bangladesh House Building Finance Corporation (HBFC) is a specialised financial institution and the oldest housing finance provider from the pre-independence era. HBFC had BDT 30.2 billion (USD 0.38 billion) in outstanding housing loans as of June 2015. The sources of HBFC's funds are primarily its paid-up capital and the proceeds from issuance of Government guaranteed low interest bearing debentures to state owned commercial banks and Bangladesh Bank. The second mode of funding has however been unavailable in recent years owing to the gradual decline in HBFC's financial health (see Table 36).

HBFC is therefore constrained to rely upon recoveries of past loans for new lending after defraying operating and debt servicing costs. Consequently, the flows available for fresh lending have declined (See Table 37 below). In FY14 and FY15, Taka 3.9 billion and 2.7 billion (USD 49.37 million and USD 34.18 million) were disbursed out of recoveries of Taka 4.6 billion and Taka 4.8 billion respectively (USD 58.23 million and USD 60.76 million).

Table 36: Bangladesh House Building Finance Corporation (HBFC), Summarised Financials

	Figures in BDT Crore (1 Crore = 10 million)				
DESCRIPTION	**2011-12**	**2012-13**	**2013-14**	**2014-15 (provisional)**	**HY 2015-16 (provisional)**
Authorized Capital	110	110	110	110	110
Paid-Up-Capital	**110**	**110**	**110**	**110**	**110**
Loan Sanctioned	**366.65**	**539.25**	**285.18**	**308.86**	**136.33**
Loan Sanctioned (Cumulative)	4694.74	5234.16	5519.34	5828.2	5964.53
No. Of Loans Sanctioned (Cumulative)	73183	75284	79391	77545	78051
Loan Disbursement	**294.84**	**433.39**	**388.9**	**271.67**	**107.11**
Loan Disbursement (Cumulative)	4106.77	4540.16	4930.06	5201.79	5308.9
Total Housing Units Constructed	6252	7388	3730	4508	2069
Total Housing Units (Cumulative)	178136	185524	189017	193525	195594
Recoverable Amount	545.83	542.72	538.18	566.45	283.25
Loan Recovery	418.77	451.97	459.18	482.73	236.52
% Of Recovery	**76.72**	**83.27**	**84.76**	**84.79**	**84.75**
Recoverable Amount (Cumulative)	7076.42	7619.14	8157.16	8723.61	9006.86
Loan Recovery (Cumulative)	5999.38	6451.32	6914.28	7397.01	7633.53
% Of Recovery (Cumulative)	**84.78**	**84.67**	**84.76**	**84.79**	**84.75**
Outstanding Balance	**2583.4**	**2776.72**	**2974.73**	**3022.1**	**3008.00**
Amount Of Classified Loan	362.64	259.77	212.52	205.79	187.47
% Of Classified Loan	**14.03**	**9.36**	**7.14**	**6.81**	**6.23**
Amount Of Un-Classified Loan	2220.76	2516.95	2762.21	2816.31	2820.53
% Of Un-Classified Loan	85.97	90.64	92.86	93.19	93.77
Net Profit (Before Tax)	**151.79**	**188.99**	**193.18**	**157.69**	**92.24**
Corporate Tax Provision	75.23	79.76	76.56	79.45	41.00
Approved Manpower	795	795	795	795	795
Existing Manpower	586	578	551	518	514

Source: Bangladesh House Building Finance Corporation (Finance Department)

The HBFC, being a state enterprise, is operationally, financially and administratively regulated by the Ministry of Finance through issue of Rules, Regulations and Directives. For "classification" of its non-performing portfolio, HBFC is following the guidelines of the Ministry of Finance, which are not as stringent as those imposed by Bangladesh Bank on banks and NBFCs. The percentage of classified loans in the above table would be much higher if the Bangladesh Bank's norms for NBFCs were to be applied. These disadvantages make it harder for HBFC to source debt funding and compete in an increasingly competitive housing finance market. HBFC's loan disbursements are falling year on year. Although HBFC faces challenges stemming from its governance structure and high NPLs, it remains the only institution of its kind serving the low- and middle-income segment with a wider geographic coverage beyond Dhaka and a few larger cities.

4.4 Scheduled Commercial Banks

Most commercial banks in Bangladesh, both public and private, have well established in-house mortgage finance departments. State owned commercial banks (SCBs) are the second largest source of housing finance following private banks, though banks in general are subject to more restrictive and stringent regulations that are intended to curtail their exposure in housing finance and mortgages. Table 37 below gives consolidated mortgage data from 2010 and 2015. As can be seen, banks have a much larger exposure in residential self-construction as against purchase of apartments / land / house repair loans.

Table 37: Mortgage Portfolios of Commercial Banks – Outstanding Loan (2010 and 2015)

	Outstanding Amount (Million BDT)					
Economic Purpose	**2010**			**2015**		
	Rural	**Urban**	**Total**	**Rural**	**Urban**	**Total**
Consumer Finance						
Residential - Self Construction	12,370.70	80,139.60	**92,510.30**	27,426.80	1,35,692.40	**1,63,119.20**
Flat Purchase	1,139.20	27,917.40	**29,056.60**	4,345.50	55,362.20	**59,707.70**
Land Purchase	524.80	3,690.00	**4,214.80**	1,630.60	6,946.10	**8,576.70**
Renovation/Repair/Extension	1,622.90	14,466.00	**16,088.90**	2,398.40	21,352.00	**23,750.40**
Sub-Total (Retail)	**15,657.60**	**1,26,213.00**	**1,41,870.60**	**35,801.30**	**2,19,352.70**	**2,55,154.00**
Corporate Loans						
Housing / Commercial Developer / Contractor	1,232.90	48,430.60	**49,663.50**	2,568.10	1,74,559.10	**1,77,127.20**
Commercial Building (Factory/Hotel/Warehouse)	944.40	28,793.10	**29,737.50**	1,857.30	39,423.80	**41,281.10**

Source: Banking Regulation and Policy Department, Bangladesh Bank

Tables 38 and 39 below provide the number of live accounts by loan purpose and the average loan outstanding per loan account in both rural and urban areas.

Table 38: Mortgage Portfolios of Commercial Banks – No. of Accounts (2010 and 2015)

Economic Purpose	No. Of Accounts					
	2010			2015		
	Rural	Urban	Total	Rural	Urban	Total
Consumer Finance						
Residential - Self Construction	27897	71824	**99721**	15514	73955	**89469**
Flat Purchase	1872	11095	**12967**	2045	19306	**21351**
Land Purchase	2156	5659	**7815**	2665	4363	**7028**
Renovation/Repair/Extension	812	10240	**11052**	2401	25855	**28256**
Sub-Total (Retail)	**32737**	**98818**	**131555**	**22625**	**123479**	**146104**
Corporate Loans						
Housing / Commercial Developer / Contractor	381	1919	**2300**	395	5489	**5884**
Commercial Building (Factory/Hotel/Warehouse)	1351	3572	**4923**	341	1430	**1771**

Source: Banking Regulation and Policy Department, Bangladesh Bank

Table 39: Commercial Banks – Average Loan Outstanding per Account (2010 and 2015)

Economic Purpose	Loan Amount per Account (Million BDT)					
	2010			2015		
	Rural	Urban	Total	Rural	Urban	Total
Consumer Finance						
Residential - Self Construction	0.44	1.12	0.93	1.77	1.83	1.82
Flat Purchase	0.61	2.52	2.24	2.12	2.87	2.80
Land Purchase	0.24	0.65	0.54	0.61	1.59	1.22
Renovation/Repair/Extension	2.00	1.41	1.46	1.00	0.83	0.84
Sub-Total (Retail)	**0.48**	**1.28**	**1.08**	**1.58**	**1.78**	**1.75**
Corporate Loans						
Housing / Commercial Developer / Contractor	3.24	25.24	21.59	6.50	31.80	30.10
Commercial Building (Factory/Hotel/Warehouse)	0.70	8.06	6.04	5.45	27.57	23.31

Source: Banking Regulation and Policy Department, Bangladesh Bank

Surprisingly, the number of loan accounts in rural Bangladesh has dropped by a third during 2010 to 2015 and the average outstanding exposure has gone up from BDT 0.48 million (USD 6,076) to BDT 1.58 million (USD 20,000). The combined average loan outstanding across rural and urban Bangladesh stood at BDT 1.75 million (USD 22,152) as compared to BDT 5.73 million (USD 72,532) in case of NBFCs. This suggests that the banks, specifically SCBs seem to be catering largely to the middle-income segments as compared to the private NBFCs, which are more focused on the upper income segments. Islamic banking, including Sharia compliant mortgage lending is also a fast growing product in Bangladesh. The Islami Bank Bangladesh Limited (IBBL) is the leading Islamic commercial bank with a significant presence in housing finance, especially in rural and urban markets outside Dhaka.

The **state owned commercial banks** (SCBs) typically have a lower cost of funds because they receive bulk of their deposits from government entities, which are statutorily required to deposit at least 75% of their funds with SCBs. Nonetheless, the SCBs suffer from term mismatch because they are constrained by the maturities of their deposits (generally 1-3 years). The SCBs thus give priority to corporate short-term lending, and they set a low ceiling on the amount of mortgage loans they wish to extend annually (typically 3–6% of their outstanding portfolios). Housing finance is only part of their mortgage portfolios, a significant portion of which is allocated to commercial real estate. The SCBs follow a policy of slightly higher intermediation spreads for housing, particularly as they seek to offset the poor profitability of their other assets and make up for inadequate provisioning. Despite low loan-to-value ratios, the rate of delinquency is high. Private and foreign commercial banks have grown as providers of housing finance overtaking the SCBs, with housing loans making up 5–10% of their loan portfolios. They use the same deposit-based funding as do the SCBs, but they are less handicapped by delinquencies. These banks do not enjoy the privileges of the SCBs, but they are more efficient and provide better service quality, better product options, and expanded branch networks. However, their impact on the market is likely to remain marginal because they target only upper-income borrowers.

Due to overheating of urban property markets during 2010-2012, the portfolio quality of most banks suffered and their exposure in mortgages and real estate was identified as one of the principal reasons for the stress in the financial sector. Consequently, Bangladesh Bank imposed stiff regulatory restrictions on banks and even NBFCs to discourage further exposure in mortgage loans, including retail home loans. SCBs continue to remain stressed till date with very high NPLs on account of various irregularities related to their industrial and corporate lending portfolios. Banking sector NPLs stood at 10.5% at the end of Q3FY15.

Among **private sector banks**, BRAC Bank is emerging as the fastest growing player in housing finance and it's month on month disbursements now exceed all other banks (as well as DBH). Therefore BRAC Bank seems to command the highest market share in annual disbursements. However, the mortgage exposure of BRAC Bank is reaching around 8% of its total loan book and since the regulatory ceiling is 10%, the bank does not have much room for growth unless it can grow its loan book at the same pace. Among other banks, IFIC Bank and IBBL are more active in the market, while Prime Bank and Eastern Bank have a conservative outlook and a steady portfolio. Other private banks such as The City Bank and AB Bank are largely absent in retail mortgages as they focus on corporate lending.

4.5 Government Funded Housing Schemes and Programs

Government funded housing programs comprise a "Housing Fund" called Grihayan Tahbil (detailed description given below) and occasional refinance facilities that have been funded by the Government and / or multilateral institutions and administered by the central bank. In July 2007, Bangladesh Bank started a refinance scheme to assist middle-income households to buy homes in cities and to encourage banks and NBFCs to lower their interest rates on home loans. Initially, a fund of BDT 3 billion (USD 38 million) was created for this scheme; later, it was enhanced to BDT 7 billion (USD 88.6 million).

People earning less than BDT 50,000 (USD 633) a month were eligible under the refinance scheme to get housing loans from any participating FIs (up to a maximum of BDT 2 million, i.e. USD 25,316). The loan was for purchase of an apartment not larger than 1,250 square feet, located in one of six divisional cities or in Gazipur, Narayanganj, Savar, or Tongi. The loan period was up to 20 years (with a 1-year grace period) at a subsidised interest rate of 9% p.a. The scheme benefited only the formal middle income borrowers and DBH absorbed nearly 70% of the total funds made available. The scheme was untenable over the long term at concessional interest rates, given the huge funding gap and unmet demand for housing finance in the target income segments and as such, the facility was discontinued.

In 1998, the Bangladesh government started **Grihayan Tahbil**, a housing fund intended for the low-income groups. The fund is housed within Bangladesh Bank and provides loans to NGOs and MFIs at an interest rate of 2% p.a., which in turn extend housing credit to the rural poor at the rate of 6% p.a. with a repayment period of up to 10 years. A similar government program called *Asrayan,* funds the construction of low-income barrack-type houses. Up to June 2015, Grihayan Tahbil released BDT 1.9 billion (USD 24.05 million) against allocation of BDT 2.9 billion (USD 36.71 million) through 513 NGOs which covered 450 upazilas across 64 districts resulting in the construction of over 60,000 houses. Until June 2015, Tahbil could recover BDT 1.2 billion (USD 15.19 million) against total recoverable amount of BDT 1.3 billion (USD 16.46 million) and the recovery rate was 91.9%.

The participating MFIs find it difficult to impose the conditions relating to certain type and minimum size of houses which are defined under the Grihayan Tahbil program. Besides, the maximum loan amount of up to BDT 60,000 (USD 759) is often inadequate in relation to the construction cost. These challenges contribute to the unutilized funds remaining under the scheme. A part of the fund is being used to construct a dormitory for women garment workers at Ashulia.

4.6 Housing Microfinance (HMF) Products offered by NGO-MFIs

There are only a few examples of successful housing microfinance models around the world. However, there is enough experience and lessons from past and ongoing efforts at providing finance for low income housing via microfinance and similar channels. MFIs in Bangladesh currently provide small, short-maturity loans (typically BDT 5,000–25,000 [USD 65-325] for six months to two years) for livelihood and consumption purposes and some of these loans are inadvertently diverted towards housing needs. Very few MFIs are offering loans in the microcredit range for incremental construction, home repair or sanitation (i.e. construction of toilet / bath). Several conditions need to be met to ensure effectiveness in extending such informal housing loans and to develop a sound HMF portfolio: detailed knowledge of the housing microfinance market, capacity building in loan appraisal techniques, effective guarantee mechanisms to limit risks, lending methodologies and policies designed for high-risk areas, and cost-effective ways to reach rural/informal sector clients.

Table 40: Consolidated Data for MFI Operations in Bangladesh (2011-2015)

	Consolidated Data: Microcredit Regulatory Authority				
Particulars	**Jun-11**	**Jun-12**	**Jun-13**	**Jun-14**	**Jun-15**
	Licensed NGO-MFIs				
No. of Licensed NGO-MFIs	576	590	649	697	697
No. of Branches	18,066	17,977	14,647	14,730	15,609
No. of Employees	1,11,828	1,08,654	1,10,734	1,09,628	1,10,781
No. of Clients (Million)	26.08	24.64	24.60	25.11	26.00
Total No. Of Borrowers (Million)	**20.65**	**19.31**	**19.27**	**19.42**	**20.35**
Loan Disbursement (BDT Billion)	**303.18**	**456.02**	**432.28**	**462.00**	**633.35**
Amount of Loan Outstanding (BDT Billion)	**173.79**	**211.32**	**257.01**	**282.2**	**352.41**
Amount of Savings (BDT Billion)	**63.30**	**75.25**	**93.99**	**106.99**	**135.41**
Loan Recovery (BDT Billion)	271.83	314.11	375.07	447.89	522.47
Cumulative Surplus (BDT Billion)	**50.33**	**65.49**	**82.85**	**102.47**	**137.47**
Recovery Rate	**95.52**	**97.74**	**97.69**	**95.64**	**96.12**
	Grameen Bank				
Total No. Of Borrowers (Million)	8.37	8.37	8.39	8.62	8.67
Loan Disbursement (BDT Billion)	103.00	126.37	120.81	117.23	138.90
Amount of Loan Outstanding (BDT Billion)	72.30	79.84	83.94	87.73	90.26
Amount of Savings (BDT Billion)	58.80	116.43	132.21	150.97	171.19
	Total Licensed NGO-MFIs and Grameen Bank				
Total No. Of Borrowers (Million)	**29.02**	**29.02**	**27.66**	**28.04**	**29.02**
Total Loan Disbursement (BDT Billion)	**406.18**	**582.39**	**553.09**	**579.23**	**772.25**
Total Amount Loan Outstanding (BDT Billion)	**246.09**	**291.16**	**340.95**	**369.93**	**442.67**
Total Amount of Savings (BDT Billion)	**122.10**	**191.98**	**226.20**	**257.96**	**306.60**

Source: Microcredit Regulatory Authority (MRA)

The Microcredit Regulatory Authority (MRA) presently regulates 697 licensed MFIs across Bangladesh. In addition, MRA has provided temporary approval to 205 new MFIs and NGOs on a conditional basis. Broadly, there are three categories of MFIs from a regulatory perspective: Large, Mid-sized and Small. In the Large category there are only four MFIs - BRAC, ASA, TMSS and BURO (together they have 70-75% market share). In the Mid-range there are approximately 250 MFIs and the remaining 400+ are in the Small category. This excludes Grameen Bank which is directly regulated by the Bangladesh Bank.

Table 40 above presents the operational and financial summary of all licensed MFIs in Bangladesh and their consolidated figures, including data from Grameen Bank. The figures suggest a growth of around 33% in loan disbursements and about 20% in loans outstanding in FY2015 (over 2014), which is similar to the growth experienced in FY2012 (over 2011). However, the total number of active borrowers has not changed during 2011 - 2015, holding at approximately 29 million, including those from Grameen Bank. The average loan outstanding per borrower has risen from BDT 8,480 (USD 107) to BDT 15,254 (USD 193) during the past five years, but the current level is still low enough to accommodate further exposure in housing microfinance if made available to the same set of borrowers.

Any diversification into a new housing microfinance product can be undertaken only on the basis of a rigorous demand and market assessment. The product design must be flexible and should reflect the needs and preferences of the low-income clientele in terms of loan amount, interest rates and tenor, and loan repayment should be aligned with their actual affordability. Currently, microcredit borrowers are only used to small ticket sizes of BDT 20-30,000 (USD 253-380) with multiple loan cycles and so the transition to larger tickets and longer tenor has to be gradual with an incremental approach.

Large MFIs such as Grameen and BRAC which had initiated housing loans in the past have not had a good experience with their portfolio performance and hence they are hesitant in undertaking a new housing microfinance product. BRAC has started to develop a sanitation loan product with tickets of up to BDT 18,000 (USD 228) and tenor of 6-12 months, however it is not keen to try a longer tenor of 24/36 months due to the perceived difficulty in managing portfolio quality. Proshika, which is another large category MFI, has been accessing funding for its housing loan product under the Grihayan Tahbil program.

As can be seen in Table 41 below, the pricing of housing microfinance loans depends a great deal on the source of funding and varies from low subsidised rates of 6-8% (donor funded) to commercial rates of up to 25% (self-funded).

Table 41: Consolidated Data for MFI Operations in Bangladesh (2011-2015)

Name of MFI	Housing Loan Product	Interest Rate
Manob Mukti Songstha (MMS, PKSF PO)	Inclusive Housing System	17%
Palli Mongal Karmosuchi (PMK, PKSF, PO)	Housing Loan	25%
Grameen Bank (Non-PO)	Pre-Basic Housing (PBH) loan amounting BDT 7,500-8,500	8%
Proshika (Non-PO)	Group Based loan, maximum BDT 30,000 (Grihayan Tahbil)	6%

Source: PKSF, Grameen, Proshika

In order to offer larger ticket housing loans e.g. for new construction housing, MFIs would need the comfort of mortgaging the house property. If these are individual loans, then in the absence of peer pressure, the security arrangement alone will act as a deterrent to wilful default. Traditionally, the spirit of microcredit in Bangladesh has been to offer collateral free loans to the borrowers. Although there is no regulatory restriction on mortgage of house property for the purpose of housing loans by an MFI, there is a legal issue that needs to be studied. An ordinance from 1984 does not permit any charge to be created on homesteads in rural areas. Even if a house property can be mortgaged, it may only serve as a paper security as any attempt to evict a poor household by enforcing the mortgage would lead to negative publicity and adversely affect the reputation of the lender.

In respect of micro-enterprise loans which MRA stipulates to be in the range of minimum BDT 50,000 (USD 633) to maximum BDT 1 million (USD 12,658), MFIs are allowed hypothecation of any movable asset funded out of the loan. BRAC has a large loan portfolio for a micro-enterprise product called "Progoti", under which it usually insists on equitable mortgage of rural / urban properties, as a security measure. Till date the product has performed well and the portfolio has grown to nearly 20% of BRAC's total loan book. A similar approach could be followed by other MFIs for initiating housing microfinance loans. However, the legal validity of equitable mortgage needs to be understood further. Other considerations might include: whether the MFI insists on a prior bank account (to facilitate disbursement and loan repayment via electronic clearing service) and security arrangements such as personal guarantees, post-dated cheques and security cheques.

In the consolidated microcredit portfolio of all MFIs, the share of micro-enterprise loans is at around 28%. MFIs are allowed to offer other products and services to their member clients, so long as the core microcredit loans outstanding is at a minimum of 50% of the total loan book (funded from members' savings and external borrowings). Hence, any HMF product portfolio should be part of this maximum limit of 50% along with micro-enterprise loans and other loan products. However, in the case of PKSF administered credit line or a donor funded separate project and for loans made under Grihayan Tahbil, the MFI can obtain a waiver on this 50% ceiling being applied on the portfolio generated from such funding.

Most MFIs have few funding mechanisms at their disposal and hence they either rely on their own funding (which includes members' savings and internal surplus) and funding mobilised from donors. There are however no commercial sources of longer-term (three- to five-year) funding, which constrains MFIs in making the larger-ticket, longer tenor loans needed for home construction and renovations, without causing asset-liability mismatches. The proposed PKSF administered credit line of US$ 16 million funded by the World Bank under its Low Income Community Housing Support Project (LICHSP) is expected to address the funding issue in a limited way as it will cater to select MFIs offering urban housing microfinance products. Habitat for Humanity, Bangladesh, an international NGO, is also planning a foray into housing microfinance by partnering with a few leading MFIs in 6-7 districts, which are expected to facilitate housing loans funded out of Habitat's resources.

CHAPTER 5

IMPEDIMENTS TO SUSTAINABLE GROWTH OF HOUSING FINANCE MARKET

5.1 Policy, Regulatory and Legal Environment for Housing Finance

The mortgage market in Bangladesh has grown in size over the years and has become more competitive. Yet, public sector housing programs and government initiatives have fallen short of the growing demand for affordable housing. Overall, the size of the combined public housing programs has remained extremely small in relation to housing demand. On the other hand, private sector housing development and housing finance is unable to meet the needs of most middle and low income households. The urban poor whose incomes are predominantly informal are almost excluded from access to housing finance.

The **policy framework for housing and housing finance** should ideally encompass policies that relate to (i) various supply side aspects such as land use, urban development, real estate and affordable housing; (ii) financial sector policies which should comprise banking, microfinance, insurance, retail housing finance and construction finance (i.e. project finance to developers); along with (iii) an enabling financial and legal infrastructure that would include credit information bureau, collateral registry and legal / judicial system which facilitates a fast track foreclosure process. Government of Bangladesh has put in the public domain (a) well intentioned policies that look into supply side and development challenges and (b) planning commission documents and central bank reports that discuss the financial sector situation and outline the Government's approach and priorities:

- The National Housing Policy, 2008
- The National Urban Sector Policy, 2010
- The National Land Use Policy, 2001
- The National Rural Development Policy, 2001
- The Seventh Five Year Plan 2016-2020
- Financial Market Developments and Challenges in Bangladesh (Research Paper in preparation of the Seventh Five Year Plan)
- Financial Stability Report, 2015 (Bangladesh Bank)

However, the country is still lacking a comprehensive housing and housing finance policy framework that fully addresses the challenges and opportunities of its rapidly urbanising and growing economy. The existing policies have not been put into proper effect and the implementation is poor. Another issue is that the policies have not been updated from time to time and some are still draft policies for which the cabinet approval is delayed. E.g., the national physical plan or land use plan which is long pending and the draft National Housing Policy of 2014 which has recently been approved in April 2016.

For sustained growth, the market needs balanced funding models and a diversified toolbox of instruments for different lenders. The present regulatory, legal and funding environment is however not quite supportive in this regard. The **economic factors influencing the supply side and demand side are often interrelated** and also mutually dependent as is evident in the following example. Private developers in Bangladesh are increasingly participating in housing supply in major towns and cities. A key barrier for large-scale construction market development, especially for low-income housing, has been the dearth of developer financing. Funding for builders is limited because of the underlying risks involved and so land acquisition for housing development is mostly funded by equity. That in turn confines new development projects to an inefficiently small scale. Although construction loans are available, they have low loan to-value ratios and carry such high rates of interest that developers consider them to have little value. Owing to the lack of robust construction financing, the ultimate buyer of the property usually finances the construction costs through instalment payments. Even if used, construction loans to developers can run into titling transfer problems among the parties involved viz. land-owner (in case of joint venture projects), developer, mortgage lender and the home-buyer. As construction progresses, mortgage lenders move the construction loan liability to the account of individual homebuyers in the project who have been sanctioned a housing loan. This transfers the lender's risk from the developer to retail homebuyers since the latter have to pay significant advances to the developer at each stage of construction before the possession is granted. The buyer bears the interest burden on these advances which reduces his affordability and this further limits the market for new construction to clients who can pay fully upfront—the upper-income groups. As a result, developers are more focused on the premium segment and are not very keen to undertake mass affordable housing projects, thereby constraining the market opportunity for primary lenders in low-income housing finance.

Bangladesh Bank presently imposes **stiff regulatory restrictions on commercial banks** to limit their exposure in housing finance and in real estate/developer finance. As such, growth in retail home loans or in mortgage lending to developers can be achieved only at the cost of one over the other. Banks' general preference for growing retail assets (considered less risky) directly impacts the availability of construction and developer finance.

In the retail segment, the central bank does not have any special regulatory guidelines/ specific norms pertaining to housing loans and these are treated as part of Consumer Finance and thus covered under the **Prudential Regulations applicable to consumer finance**. However the regulations differ among commercial banks (governed by the Banking Regulation and Policy Department) and non-bank financial institutions (governed by the Department of Financial Institutions and Markets) as illustrated in Table 40 below:

Table 42: Housing Finance Prudential Norms – Comparison among Banks and NBFCs

Prudential Norms relating to:	Commercial Banks	NBFCs & HFCs
Loan Ceiling	BDT 12 million	No Ceiling
Exposure to Housing Finance	Up to 10% of total loan book	No Ceiling
Loan to Value	Max – 70%	Max – 80%
Risk Weight	100% of loan exposure	50% of loan exposure
General Provision	2%	1%
NPL Recognition	91 days past due	180 days past due

Source: Author's research through stakeholder interviews

As can be observed from the above table, prudential regulations are much in favour of NBFCs and specialised HFCs (except HBFC which is directly regulated by MOF). The irony is that most NBFCs, owing to their legal form and smaller balance sheets have limited capacity for fund raising and thus can build only smaller portfolios. The banks on the other hand have a much larger retail presence and branch infrastructure and access to savings accounts, which unfortunately are not sufficiently leveraged due to excessive restrictions. It is important that the central bank considers amending the prudential norms to some extent to create a more level playing field between commercial banks and NBFCs.

High land prices and scarcity of buildable land increases the cost of housing and has a direct bearing on residential prices. The **government policy towards real estate and land use** should ideally facilitate land prices to be established at a sustainable level. This shall require local government initiatives to improve the connectivity of peripheral areas with the city centre, expansion of civic services and provision of infrastructure linkages to reduce the load on city centre areas. There are however several challenges associated with making urban land available for large scale affordable housing development. These include:

(i) Land administration and titling procedures (including title deficiencies)

(ii) Registration procedure and registration costs

(iii) Inordinate delay / non-transparent process in granting building permits

(iv) Occupation of large tracts of land by public entities

(v) Added cost of filling in low elevation terrain

(vi) Inadequate urban infrastructure and lack of public transport

(vii) No public private partnership framework/policy for allocating land to developers

In recent years, the Government of Bangladesh has taken some steps to simplify the titling and registration of property by initiating computerization of land records management, but these efforts need to be accelerated. If real estate were to be declared as a productive sector, it could lead to prospects for separate prudential regulations for real estate lending thereby opening up avenues for institutional financing. Further, the government should actively consider adopting a **model legislation for real estate development** and setting up a distinct **real estate regulatory authority.** These confidence building measures could help in protecting consumer interest and revive the market for genuine buyers.

Absence of clearly articulated **urban sector policies**, weaknesses in institutional capacities and lack of comprehensive development planning and implementation / execution are the key challenges to planned urbanisation. In the absence of proper institutional and legal framework to guide and control physical development in urban areas, urban development in most cities has been haphazard. The i**nvolvement of multiple organizations in the urban development process results in uncoordinated and overlapping activities**. For e.g., within Dhaka mega city, housing development projects are being undertaken by the Dhaka City Corporations (DCCs), the Capital City Development Authority (Rajdhani Unnayan Kartripakkha or RAJUK), the National Housing Authority (NHA) and other public sector entities that provide staff housing quarters for their employees. Similar situations exist among all the city corporations and development authorities for metropolitan cities. It is to be noted that RAJUK, NHA and other development authorities have varying rules for allocation of their flats/ houses and they even maintain credit portfolios on their own books in respect of long term housing credit granted to the allottees / buyers; for which they do not have adequate internal systems and controls, loan accounting software and trained staff.

The prevailing **legal environment** is also not quite conducive to the needs of the housing finance sector. The biggest concern is with the laws and procedures relating to foreclosure and the lack of a fast track mechanism to enforce security interest. Bangladesh has special courts called "Artha Rin Adalat" which are dedicated to matters relating to financing and security arrangements, however the process for invoking the security interest for mortgage loans is still long and cumbersome, and therefore becomes favourable to the borrower.

A well-functioning mortgage market infrastructure should also ideally include a well performing and deeply entrenched **credit information bureau**. In Bangladesh the credit information bureau (CIB) is housed within Bangladesh Bank and it caters to only its bank and non-bank regulated entities. All Banks and NBFCs are expected to carry out CIB check on their prospective housing clients as part of due-diligence. While the participating lenders can access the central database to generate credit reports, they cannot upload credit information of their clients through the online system, currently this remains a manual process. The CIB currently does not capture data from specialised FIs and other financial intermediaries such as credit cooperatives and microfinance institutions that are not under the direct regulatory purview of Bangladesh Bank. Also, CIB does not have any provision for corporate and individual clients to directly access or request for their own credit reports.

There have been some recent efforts in setting up a separate **CIB for MFIs**. This was first attempted with the idea that the MF-CIB could be housed at PKSF. However, this could not materialise. Some donors are currently working towards having the MF-CIB housed under the MRA and the Bangladesh Bank has been approached to provide necessary technical assistance. MF-CIB would add great value to the housing microfinance lending operations as it could help tackle issues relating to multiple lending and over-indebtedness. To get the maximum benefit of such a bureau, there banks/NBFCs regulated by Bangladesh Bank need access to the MF-CIB for their potential borrowers, and vice versa.

5.2 Key Challenges and Constraints Limiting the Access to Housing Finance and Recommendations to Mitigate / Address these Barriers

The table below lists some recommendations for creating an efficient housing market and improving the mechanism for financing housing:

Issue Category	Key Challenges and Constraints – Brief Description	Recommendations / Strategies / Ideas for Addressing the Issue
	1	
I. Low-income Housing and Infrastructure Access for Urban Poor Residing in Slums		
(A) Access to Land, Tenure, Housing and Basic Services	The Government has not accorded any priority to the "Housing" sector – this apathy towards housing means that the Government is missing out on the growth story and the tremendous opportunity through multiplier impacts and job creation down the housing and construction value chain. The planning authorities and Government have not been reserving adequate land for low-income and affordable housing. Occasionally the plots reserved for this purpose have been diverted for commercial or institutional use. There is no concerted effort to aggregate land and ensure supply of larger land parcels for mass housing projects. Urban poverty is invariably associated with poor quality housing, often in overcrowded unsanitary and hazardous slum and squatter settlements without any environmental services. The problem is further exacerbated by the fact that infrastructure and services cannot be extended to most of these slums as these are regarded as illegal settlements and therefore the slum dwellers are in constant fear of eviction / demolition of their tenements.	*<u>Lease & Other Alternate Instruments of Tenure</u>: In urban and peri-urban areas the government should preferably not transfer land in freehold to occupants, rather choose leases as the instrument for granting tenure for publicly-owned land and especially local authority land.* *Leases with various conditions of title should be utilized and this may vary according to the capacity of the authority, the urban area and the residents.* *Basic leases should be used along with group tenure arrangements, whereby a block is registered under a lease agreement to the group or a local authority. Providing collective tenure security for communities can eliminate the need for individual titling and will ameliorate land speculation and price increases. Private land-owners should be encouraged to set up lease contracts with occupiers which protect the interest of all parties.* *<u>Need for In-Situ Upgrading/Improvement of Slums</u>: Improving the lives and habitat of slum/squatter dwellers through in-situ slum upgrading/improvement.* *<u>Special Zones for the Urban Poor</u>: The local authority / pourashava (municipality) should consider zoning specific land areas for low-income settlements and allow for regularization of tenable informal settlements.* *<u>Low-Income Housing Loan</u>: The government should consider taking up a low-income housing loan program for providing 'collective credit' or group housing loans, that involves offering loans through community based organizations for collective in-situ housing development.* *<u>Rental Housing</u>: Development of mass rental housing, which caters to the needs of the majority of low-income households, should be encouraged. Far too often, the emphasis is exclusively on providing home ownership, which does not improve access for those poor urban households who cannot afford to own even basic shelter.* *<u>Ensuring Access to Infrastructure and Services</u>: It is necessary to undertake programs for physical improvement of the slum/informal settlements and provision of basic services through a participatory community action plan. This will facilitate the integration of these settlements with the wider urban area and also improve their quality of life.*
II. Under-developed Real Estate Market and Supply Side Constraints in Affordable Housing		
(A) Land price speculation and the land market	Sky-rocketing land values in recent years due to the progressive decline in the availability of vacant land is fueling speculation in a less than efficient and non-transparent land market. This has made it almost impossible for city dwellers to buy land for building their own houses. While Bangladesh has long had the legal and institutional framework with rules for the allocation of property rights, it is the processes (which makes access to information difficult), and inadequate transparency in the enforcement and application of processes that are causing different land related problems.	*<u>Getting the land market to work efficiently</u>: The government's role should increasingly be in modernizing the legal and regulatory framework and computerizing the land record system so as to encourage and support land markets that can respond to the variety of demands from individuals, households, enterprises and investors. Land markets will function effectively if they are characterized by ease of buying and selling which in turn depends on a good information system that records ownership, secure tenure arrangements and appropriate registration and recording mechanisms. Private land market can also function effectively within the law if the rules and regulations that landowners or developers must follow are clear and do not require unnecessary expense and where any need for formal permission or approval of a plan takes place efficiently, within a system that is transparent and time bound. Many land developers currently operating illegally could also operate more effectively within the legal system as this would considerably increase their chances of raising project finance from formal sources.*

Issue Category		Key Challenges and Constraints – Brief Description	Recommendations / Strategies / Ideas for Addressing the Issue
(B)	Rising cost of building materials and challenge relating to trade and investment policies	The availability and cost of building materials exert significant influence on the supply of housing. In Bangladesh, building materials are considered as the second most important factor influencing rise in construction and project costs. Building materials are in most cases more expensive in comparison with metropolitan cities in neighboring countries (e.g. India) and occasionally their supply is erratic.	*Housing and Building Research Institute should focus on bringing innovation including alternatives to traditional bricks with a target of achieving zero use of agricultural top soil for brick production, and standardization of construction materials through research.* *The use of environmentally sound, affordable and easily accessible building materials and technologies should be encouraged, and steps should be taken to facilitate transfer of such technologies. Special emphasis should be given on R&D activities for enhancing the local capacity for wide-spread production of building materials and cost effective and efficient construction techniques (e.g. pre-fab. technology). Such support may take the form of legal and fiscal incentives and also provision of credit.* *While there is a growing industry producing different building related materials, the raw materials and inputs are often imported. There are trade protection related issues which may be affecting prices at the consumer level; this needs to be examined in the context broad trade policy.*
(C)	Multiplicity of organizations and lack of coordination	Urban development activities in Bangladesh are dominated by national sectoral agencies. Major urban functions are divided among various ministries but their activities are not effectively coordinated at the local level. Similar situations exist in Dhaka and other divisional cities as both City Corporations and planning and development organizations (i.e. Development Authorities) were created for the cities of Chittagong, Khulna and Rajshahi, which are all authorized to undertake local urban planning as well as utility services, infrastructure and site development activities for housing, commercial and industrial use. Effective coordination among all these agencies is a challenge. These development agencies and authorities sometimes have overlapping / conflicting mandates. The lack of clearly delineated roles and responsibilities for various government and civic authorities leads to inefficiency and delays in delivering results in the area of housing and basic infrastructure.	*The government should adopt a strategy that leads to more balanced growth of urban centers through proper institutional reforms that involves the establishment of locally accountable municipalities and city corporations / authorities with distinctly defined roles and responsibilities. Special emphasis should be given to improving land administration and management to arrest the spiraling urban land prices that is limiting the ability of public and private sector agencies to provide affordable housing. The government's main role should be of a regulator and facilitator rather than a provider of low cost housing. This requires actions to ensure a competitive but regulated market in land, building materials and housing development and to remove unnecessary bureaucratic constraints at different stages of housing production.* *For financing development activities and resource mobilization, the local governments often remain dependent on the central government. The resource base of urban local bodies is extremely weak although these are the most appropriate authorities to finance infrastructure investments. The central government / Ministry should undertake necessary reforms to ensure transparency and accountability as well as fiscal strengthening of the local governments and urban local bodies.*
(D)	Role of National Housing Authority (NHA)	NHA has land banks but these are being used mostly for government employees and middle-income housing; very little is being done towards developing low-income housing units / projects. Surprisingly, NHA and Rajuk have credit administration responsibilities as they manage mortgage loan portfolios in respect of sale of their units in addition to land development and construction of housing projects.	*There should be a conscious shift in NHA's strategy (led by the Ministry) to ensure that low-income and affordable housing projects are undertaken on a priority basis. Public Private Partnership (PPP) approach for housing projects should be the way forward – these have huge potential; e.g. private land being brought in and aggregated for public housing projects and government lands including NHA's land being offered to private developers via a bidding process. There are several best practices that could be adopted from countries in South and East Asia.* *The government should consider removing the credit administration mandate from NHA, Rajuk and other local development authorities and insist that this role belongs to only primary lenders, HBFC or state owned banks.*

Issue Category	Key Challenges and Constraints – Brief Description	Recommendations / Strategies / Ideas for Addressing the Issue
(E) Real estate market and private developers	In the aftermath of the bubble like situation of 2011-2013 the real estate sector in Bangladesh has suffered greatly. This is characterized by severe financial distress among private developers and it is likely that small ones will not survive the next 2-3 years. Most developers are afflicted with stagnant sales, stretched finances, stalled or delayed projects, and joint ventures (JVs) entangled in dispute / litigation. Mortgage of land is difficult in case of JV projects; the deals are generally favorable to land owners with the developer constrained to carry the risk. Developers face several challenges in land acquisition, particularly in Dhaka; only tiny land parcels are available even in the city outskirts as most private land-owners have small holdings. Plan approvals take 2-3 years for routine projects which has a direct bearing on the land cost. Township projects may take even up to 10-15 years to complete and single building projects typically take 3-4 years after plans are approved and commencement of construction certificate obtained. Furthermore, there is total lack of construction/ project finance, foreign currency loans and nil private equity funding to developers or to their SPV companies in case of JV projects. In this context, there is not much of a case for developers to move towards smaller sized / affordable housing construction – (a) owing to a mindset issue with clients (the local preference is for 2-3 BHK mid-sized apartments) and (b) smaller projects giving better returns if positioned as luxury or premium due to limited economies of scale.	*For encouraging efficient private sector participation in housing delivery, an enabling framework for actors in the market needs to be created through <u>continuous assessment of housing demand and supply as well as collection, analysis and dissemination of information about housing and real estate markets</u> on a regular basis.* *A well-functioning housing market can respond to housing demand in an efficient way. The central government needs to <u>develop tools to assess and mange real estate related risks, including market monitoring and transparency and enhanced prudential regulation</u>.* *Inappropriate interventions that stifle supply and distort demand for housing and services should be avoided and <u>legal, financial and regulatory frameworks including land use, building codes, building control and building standards need to be reviewed and adjusted periodically</u>.* *The local government and authorities need to ensure a <u>favorable environment for private developers</u> with the provision of low cost, high tech and speedy execution in case of Public Private Partnerships in housing projects.* *The policies of Government, Central Bank need to be reviewed, analyzed and evaluated to make it more helpful for the real estate sector. The situation may not improve in the near future unless Government comes up with something for the sector like <u>declaring it as productive sector, providing genuine first time buyers an incentive / subsidy to assist their purchase decision, reducing registration cost, allocating land to developers under public-private partnership</u> and similar initiatives.* *A separate think-tank initiative may be necessary to <u>develop appropriate financing mechanisms in the area of construction and project finance to developers</u>.* *Ideally, <u>Bangladesh needs a Real Estate Regulation Act</u> (similar to the new law in India) to induce transparency and ethical practices within the developer fraternity and build confidence among the genuine buyers and public at large so that there could be a time bound revival of the real estate market – which is absolutely essential to ensure supply of affordable and low-income housing.*

Issue Category		Key Challenges and Constraints – Brief Description	Recommendations / Strategies / Ideas for Addressing the Issue
III.	Financial Sector Weakness and Lack of Depth in the Mortgage Market		
(A)	Lack of an enabling environment for the financial sector	The weakness of the financial sector in leveraging long-term finance and the absence of a functioning mortgage market is a major challenge and limits the ability of the system in providing funding for the housing sector. Most public sector banks are not in sound financial health due to high NPLs and instances of weak governance mechanisms. On the other hand private banks and NBFCs operate in a narrow competitive market with small balance sheets which limits their ability to raise long term resources. The financial system plays a limited role in financing of housing investments and the cash economy remains a significant driver of real estate investment in the country. Housing and mortgage loans outstanding represent only about 8% of the private sector credit. There is no official definition of low and middle income housing finance for the financial sector, and Bangladesh Bank does not collect data on housing finance dis-aggregated by income segments. This prevents policymakers, regulators, the financial sector and development institutions from monitoring the state of housing finance to the low and middle income. Thus, is it difficult to develop appropriate policy responses to changing market conditions, and other interventions to develop the market. In addition, banks and financial institutions cannot determine sectorwide characteristics such as the current size of the market, non-performing loans and growth over time which they need to develop strategies to target this market.'	*In order to achieve better access to housing finance, Bangladesh would need to undertake thorough reforms in financial sector deepening and regulatory environment to make available long term financing so as to overcome the main challenge of expanding access to the middle- and lower-income groups. Implementation of legal and regulatory reforms that aid and improve the financial sector performance would be essential for better operation of housing and housing finance markets. Such efforts may include the promotion of a government backed asset reconstruction company which could take over the legacy NPAs of public sector banks and FIs (e.g. HBFC)* *The efforts of Bangladesh Bank towards financial stability need to be complemented with Government funded stage-wise capital infusion (linked to performance targets) so as to strengthen the balance sheets of the public sector banks and make them competitive vis-à-vis private banks.* *Bangladesh Bank can determine an official definition of low and middle income housing finance, and work in partnership with other real estate and housing sector regulators so that this definition is harmonized across the broader housing market. Bangladesh Bank can then mandate that banks and NBFCs submit data on their housing finance disbursements, loans outstanding and non-performing housing loans dis-aggregated by income segments.'*
(B)	Absence of a well-functioning mortgage market	The formal mortgage finance system in Bangladesh is small relative to new housing construction and only serves the highest income groups with a skewed market concentration of over 90% in the city of Dhaka. The market is characterized with weak underwriting, loan administration and risk management practices, though this is not true of all lenders. The underdevelopment of resale property market has negative implications on deepening of the mortgage market. Securitization and secondary market transactions are yet to take off, which limits access to funding from the capital market. The Government's outlook towards housing finance/ mortgage lending is more control oriented and it is considered less important vis-à-vis SME finance and industrial finance, export sectors, infrastructure etc. However, it needs to be recognized that housing and housing finance are strongly inter-linked with several other sectors in the overall economy.	*The mortgage system needs to be strengthened by reinforcing the efficiency of mortgage collateralization (by ensuring a conducive legal environment) and investing in the overhaul of land registration system which should include early completion of computerization of land titling and land registration. Such strengthening is a prerequisite to widen the access to low and middle income housing finance and attract capital market funding.* *Proper functioning of housing finance markets requires an efficient and updated housing registration system. Steps should be taken to improve the efficiency of recording, registration and mapping of house ownership and all transactions. The government should consider setting up a collateral registry for mortgages and also look at investing in a mortgage guarantee company which could help facilitate securitization transactions and improve access to capital markets to raise long term resources.* *A comprehensive strategy will need to be developed and pursued together with finance for housing, in parallel to a (low-income) housing policy and in particular the expansion of affordable housing. This should include stimulating the efficiency of the mortgage market by ensuring a level playing field among banks and non-banks in respect of prudential norms and restructuring HBFC.*

Issue Category	Key Challenges and Constraints – Brief Description	Recommendations / Strategies / Ideas for Addressing the Issue
(C) BHBFC's role and future prospects	The traditional lender, the state owned Bangladesh House Building Finance Corporation (HBFC), is in a challenging financial situation and relies on recoveries to support its lending activity. Despite noticeable efforts, HBFC's market share fell from 48 percent to 17 percent from 2001 to 2011 and is now much below 10%. The HBFC, which is charged with provision of financial assistance for housing needs of the lower income population, is short of funding resources, exposed to a high level of nonperforming loans. Besides, HBFC's governance and administration is largely with the Ministry of Finance and it is not regulated by the Bangladesh Bank, which possibly affects its operating and financial performance.	*In spite of its shortcomings, the HBFC has many positive aspects to harness. Traditionally the oldest mortgage finance provider, <u>it has accumulated institutional knowledge and experience; and it is well versed in housing, mortgage lending, titling, and documenting issues</u>. It is among the largest specialized financial institutions, having widespread geographic presence and a large borrower base. Because of its geographic spread, <u>it is well placed to further any government programs aimed at providing housing solutions for lower-income groups</u>.* *HBFC though <u>needs to undergo a thorough organizational and financial restructuring exercise to improve its financial health, restructure its borrowings and liabilities and work out a business plan to ensure its long term viability and sustainability</u>. The present business volumes need to be enhanced. Improved service delivery and a more attractive product portfolio will help it retain its market share in the increasingly competitive housing finance market. The shareholders, the board, and the management need to carry out an overall market review in order to identify a market niche for HBFC. A possible strategy could be <u>repositioning of the entity into an efficient vehicle for catering to low-income borrowers with better targeted housing subsidies</u> while ensuring strong fundamentals.* *In addition, HBFC <u>needs to be brought under the standard prudential regulations of Bangladesh Bank</u> so as to ensure that it is fully aligned with all other mortgage lenders and is thereby exposed to the same market and competitive forces with a level housing finance market playing field.*
IV. Operating and Enabling Environment for Primary Lenders		
(A) Legal: The enforcement of mortgage rights is inefficient	Despite the creation of Money Loan Courts (1990), the judicial execution for default cases is very cumbersome and can take more than 10 years. The 1984 amendment in respect of rural homestead properties extends protection to such properties from enforcement of mortgage. This adversely affects mortgage lending in rural areas. Costs and procedures associated with property registration and transfer of ownership (including stamp duty charges) need to be rationalized as well as simplified. This is critical for the development of a strong secondary market (resale properties).	*The Ministry of Finance and the Law Ministry should consider undertaking <u>a comparative study of foreclosure laws and laws relating to the enforcement of security interest which are functional in a few countries</u> in South and East Asia. This could lead to the development of a model law which could be considered for adoption by Bangladesh. India's SARFAESI law could be used as a good example to develop the model law.* *<u>The Artha Rin Adalat (Money Loan Courts) infrastructure and capacity needs to be suitably augmented</u> across Bangladesh so that it can fast track the legal enforcement of mortgage rights in cases of default.* *Laws should be reviewed and <u>reform measures undertaken (including rationalization of stamp duty charges) to improve upon the present registration system</u> so that it can facilitate acquisition of houses, provide security of ownership and ensure more efficient house transfers.*
(B) Regulatory environment for primary lenders	There is a growing concern regarding the lack of a level playing field among NBFCs and Banks in terms of prudential regulations; banks are disadvantaged when compared with NBFCs. Besides the state owned lender HBFC is not subject to the prudential regulations of the Bangladesh Bank. The broad philosophy is that Banks are meant to do SME, industrial and wholesale lending and NBFCs are meant for consumer lending including housing. "Housing" is still seen as non-productive and a luxury good and therefore not accorded the mandate of priority sector or deserving sector.	*Bangladesh Bank should consider <u>setting up a task force with representation of industry experts and all stakeholders including primary lenders to undertake a thorough review of the prudential regulations applicable to Banks and NBFCs including specialized housing finance companies</u> such as DBH and HBFC. The revised set of regulations (as recommended by this task force) should ensure that Banks and NBFCs are treated at par and that one category of lenders is not put at an unfair advantage over the other.* *Restrictions imposed on Banks as against NBFCs in the area of financial (e.g. NPA recognition, provisioning, risk weights) and operational aspects (e.g. collection practices) should be taken up for review and suitably amended.* *<u>The new regulations should embrace consumer protection principles and encourage responsible lending</u> to minimize exploitative practices e.g. mis-selling, hidden charges etc.*
(C) Funding issues for primary lenders	The lack of long term funding remains a huge constraint among banks as well as NBFCs. The existing state of (under) development of the bond market in Bangladesh has not allowed the financing of long-term housing loans by matching resources. This is a significant constraint for the liquidity management of primary lenders, even among those that mostly rely on public deposits.	*In order to mobilize long term resources for housing (by tapping into public savings) the government should <u>consider allowing a diversification of the National Savings Certificate (NSS) portfolio and creating a special "Deposit Pension Scheme" (DPS) for Housing</u>.* *Given that banks and financial institutions engaged in mortgage lending face a maturity mismatch on housing loans, <u>promoting a well-capitalized mortgage refinance company is crucial to the growth of housing sector</u>. A first step could be the setting up of a market based refinancing facility at Bangladesh Bank funded by donor institutions.*

Issue Category	Key Challenges and Constraints – Brief Description	Recommendations / Strategies / Ideas for Addressing the Issue
(D) Taxation policy to address land supply and demand side issues	In Bangladesh almost no attention has been given to taxation policies that could discourage speculative investments in land which is left undeveloped for extended periods of time. Tax burden on vacant urban land is currently negligible. Sky-rocketing land value in recent years has encouraged high net-worth individuals to invest surplus funds (largely cash) to acquire urban land to garner higher returns. This leads to an artificial shortage in fast growing cities and smaller-sized land parcels which cannot be easily aggregated for larger development.	*Appropriate fiscal measures, including taxation should be applied to promote adequate supply of housing and land. This could include higher property taxes imposed on vacant land and prudent use of capital gains tax to serve as a disincentive for large speculative land holdings. This can help regulate land prices and generate much needed revenues for financing urban development.* *In addition, the following tax proposals could be considered to give a thrust to housing finance:* - *Exempting income tax on 20% - 40% of the net profit earned by specialized Housing Finance Companies provided this gets appropriated to a Special Reserve to be used as a leverage for mobilizing long term resources;* - *Principal and Interest repayment towards a first time housing loan could be made tax deductible to the extent of BDT 100,000 (USD 1,266) to BDT 200,000 (USD 2,532) respectively.*
(E) Subsidy initiatives to support low-income households	Government housing programs such as Grihayan Tahbil and Asrayan have been designed to offer a very low fixed rate of interest targeting poor and low-income households. Other government schemes such as the refinancing scheme of 2007-08 have targeted middle income households with slightly concessional interest rates. The fund availability under such government programs (generally administered by Bangladesh Bank) has been very limited relative to the scale of demand.	*The government should consider rationalizing all the implicit subsidy mechanisms to develop a policy of well-targeted assistance by channelling market resources alongside the limited amount of government subsidy.* *Interest rate subsidy schemes often prove to be both distortionary as well as regressive. Instead the government could consider a down payment / capital subsidy mechanism to be accompanied with a market-priced housing loan. The subsidy amount would be upfront in the hands of the borrower / seller to meet the property cost. Such an arrangement would require a one-time disbursement alongside the loan disbursement with lesser administrative burden on the implementing entity.*

CHAPTER 6

A FEW STRATEGIC INTERVENTIONS FOR CONSIDERATION OF GOVERNMENT, INTERNATIONAL DFIs AND DONOR INSTITUTIONS

6.1 Context for Evaluating Opportunities to Engage with Public and Private Sector Institutions and Primary Lenders in the Short and Medium Term

As outlined in the previous chapters of this report, the mortgage market in Bangladesh is very small and nascent and therefore it should not be seen merely from a "development lens" with a limited focus on low and informal income households. Most of the urban working population including lower and middle income salaried / self-employed households remain completely out-priced in the current real estate market and are unfortunately destined to live most of their lives in a rented house. The government and multi-lateral / bi-lateral donor institutions and development finance institutions (collectively referred to as interested stakeholders) need to channel their efforts in developing the mortgage market as a whole and address various issues and challenges at the sector level, including the real estate supply side situation. The vision should not be constrained with only segment level priorities at this stage. Listed below are some ideas in the form of a roadmap for possible short and medium term interventions for creating an appropriate enabling environment that would enhance the access to middle and low Income housing finance.

6.2 Roadmap for Improved Access to Housing Finance for Low and Middle Income Segments in Bangladesh – Proposed Interventions

I. Setting up of an 'apex housing finance institution' – say, <u>Bangladesh National Housing Bank (BNHB)</u>, with equity support from GOB and International DFIs

- The idea of promoting an apex housing bank like BNHB which is expected to build a robust, fast growing and inclusive mortgage market in Bangladesh could be developed on the lines of similar institutions in other countries, which have successfully impacted the housing and housing finance trajectories after they were created.
- GOB should consider constituting a high level task force to carry out an in-depth study of different national housing finance systems in a few emerging economies, which should ideally include countries following different approaches, such as:
  - The Housing Ministry leading the housing and housing finance initiatives (e.g., Ministry of Public Works and Housing in Indonesia)
  - Housing finance and housing microfinance initiatives led by the central bank / regulator (e.g. Central Bank of Nigeria, Central Bank of Kenya)
  - Government owned / promoted apex level housing finance institutions set up at a national level either as a bank / regulator / refinance agency, e.g.:
    - National Housing Bank (NHB), India (established 1988, wholly owned subsidiary of India's central bank, the Reserve Bank of India)
    - National Housing Finance Corporation (NHFC), South Africa, promoted in the year 1996 by the Department of Housing as a state-owned DFI
    - Japan Housing Finance Agency (JHFA), 100% owned by the government (previously Govt. Housing Loan Co., restructured in 2007 as JHFA)

The Indian example of NHB is perhaps among the more successful initiatives where the apex institution has played a regulatory as well as promotional role in housing finance, alongside refinancing and facilitation of secondary market operations with the issuance of mortgage backed securities (MBS). Interestingly, the above-mentioned examples have generally followed a twin-pronged strategy to address both supply side and demand side issues that limit access to affordable housing, including engaging in public private partnerships.

- BNHB could be possibly constituted as a subsidiary of Bangladesh Bank with deputation of some of its senior staff and equity investment from the GOB and international DFIs
- The proposed BNHB could have multiple roles, some of which are listed below:
  - (a) Regulator for mortgage portfolios of all Banks, NBFCs and Specialised FIs
  - (b) Regulator for all Housing Finance Companies (HFCs) – introduced as a new category of licensed NBFCs by BNHB with existing players e.g. DBH, NHFIL and HBFC being encouraged to transition into HFCs; some banks may consider setting up HFC subsidiaries and transferring their mortgage portfolios to the new vehicle
  - (c) Operate as a mortgage refinance agency channelling all government funding and budgetary resources for housing; augmenting sources of long term debt capital
  - (d) Develop secondary mortgage market by facilitating issue of MBS and covered bonds
  - (e) Promotional role with a mandate to selectively consider equity investment in existing and new HFCs and provide concessional debt funding
  - (f) Mobilise long term domestic resources and tap into household savings through issue of tax friendly bonds, deposit schemes, NCDs and other instruments
  - (g) Facilitate necessary financial infrastructure including mortgage guarantee company, collateral registry, setting up of debt recovery tribunals and strengthening of CIB
  - (h) Revive the depressed real estate market by propagating affordable housing and possibly extending project finance and regulating construction finance to developers
  - (i) Provide thought leadership in housing and housing finance and help innovate new products e.g. reverse mortgage, Islamic housing finance, green mortgages etc.
  - (j) Assist in policy formulation relating to affordable housing, real estate, rental housing, housing microfinance and low-income housing finance
  - (k) Operate special subsidy schemes (preferably use of down-payment subsidy) for deserving segments e.g. informal income, rural and urban poor etc.

The setting up of BNHB can be regarded as a medium term strategy as the preparatory work and promotional efforts to be undertaken could take up to 3-4 years. The first step could be the setting up of a task force comprising various stakeholders and experts to evaluate different approaches and recommend the preferred structure, followed by a steering committee comprising GOB, BB and Ministry officials to chart the way forward.

II. Setting up a Liquidity Facility at Bangladesh Bank to refinance LMIHF loans (Urban)

- As a short term measure, GOB should consider a liquidity facility at Bangladesh Bank with an initial size of about USD 200 million, with a maturity of 10 – 12 years. The facility could leverage available government funding with borrowings from International DFIs. In the first phase the facility should target lenders– banks and non-bank lenders, subject to their qualifying certain minimum eligibility criteria.
- The facility should be available for financing housing loans to the target income segments with a thrust on lending in non-metropolitan cities and towns
- The facility should have a component reserved for informal income borrowers
- The liquidity facility should be accompanied with a comprehensive Technical Assistance (TA) component which can be funded by donor institutions:
  - (a) TA to help build capacity of primary lenders to enter new markets and launch new products, assessing informal incomes, risk management, responsible lending etc.

(b) Capacity building at Bangladesh Bank – BRPD, DFIM, other concerned departments

(c) TA to set up a national training academy and certification program for building talent pool and skilled manpower in mortgage lending (sales/ credit/ technical etc.)

(d) Initiate a dialogue / forum among participating lenders, Bangladesh Bank and other key stakeholders for the setting up of an apex housing bank.

GOB / Ministry can consider initiating a consultative process for the design and structure of the liquidity facility and TA component and invite International DFIs and donor institutions to participate.

III. Credit Line at Bangladesh Bank to finance informal sector borrowers and rural poor

- A similar arrangement for public sector primary lenders (comprising state owned banks and HBFC) could be in the form of a credit line of about USD 100 million with Bangladesh Bank as a financial intermediary. The facility should include a TA component as well.
- The selection process to be eligible for the credit line should include banks' due-diligence and qualifying criteria, and must lay emphasis on reforms to ensure their financial health
- The credit line should cover the financing of housing loans to the target income segments with a thrust on lending in smaller towns and rural areas
- The facility should have separate components for lending to informal income borrowers and a (Islamic) Sharia compliant housing finance product
- TA component for reforms needed in HBFC and capacity building of public sector banks
- TA for enabling environment – urgent need to address various issues / gaps in the policy framework including supply side constraints, registration of ownership and mortgage, legal environment and enforcement, lack of coherence in government interventions etc.

GOB / Ministry can initiate a consultation workshop with donors and international DFIs interested in funding the credit line along with technical assistance. The TA component for capacity building of qualified banks / HBFC could be undertaken first, following which the credit line facility could be operationalized.

IV. Market Study to determine potential for 'Project Finance for Worker Housing'

Housing initiatives such as dormitories and rental accommodation for employees of MSMEs and garment factory workers have proved to be woefully inadequate, which leaves bulk of the workers to make their own arrangements, ultimately leading to proliferation of slums and squatter settlements. There is a significant opportunity in providing safe and durable housing with basic services by private developers, provided an acceptable financing and ownership arrangement is negotiated among employers, employees and developers. The direct benefit would be in addressing the acute housing shortage for migrant workers and ensuring worker loyalty with quality housing offered as a staff incentive.

This requires approaching banks and NBFCs for extending project finance to the employers and / or developers as the case may be. There is scope to develop a Liquidity Facility for the wholesale lending institutions, which may be willing to drive this initiative.

- The GOB could as a first step initiate a study to understand the market aspects, potential demand from MSMEs and manufacturing industry and quantify the opportunity, and map suitable locations for pilots.
- Facility meant to refinance construction finance loans made by NBFCs and Banks to MSME owners / employers and developers for the purpose of building dormitories / residential quarters for their workers either on rental basis or on a "rent to own" basis
- Such funding should not be included as part of real estate exposure of NBFCs and Banks as developers shall likely be engaged only as contractors
- The study should evaluate and recommend a few business models (financing arrangements and ownership structure) and suggest ways to incentivise employers to create worker housing with appropriate social and environmental safeguards.

V. PKSF administered Credit Line to select MFIs for expanding Housing Microfinance

The World Bank funded the Low Income Community Housing Support Project (LICHSP) provides for a USD 16 million credit line to PKSF covering 10-12 non-metropolitan cities. Each location (pourushava) is mapped to a single partner MFI, which has been carefully selected for launching housing microfinance (HMF) operations by accessing funds under the credit line. In addition, the LICHSP has a USD 2 million Technical Assistance component to build the necessary capacities at PKSF and participating MFIs.

This credit line, which will be operational during 2016-2021, is an excellent initiative to test the market for HMF products. It attempts a community and neighbourhood approach with complementary infrastructure upgrades and provision of tenure by the National Housing Authority (NHA). The TA is intended to build capacities of PKSF's partner MFIs to sustain the HMF product and operations beyond the World Bank assisted project.

Based on the experience gained under this credit line, and subject to well-performing HMF loan portfolios at the time of mid-term review of LICHSP (in 2019), there is an opportunity to scale up this initiative or launch an expanded intervention under a similar arrangement. The second round of funding for scaling up HMF lending operations may come into play in FY21.

- The new Credit Line should cover a wider market that may include non-LICHSP towns, semi-urban and rural areas and also consider selecting non-LICHSP MFIs subject to their qualification under the minimum eligibility criteria; the TA component should provide for: (a) capacity building of MFIs and (b) addressing enabling environment challenges
- Evaluate the opportunity to offer improved and larger ticket Individual loan products for various housing needs based on the LICHSP credit line experience
- Test new HMF products arising from the climate resilient housing business models (developed by IFC) with construction technical assistance towards climate proofing
- Build capacity through a TA program that complements the LICHSP approach; the MFIs need help in upgrading their MIS and IT systems and reduce dependence on cash by adopting mobile banking and digital payment systems to lower operating costs
- The TA component for enabling environment should cover the following:
  - (a) Supporting the development of a high quality MF-CIB by working with MRA and BB
  - (b) Institutionalising the NHA tenure arrangement for all towns and cities and resolving legal issues that restrict mortgage of rural properties
  - (c) Acceptance of building codes / guidelines proposed under LICHSP.

VI. 'Universal Sanitation Finance Facility' administered through MFIs

Among various human development indicators, Bangladesh has done well in improving sanitation in urban areas with over 76% of urban population using a sanitary toilet. GOB can now pursue the goal of universal sanitation by encouraging construction of toilets among individual house-owners in urban as well as rural areas.

Small-ticket home upgradation / toilet construction loans of up to BDT 25,000 (USD 316) administered through joint liability groups as an extension of housing microfinance through the vast network of MFIs could help in achieving universal sanitation.

- The Universal Sanitation Finance Facility could be administered via PKSF by involving all partner MFIs (including Category C institutions) subject to minimum eligibility criteria
- The facility should be aligned with the WASH / WSP program of other donors e.g. Habitat for Humanity, International and Water.org
- Incorporate global best practices in product design and credit administration
- Preferably avoid individual lending as the transaction costs of MFIs would go up and this would be passed on to the end-borrowers
- Build appropriate technical supervision for construction quality checks for ensuring minimum standards (particularly regarding functionality of the toilets), environmental and social safeguards and client awareness and participation.

ANNEXURE I: List of Persons Met

Sr. No	Name	Designation	Organisation
1	Professor Nazrul Islam	Chairman	Centre for Urban Studies (CUS), Dhaka
2	Dr. K.A.S Murshid	Director Genral	Bangladesh Institute of Devolopment Studies
3	Md. Maksud Hossain	Statistical Officer, Statistical and Informatics Division	Bangladesh Bureu of Statistics
4	Md. Jafrul Islam	Joint Director, Grihayan Tahbil (Fund Management Unit)	Bangladesh Bank
5	Md. Monsur Ali	Deputy Director, Grihayan Tahbil (Fund Management Unit)	Bangladesh Bank
6	Md. Rafiqul Islam	DGM, Department of Financial Institutions and Markets	Bangladesh Bank
7	Md. Abdul Wahab	Jt. Director, Department of Financial Institutions and Markets	Bangladesh Bank
8	Mohammad Abdul Hashem	Jt. Director, Department of Financial Institutions and Markets	Bangladesh Bank
9	Md. Mizanur Rahman	Genral Manager, Statistics Department	Bangladesh Bank
10	Md. Ballal Hossain	DGM, Statistics Department	Bangladesh Bank
11	Monsura Khatun	General Manager, Credit Information Bureau	Bangladesh Bank
12	Md.Nazmul Haque	Deputy General Manager, Credit Information Bureau	Bangladesh Bank
13	Md.Azad Uddin	Joint Director, Credit Information Bureau	Bangladesh Bank
14	Munshi Mohammad Wakid	Joint Director, Credit Information Bureau	Bangladesh Bank
15	Md.Al-Mehedi Hasan	Senior System Analyst, Credit Information Bureau	Bangladesh Bank
16	A.K.M.Fazlul Haque Mia	Executive Director (Specialized) in Current Charge (BRPD)	Bangladesh Bank
17	Md.Shazzad Hossoin	Director, Microcredit Regulatory Authority	Bangladesh Bank
18	Mohammad Sayedur Rahman	Additional Secretary, Member (Planning)	National Housing Authority
19	Salwa Zaman	Assistant Engineer (Civil), Planning and Design Division	National Housing Authority
20	Omar Farooque	Managing Director	Bangladesh House Building Finance Corporation
21	Md. Amin Uddin	General Manager	Bangladesh House Building Finance Corporation
22	Dr. Daulatunnaher Khanam	General Manager	Bangladesh House Building Finance Corporation
23	AKM Nuruzzaman	Deputy General Manager	Palli Karma-Shayak Foundation
24	Afsana Islam	Private Sector Development Advisor	UKAID
25	Sandrie Cpelle Manuel	Project Manager	UNDP
26	Nick Beresford	Deputy Country Director	UNDP
27	Ashekur Rahman	Urban Programme Analyst	UNDP
28	Bidyut Kumar Saha	Senior Financial Sector Specialist	ADB
29	Terry R Heap	Group Chief Executive	ERU Consulting Group (ADB)
30	Maria A May	Senior Programme Manager	BRAC
31	Qazi Khaze Alam	Chief Executive	Proshika
32	A.K.M.Hadan Sayed	Director (Program & Field Operation)	Proshika
33	Md.Abul Bashar	Senior Manager	Habitat for Humanity
34	Junayed Ahmed Chowdhury	Managing Partner	Vertex Chambers (Law Firm)
35	Md. Shahidul Hoque	Deputy General Manager	Real Estate & Housing Association of Bangladesh
36	Azmal Hossain	Office Secretary	Real Estate & Housing Association of Bangladesh
37	Dr.Toufiq M.Seraj	Managing Director	SHELTECH
38	Nazmul Haque Khan	Architect	Suvastu Development Limited
39	Mohammad Aktaruzzaman	Managing Director	Suvastu Development Limited
40	F R Khan	Managing Director	Building Technology & Ideas ltd. (bti)
41	Rajib Roy	Executive (Sales & Marketing)	Concord
42	Md.Khalilur Rahman	Managing Director	National Housing Finance and Investments Limited

Sr. No	Name	Designation	Organisation
43	Shital Chandra Saha	Senior Vice President	National Housing Finance and Investments Limited
44	Md. Kamal Pasha	Senior Vice President	National Housing Finance and Investments Limited
45	Md. Sarwar Kamal	AVP & Company Secretary	National Housing Finance and Investments Limited
46	Mahbubur Rashid Al-Amin	AVP & Head of Operation	National Housing Finance and Investments Limited
47	Nasar Hassan Khan	General Manager & Head of Consumer Division	IDLC Finance Limited
48	Mahjebeen Binte Rahman	AGM & Head of Credit	IDLC Finance Limited
49	Mahmudur Rahman Khan	Product Manager	United Finance Limited
50	Rahat Amjad	Distributor Finance	United Finance Limited
51	Asad Khan	Managing Director	Prime Finance & Investment Limited
52	Shaikh Moshiur Rahman	Senior Officer	Bangladesh Industrial Finance Company Limited
53	Sohail R.K.Hussain	Managing Director & CEO	The City Bank Limited
54	Mashrur Arefin	Additional Managing Director & Chief Operating Officer	The City Bank Limited
55	Abdur Rahman	Head of Branches	The City Bank Limited
56	Syed Mohammed Omar Tayub	SVP & Head of Credit & Collections	The City Bank Limited
57	Subir Kumar Kundu	Head of Asset & Liability Value Center	The City Bank Limited
58	Rajesh Kumar Barua	FVP & Head of Underwriting, Retail and Small Business	The City Bank Limited
59	Mahbub Jamil	Acting Head of Structured Finance	The City Bank Limited
60	Mohammad Jahangir Alam	Cluster Head, Public Sector, PPP & Service Sector	The City Bank Limited
61	Mohammad Azizur Rahman Shuman	Head of Risk Management	The City Bank Limited
62	S.M.Moinul Hossain	Head of Retail	BRAC Bank
63	Mosleh Saad Mahmud	Head of Consumer Experience & Retail Products	BRAC Bank
64	Tahmina Zaman Khan	Senior Manager	BRAC Bank
65	Salahuddin Ahmed	Senior Manager	Eastern Bank Ltd.
66	Latiful Mannan Chowdhury	Senior Manager	Eastern Bank Ltd.
67	Mohammad Salekeen Ibrahim	Senior Manager	Eastern Bank Ltd.

ANNEXURE II

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