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Report No: PAD2385

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR99.6 MILLION
US$145 MILLION EQUIVALENT

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

PAKISTAN HOUSING FINANCE PROJECT

March 8, 2018

Finance, Competitiveness & Innovation (FCI) Global Practice
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 27, 2018)

Currency Unit	=	Pakistani Rupees (PKR)
PKR 110.7	=	US$1
US$1.45566764	=	SDR 1

FISCAL YEAR
July 1 – June 30

Regional Vice President:	Annette Dixon
Country Director:	Patchamuthu Illangovan
Senior Global Practice Director:	Ceyla Pazarbasioglu
Practice Manager:	Nabila Assaf
Task Team Leader(s):	Korotoumou Ouattara, Yoonhee Kim

ABBREVIATIONS AND ACRONYMS

AGPR	Accountant General of Pakistan Revenue
CPEC	China Pakistan Economic Corridor
DFI	Development Finance Institution
DFID	Department for International Development (UK Government)
E&S	Environmental and Social
ESMS	Environmental and Social Management System
FM	Financial Management
GDP	Gross Domestic Product
GoP	Government of Pakistan
HBFCL	House Building Finance Company Limited
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFR	Interim Financial Report
IUFR	Interim Unaudited Financial Report
KIBOR	Karachi Inter Bank Offer Rate
LOC	Line of Credit
LRMIS	Land Record Management Information System
LTV	Loan-to-Value ratio
M&E	Monitoring and Evaluation
MFB	Microfinance Bank
MFI	Microfinance Institution
MOF	Ministry of Finance
NBFI	Non-Bank Financial Institution
NFIS	National Financial Inclusion Strategy
NPL	Non-Performing Loan
NSS	National Savings Scheme
PC	Planning Commission
PDO	Project Development Objective
PFI	Participating Financial Institution
PIB	Pakistan Investment Bond
PKR	Pakistan Rupee
PMIC	Pakistan Microfinance Investment Company
PML	Primary Mortgage Lender
PMRC	Pakistan Mortgage Refinance Company
POM	Project Operations Manual
RSF	Risk Sharing Facility
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
TA	Technical Assistance
TOR	Terms of Reference
WB	World Bank

BASIC INFORMATION

Is this a regionally tagged project?	Country(ies)	Financing Instrument
No		Investment Project Financing

[ ] Situations of Urgent Need of Assistance or Capacity Constraints

[✓] Financial Intermediaries

[ ] Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
29-Mar-2018	30-Jun-2023	F - Financial Intermediary Assessment

Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

The Project Development Objective is to increase access to housing finance for households, and support capital market development in Pakistan.

Components

Component Name	Cost (US$, millions)
Support to PMRC in Strengthening its Capital Base	60.00
Supporting Expansion of Mortgage Loans	80.00
Capacity Building for Housing Policy and Analytics	5.00

Organizations

Borrower :	Islamic Republic of Pakistan
Implementing Agency :	PMRC Ministry of Planning, Development & Reform

PROJECT FINANCING DATA (US$, Millions)

[ ] Counterpart Funding	[ ] IBRD	[✓] IDA Credit	[ ] IDA Grant	[ ] Trust Funds	[ ] Parallel Financing

Total Project Cost: 145.00	Total Financing: 145.00 Of Which Bank Financing (IBRD/IDA): 145.00	Financing Gap: 0.00

Financing (in US$, millions)

Financing Source	Amount
International Development Association (IDA)	145.00
Total	**145.00**

Expected Disbursements (in US$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	70.00	40.00	10.00	10.00	10.00	5.00
Cumulative	70.00	110.00	120.00	130.00	140.00	145.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Social, Urban, Rural and Resilience Global Practice

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✔] No

Does the project require any waivers of Bank policies?

[ ] Yes [✔] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✔	
Natural Habitats OP/BP 4.04		✔
Forests OP/BP 4.36		✔
Pest Management OP 4.09		✔
Physical Cultural Resources OP/BP 4.11		✔
Indigenous Peoples OP/BP 4.10		✔
Involuntary Resettlement OP/BP 4.12	✔	
Safety of Dams OP/BP 4.37		✔
Projects on International Waterways OP/BP 7.50		✔
Projects in Disputed Areas OP/BP 7.60		✔

Legal Covenants

Sections and Description
Financing Agreement - Section I. Implementation Arrangements.
The Recipient, through its Planning Commission, shall adopt and cause PMRC to adopt the Project Operations Manual, acceptable to the Association, within two (2) months from the Effective Date.

Sections and Description
Financing Agreement - Section II. Project Monitoring, Reporting and Evaluation Reporting.
The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Sections and Description

Financing Agreement - Section IV. Other Undertakings.
The Recipient shall refund the proceeds of the Credit allocated for carrying out of Part 1 of the Project, if PMRC falls into bankruptcy proceedings and/or its capital is seized or otherwise depleted for non-Project purposes, prior to the Closing Date.

Sections and Description
Project Agreement with PMRC - Part 2 (a) of the Project.
PMRC shall hire a risk manager and an internal auditor, whose terms of reference are acceptable to the Association, within three (3) months from the Effective Date.

Conditions

Type	Description
Effectiveness	The Subsidiary Agreement between the Recipient and the PMRC has been executed and delivered, acceptable to the Association.
Disbursement	For Categories (1) and (2) until: (i) PMRC has obtained from SBP a business commencement certificate and adopted regulations governing its operations, satisfactory to the Association; and (ii) PMRC has developed an environmental and social capacity building plan, acceptable to the Association; and (iii) PMRC has established a grievance redress mechanism acceptable to the Association.
Disbursement	For Category (2)(a) until PMRC has designated an environment and social risk management coordinator, whose terms of reference is acceptable to the Association.
Disbursement	Under Category (2)(b) until the risk sharing facility has been established by PMRC under terms and conditions acceptable to the Association, as set forth in the Project Operations Manual.
Disbursement	Under Category (3) until the finance officer, whose terms of reference is acceptable to the Association, has been hired or deputized in the Planning Commission of the Recipient.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Korotoumou Ouattara	Team Leader(ADM Responsible)		GFCSN
Yoonhee Kim	Team Leader		GSU12
Haider Raza	Procurement Specialist(ADM Responsible)		GGOPZ
Qurat ul Ain Hadi	Financial Management Specialist		GGOAP
Ahmed Mohamed Tawfick Rostom	Team Member		GFCSN
Andrey Milyutin	Team Member		GFCLT
Aza A. Rashid	Team Member		GFCSS
Babar Naseem Khan	Social Safeguards Specialist		GSU06
Ehtesham-ul Haq	Team Member		SACPK
Ekaterina Grigoryeva	Environmental Safeguards Specialist		GEN03
Junko Funahashi	Counsel		LEGES
Loic Chiquier	Team Member		GFCLT
Namoos Zaheer	Team Member		GFCSN
Nouma T. Dione	Team Member		GFCS1
Olivier Hassler	Team Member		GFCDR
Sarmad Ahmed Shaikh	Team Member		GFCSN
Shabir Ahmad	Team Member		SACPK
Sohaib Athar	Team Member		GSU12
Victor Manuel Ordonez Conde	Team Member		WFACS

Extended Team

Name	Title	Organization	Location

PAKISTAN
PAKISTAN HOUSING FINANCE PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **Pakistan, with an estimated population of over 207 million people, is the world's sixth most populous country**. In recent years, it has achieved continued gross domestic product (GDP) growth and substantially reduced poverty. GDP growth was 5.3 percent in FY16/17 and is expected to continue accelerating, reaching 5.8 percent in FY19. Growing fiscal and external imbalances may, however, erode these gains if not addressed. The national poverty headcount declined from 64.3 percent in FY02 to 29.5 percent in FY14. Nevertheless, inequality persists and the country continues to rank low on the human development index, at 147th out of 188 countries. Macroeconomic, political, and security conditions, natural disasters, and enduring unreliable power supply continue to constrain the country's achievement of poverty reduction and shared prosperity goals.

2. **The low and stagnant investment rate, however, continues to pose significant challenges to economic growth**. After strong growth in FY15 of 13 percent, Investment to GDP grew marginally from 15.6 percent in FY16 to 15.8 percent in FY17. Pakistan's much lower rate of investment, compared with an average rate in South Asia of 34 percent between 2010 and 2015, is driven by its security situation, energy shortages and poor business regulatory environment - ranked 147 of 190 countries (DB Report 2018) - despite recent progress. Pakistan also has very low levels of financial intermediation which contributes to this situation and hinders its progress towards more inclusive and higher growth. In 2016 financial sector assets stood at about 69 percent of GDP, below that of other relevant emerging markets. Private sector credit to GDP, which declined significantly from 2008-2015, was just 15 percent, significantly below the regional average of 48 percent.

B. Sectoral and Institutional Context

3. **Pakistan's financial sector has evolved from being dominated by underperforming state-owned banks to a modern and sound financial sector dominated by private banks.** The banking sector, consisting of 36 commercial banks and 10 microfinance banks (MFBs), accounts for about 75 percent of total assets of the financial sector. The nonbank sector—insurance, mutual funds, pension funds, development finance institutions, and microfinance institutions (MFIs)—accounts for about 8 percent, and the National Savings Scheme (NSS) constitutes the remaining 17 percent of assets. The regulatory framework and market infrastructure for bond markets (conventional and Islamic) is in place, but the market has seen limited activity and has a very limited investor base.

4. **Housing finance in Pakistan is particularly low, with a mortgage-finance-to-GDP ratio of 0.25 percent—**one of the lowest in South Asia (3.4 percent regional average; 3 percent in Bangladesh and 11 percent in India).[1] Overall access to financial services also remains limited, with fewer than 16 percent of adults having access to a formal account in 2014/15, so that the financial sector has a limited role in contributing to sustained and inclusive growth and dealing with the increasing housing shortage. The gender gap is also high, with 21 percent of men compared to only 11 percent of women having access.[2]

[1] International Financial Statistics (IFS) database, IMF.
[2] Pakistan Access to Finance Survey 2015.

5. **The estimated housing shortage in Pakistan is up to 10 million units,[3] of which about 40 percent is in urban areas.[4]** Over the next 20 years, the annual urban population increase is expected to be about 2.3 million per year (around 360,000 households at 6.35 individuals per household). A decline in family size and increased household formation rates (stemming from the large cohort of young people) are expected to further increase the demand for housing. The gap continues to increase by roughly 350,000 units per year, as new housing production falls short of the rate of household formation and existing housing units become obsolete. The quantitative housing shortage is exacerbated by qualitative deficits such as overcrowding, low quality, and continuous deterioration. Around 47 percent of urban households live in substandard housing, often located in informal settlements called *Katchi Abadis*, which lack basic urban infrastructure and have poor health conditions. The existing housing stock is also extremely overcrowded. Overall asset ownership, as well as home ownership, is highly skewed towards the male population, and estimates indicate that only 2 percent of women aged 15-49 own homes and only 2 percent own land. Joint ownership is higher but still only 8 percent of homes are jointly-owned and 2 percent for land.[5]

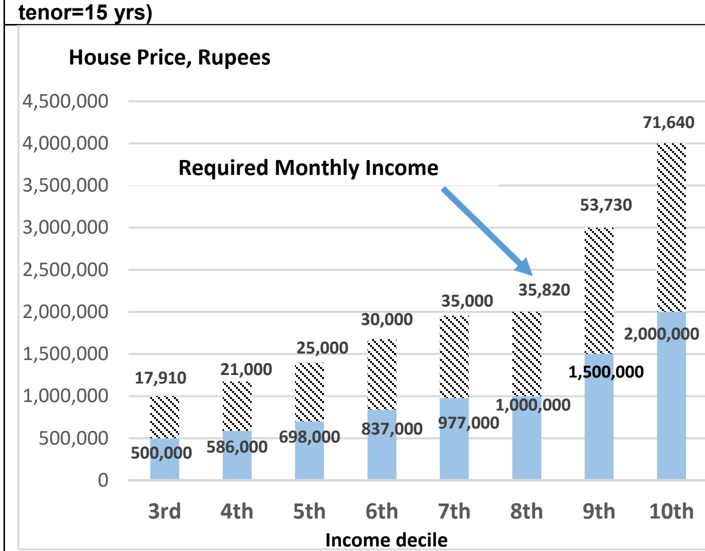
6. **There are significant affordability challenges in the housing sector in Pakistan.** Preliminary affordability analysis indicates that existing mortgage products are consistent with higher-income borrowers' payment capacity and real estate prices. Mortgage loans are typically extended to the extreme end of the high-income group, that is, the 10th income decile of urban households (see Figure 1).[6] Annually, only 1,500 new mortgage credits are extended (equivalent to 0.4 percent of annual urban household formation). The average loan size in 2016 was PKR 6.1 million (US$60,000), out of reach for most households, given a low average loan-to-value (LTV) ratio of 48 percent, requiring a substantial amount of savings to use as a down payment when applying for a mortgage loan. The average annual interest rate remains relatively low at one-year KIBOR[7] + 3.5 percent (around 10 percent currently), but these are variable rates with short tenors, which limit debt servicing capacity. There is considerable potential for the housing finance market to move to middle- and lower-income segments by developing innovative products and instruments (see Figure 2).

7. **Important policy and sectoral steps have been taken to support the revival of affordable residential mortgage lending.** The Government established a National Financial Inclusion Steering Committee chaired by the Governor of the State Bank of Pakistan (SBP), with a subcommittee on housing finance issues. In 2014 SBP adopted a specific prudential framework for mortgage lending, which had previously been regulated uniformly with other forms of consumer credit. Parliament also passed a key amendment to the mortgage recovery law, although there is still a need to train the judiciary to make the revised framework effective. In 2016 the Government of Pakistan (GoP) created a mortgage refinancing facility, the Pakistan Mortgage Refinance Company (PMRC). Sporadic progress is being made on titling issues and on strengthening the property registration system, for example through the ongoing Land Record Management Information

[3] Enclude, "Final Report: Diagnostic Survey of Housing Finance in Pakistan". Submitted to the State Bank of Pakistan. November 2015.
[4] International Growth Centre (ICG). "Housing inequality in Pakistan: The case of affordable housing." Note. February 2016.
[5] Pakistan Demographic and Health Survey 2012-13.
[6] Each decile represents 10 percent of all urban households.
[7] The Karachi Interbank Offered Rate, or KIBOR, is the average interest rate at which term deposits are offered among prime banks in the Pakistani wholesale money market or interbank market.

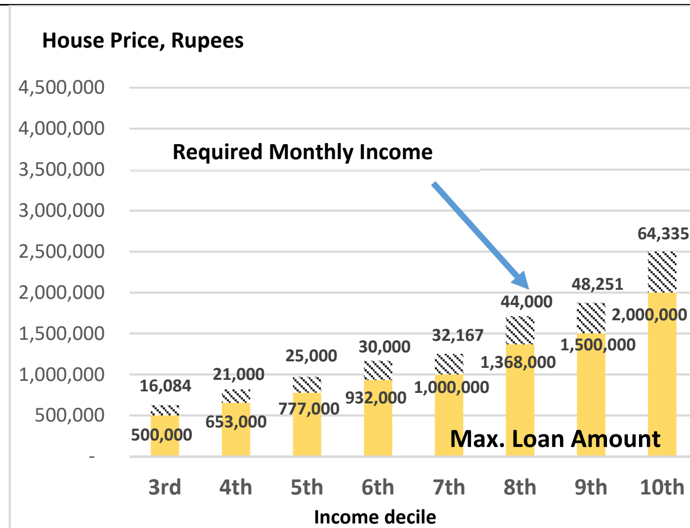
System (LRMIS) project in Punjab and computerization efforts in Karachi. The Securities and Exchange Commission of Pakistan (SECP) is establishing rules for the qualification and conduct of real estate valuators.

Figure 1. Current situation - loan amounts that HH can afford and required monthly income, by income decile, rupees (LTV=50%, loan tenor=15 yrs)



The calculations assume: (i) 30 percent of monthly income spent on housing; (ii) a 50 percent down payment; (iii) a 15-year loan term; and (iv) an interest rate of 10 percent (down payment is shown in grey).

Figure 2. Loan amounts that HH can afford and required monthly income, by income decile, rupees (LTV=80%, loan tenor=20 yrs)



The calculations assume: (i) 30 percent of monthly income spent on housing; (ii) a 20 percent down payment; (iii) a 20-year loan term; and (iv) an interest rate of 10 percent.

Source: World Bank staff calculations based on the Pakistan HIES survey data and interviews with government officials, SBP and financial institutions.

8. **The creation of PMRC marks an important step in achieving the GoP's objective to improve access to housing finance in Pakistan.** PMRC is expected to foster access to both mortgage finance and capital markets. PMRC has been established as a development finance institution (DFI) with majority private sector ownership (51 percent private commercial banks) and 49 percent public sector banks and the GoP/Ministry of Finance. PMRC is expected to address several market failures to improve mortgage affordability by: (i) supporting lending at a fixed rate, (ii) facilitating the standardization of origination and servicing standards of mortgages and enhancing their quality; and (iii) providing an efficient capital market long-term funding channel (see Box 1 on the importance of a mortgage liquidity facility).

9. **PMRC's three-phase strategy will enable it to serve as a secure source of long-term funding at attractive rates while ensuring sound lending habits among primary mortgage lenders (PMLs).** In Phase 1, PMRC will fund its refinancing activities from its capital. In Phase 2, which will begin in 2019, PMRC will make its debut in the local bond market to fund its refinancing operations. From 2019, PMRC's principal source of funding will be from the bond market. Phase 3 will involve the purchase of mortgage loans without recourse to be held in a portfolio and financed by PMRC's bonds and the pooling of mortgages into mortgage-backed securities that will be sold to investors.[8] This approach will boost confidence in PMRC's refinancing capacity as it progressively expands its role in the mortgage market. Overall, PMRC will bring security to the housing finance system through the basic characteristics of its business model.

[8] Given the present state of the market, Management does not see this taking place in the next 7-10 years.

Box 1. What is a mortgage refinancing liquidity facility like PMRC?

A mortgage refinancing liquidity facility is a wholesale financial institution providing long-term finance to mortgage lenders. It issues bonds in the capital markets and, with the proceeds, provides long-term loans to mortgage lenders. It bridges the maturity mismatch lenders face when trying to do long-term lending using their short-term deposits.

A liquidity facility like PMRC has a low-risk business model. The refinancing loans are fully matched by the bond issues, so there is no asset/liability management risk. Loans are overcollateralized by mortgage portfolios that must meet strict quality criteria (clear title, insurance on the property, cap on income portion used to make monthly payments), which reduces credit risk.

Such a facility offers various benefits:
- Improve the affordability of mortgages, as banks can extend the maturity of loans to customers.
- Provide a safety net to the financial system: because banks know they have a source of liquidity when they need it, they have an incentive to produce long-term loans.
- Play a systemic role in the housing finance market.
- Help develop capital markets by regularly issuing bonds.
- Increase competition by allowing smaller players to access capital markets through them.

10. **The availability of fixed-rate mortgages and longer-maturity loans will allow more middle- and lower-middle-class households to have access to a mortgage loan.** A higher LTV of 80 percent and a tenor of 20 rather than 15 years will allow middle- and low-middle-income households from the 7th income decile down to the 3rd, who were previously priced out of the market, to afford mortgages as low as PKR 500,000 (see Figures 1 and 2). Increasing access to housing finance to a larger segment of the population remains an important objective of the central bank, SBP, which for over a decade has been championing reforms for financial inclusion and has achieved significant milestones, including on the regulatory framework, credit information, payment and settlement systems and financial literacy. These reforms are inscribed in the National Financial Inclusion Strategy (NFIS), which identifies housing finance as a priority area for government intervention to address the country's housing shortage.

11. **The proposed project aims to build upon the efforts of SBP and GoP by extending financial and technical support to PMRC and other market stakeholders to help address the challenges described above.** Key project counterparts such as PMRC, commercial banks, MFBs, DFIs, and nonbank financial institutions (NBFIs), the Ministry of Housing and Works, and the Planning Commission (through its Member, Infrastructure and Regional Connectivity) will be instrumental in developing sustainable housing finance in Pakistan.

C. Higher Level Objectives to which the Project Contributes

12. **The proposed housing finance project is aligned with the World Bank's Country Partnership Strategy (CPS)(FY15-20) and with the twin goals of ending extreme poverty and promoting shared prosperity**. It supports Results Areas of Private Sector Development and Inclusion by unlocking binding constraints that are preventing active private sector participation in the housing market and making it possible for more households and women in particular to have access to housing finance. The project specifically supports CPS Outcomes 2.1. Improved Business Environment, and 3.1. Improved Financial Inclusion for women. The proposed project complements the ongoing subnational engagement in Karachi and Punjab to strengthen land market development (e.g., institutional coordination and framework for public land management, land

asset management, and property tax improvement), to support an enabling environment for housing development (e.g., simplification of construction permits and business licenses). Developing the housing finance sector will affect the rest of the economy, and in particular, job creation. Thus, the additional demand for housing will translate into higher investments for housing units and jobs in construction, building materials, and services. The operation is also aligned with the Government's priorities of Pakistan Vision 2025 and in particular the National Financial Inclusion Strategy. The operation also supports the CPS cross cutting areas of gender, jobs and maximizing finance for development. There is a strong development rationale for the public-sector support for the project. The Bank has experience supporting the design and implementation of similar programs, such as in Tanzania, Nigeria, and Egypt where housing finance markets are being developed.

13. **The project operationalizes the Maximizing Finance for Development concept by crowding in private capital.** Private capital is mobilized in the first instance in the capitalization of PMRC: the Government's equity investment is leveraged threefold (i.e., the Government's 20 percent equity stake will catalyze the remaining equity investment from the private sector). PMRC will also tap the bond market to meet its financing needs going forward. This will not only play a transformative role in capital market development, but will also crowd in private money into the mortgage market. PMRC's business plan envisages that over a 10-year horizon, US$950 million will be raised through bond issuances. In addition, the refinancing funded though the capital markets will be further leveraged by the lenders' own resources since PMRC will fund no more than 80 percent of the collateralized portfolios—that is, an additional US$235 million. Additionally, it is likely that the mere availability of PMRC's support in case liquidity shortages occur during the life of long-term loans will trigger deposit-lending that would not have taken place otherwise – though this secondary impact cannot be quantified. A risk-sharing facility of US$10 million for mortgages to low-income households and women borrowers will be leveraged tenfold and will catalyze US$100 million in mortgage loans. Finally, capacity-building activities will lead to enhancements in housing policy framework and data. Thus, the proposed project will raise the private sector's trust and confidence in the public sector's commitment to promote more transparency, professionalism, and formality in the supply side. This will serve to unlock some of the binding constraints upstream in the overall housing market.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

14. The Project Development Objective is to increase access to housing finance for households, and support capital market development in Pakistan.

B. Project Beneficiaries

15. The primary project beneficiaries will be households in Pakistan. A household, as defined by the Pakistan Bureau of Statistics, may be either a single-person or multi-person household. In a single-person household, the individual makes provision for his/her own food and other essentials of living, without combining it with any other person and without any usual place of residence elsewhere. A multiperson household is a group of two or more people who make some common provision for food or other essentials of living and who are without a usual place of residence elsewhere. The national average household size is

6.35 members. A male head of household is typically the mortgage loan borrower. The project will make a specific effort to cater to female-headed households by providing price incentives, in addition to encouraging co-borrowing and co-ownership by husband and wife.

16. The project will make it possible for financial institutions to move down-market from very rich households in the 10th income decile to the middle- and lower-middle-income households in income deciles as low as the 3rd. These lower-income households make on average PKR 16,000 (US$152) per month and can afford a mortgage loan of PKR 500,000 (US$4,762). The financial sector at large will benefit greatly, as the project will help deepen the primary mortgage market and support capital market development through issuance of bonds by PMRC. That would also benefit financial institutions—banks, NBFIs, and MFBs—as well as other investors. In addition, the Government agencies that are responsible for housing policy and implementation will benefit from the proposed project.

C. PDO-Level Results Indicators

17. The following indicators will be used to measure achievement of project objectives:

(i) Number of total mortgage loans refinanced by PMRC
(ii) Number of total outstanding mortgage borrowers
(iii) Percentage of outstanding women mortgage borrowers refinanced by PMRC
(iv) PMRC bond issuance volume

18. Additional intermediate indicators to achieve PDO targets are described in Section VII below.

III. PROJECT DESCRIPTION

A. Project Components

19. The proposed project will have three components: (i) Supporting PMRC in strengthening its capital base; (ii) Supporting the expansion of mortgage loans; and (iii) Capacity building for housing policy and analytics.

Component 1. Supporting PMRC in Strengthening its Capital Base (US$60 million)

20. The objective of this component is to help strengthen PMRC's capital base so it can operate on a sustainable basis and become a highly rated bond issuer in Pakistan. Project support will be provided in the form of long term subordinated loan from the MoF to PMRC to use for Tier II capital, including to refinance current market demand of housing loans before it is able to access the capital market to issue bonds, invest in low risk government securities, as well for issuance of non-participatory additional Tier 1 capital acceptable to SBP. The subordinated 20+ year loan will allow PMRC to refinance loans and will support it in issuing bonds and contributing to growth in the capital markets. Tier II capital increases bondholders' protection by providing the equivalent of an overcollateralization of their claims. The IDA credit will also help PMRC cushion the interest rate risks incurred by lending on a fixed-rate basis before issuing symmetric bonds. With a rate below the funding cost of bond issuance, PMRC will be able to leverage the IDA credit further and, by blending IDA and market rates, offer competitive rates to PMLs.[9]

[9] The coupon rates for PMRC bonds are expected to be 50-60 basis points above benchmark rates such as Pakistan Investment Bonds.

Component 2. Supporting the Expansion of Mortgage Loans (US$80 million)

21. This component aims to provide incentives for PMLs to increase access to mortgage loans to a larger segment of the population. The mortgage product can be made more affordable and better secured by offering fixed rather than variable interest rates and higher LTV, and by lengthening the tenor beyond 15 years. By helping PMLs offer loans as small as PKR 0.5 million, the project can help reach down-market to households in the 3rd income decile, and underserved market segments such as women. The project will provide (i) a line of credit (LOC), and (ii) a guarantee/risk-sharing facility (RSF) to eligible PMLs.

Subcomponent 2a. Line of Credit (US$70 million)

22. The LOC of US$70 million will be managed by PMRC and made available to eligible participating financial institutions (PFIs)—banks, DFIs, NBFIs, and MFBs—that will be selected through transparent and clearly defined eligibility criteria based on their financial health, institutional capacity to onlend, governance, and quality of operational processes (details to be included in the Project Operations Manual, or POM). PFIs will be required to adopt underwriting and other quality standards, and meet results indicators such as serving more women borrowers (see results framework).

Subcomponent 2b. Risk-Sharing Facility (US$10 million)

23. The RSF of US$10 million will provide an incentive for PFIs to reach down to an unfamiliar clientele and offer loans of PKR 0.5 million to PKR 3 million to lower-income households where the largest market gap exists. The RSF will be issued for a partial risk sharing with PMLs, covering the loss in case of defaults by mortgage borrowers. This would be payable on first demand when a loan is in default according to precise criteria such as specified number of days (e.g., 360 days), foreclosure process initiated, and so on. Beneficiaries will pay risk-based premiums calibrated to cover expected losses and PMRC's operating expenses. Support will be provided to PMRC for the overall design of the RSF and for defining parameters in the POM such as loan features; coverage rate and premium level; and procedures designed to avoid moral hazard and adverse selection risks.

Component 3. Capacity Building for Housing Policy and Analytics (US$5 million)

24. The objective of this component is to enhance analytical capacity and policy formulation for sound national housing policy and for addressing supply-side constraints that hamper the development of affordable housing stock in Pakistan. Main support will be provided for the recently created Urban and Housing Policy Unit under the Ministry of Planning, Development and Reform in its role as a convening and coordinating body for formulating urban and housing policy. Support will be directed toward increasing the institutional and technical capacity of the unit and other stakeholders such as the Ministry of Housing and Public Works and selected provincial and local governments. More specifically, the component will finance (i) a multiyear research program in such areas as understanding the main supply-side constraints such as land management, land titling/registry, land financing instruments, reforms on regulatory requirements for developers, and developers' financing; a comprehensive assessment of housing demand; promoting public-private partnerships for affordable housing; and green/energy-efficient building technology, gender gap and constraints in housing market ; (ii) strategy for and implementation of the establishment of a data repository of spatial information on land and housing markets; (iii) analytical support for updating the national

affordable housing policy and gender-responsive implementation strategy; and (iv) demand-based capacity-building and knowledge exchange activities for housing sector policy.

B. Project Cost and Financing

25. **The lending instrument will be investment project financing (IPF), with an implementation period of five years.** The total project cost of US$145 million will be financed through an International Development Association (IDA) credit.

Table 1. Project Costs and Financing (US$ million)

Project component	Project cost	IDA financing
Component 1. Supporting PMRC in Strengthening its Capital Base	**60**	**60**
Component 2. Supporting Expansion of Mortgage Loans	**80**	**80**
2a. Line of Credit	70	70
2b. Risk-Sharing Facility	10	10
Component 3. Capacity building for Housing Policy and Analytics	**5**	**5**
Total costs	**145**	**145**

C. Lessons Learned and Reflected in the Project Design

26. **The project has factored in lessons learned from previous and ongoing financial sector operational work in Pakistan.** That includes the Financial Inclusion Strategy and the Financial Inclusion and Infrastructure Project, which has an LOC for small and medium-sized enterprises. The design of the LOC in the project follows international best practices and the World Bank's operational policy guidelines on financial intermediary financing. It also incorporates the conclusions of the 2006 Independent Evaluation Group (IEG) evaluation of LOCs about issues detected from past experience. Thus, the LOC will operate on market-based principles, catalyzing private sector financing. It is important to note that the IEG report emphasizes that any foreign exchange risk of subloan repayment should be borne by either the end-user or the Government, but not by the PFI.

27. **Lessons learned from similar housing projects and refinancing facilities in Nigeria, Tanzania, and West Africa and the IEG report on housing finance[10] have also informed the design of the project.** The IEG report notes that when there is no mortgage market, the low-income segment should be introduced gradually. In Pakistan, the mortgage market is very small and has yet to reach middle-income households. For this reason, the project focuses on first establishing the building blocks for a sustainable housing market by addressing access to long-term finance and expanding the mortgage market beyond the niche of the very rich through a liquidity facility managed by PMRC following international quality standards. Once these important outcomes are achieved, then attention can be turned to reaching low-income segments.

28. **The project takes on board the recognition that reforms in the financial sector are not a stand-alone solution to develop the housing market, but need to be accompanied by reforms in the construction and land sectors and the legal environment.** The project follows a comprehensive approach to addressing housing market gaps on both the demand and supply sides through solutions that will reduce the cost of formal housing and improve access to finance for both developers and households. Projects in Nigeria and

[10] Independent Evaluation Group 2016 Report on World Bank Support for Housing Finance.

Tanzania show that liquidity facilities can have, and indeed have had, a catalytic impact on housing supply reforms. In Nigeria, the liquidity facility entered into agreements with states that committed to improve the court system for creditors' rights, and to lower transaction costs and time for titling. In Tanzania, the facility supported the acceleration of titling through subdivision.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

29. The MOF, Finance Division, will be the executive division representing the borrower, the Islamic Republic of Pakistan. Project activities will be implemented by PMRC and the Housing Unit within the Planning Commission (PC) at the Ministry of Planning, Development and Reforms. Adequate resources for project implementation and coordination will be provided by both entities, including in-kind contributions, operational staff, and government civil servants.

30. PMRC will be responsible for the implementation of Components 1 and 2 of the project. PMRC staff will undertake project activities alongside their regular responsibilities, including for financial management (FM) and environmental and social (E&S) risk management. The focal point for the project will be a high-level staff member of PMRC. The Housing Unit at the PC in the Ministry of Planning will be responsible for Component 3 of the project. It will maintain a team of technical specialists with adequate capacity in project management, FM, and procurement, some of whom will be hired on a competitive basis as needed. To facilitate project implementation, a detailed POM was prepared by PMRC and PC and a first draft made available at the time of project negotiations.

B. Results Monitoring and Evaluation

31. A strong monitoring and evaluation (M&E) framework is essential to systematically track inputs, outputs, and outcomes for the various components of the project. The M&E system will be based on the Results Framework in Section VII below and will be used to track and monitor progress and impact over time. The full M&E framework for tracking short-, medium-, and long-term results will be included in the POM. In addition, a beneficiary feedback mechanism has been integrated into the project and will be monitored during implementation through an indicator on citizen engagement. Beneficiary feedback will be collected during stakeholder consultations and through surveys that will distinguish beneficiaries by gender and income level.

32. Each implementing agency (PMRC and PC) will be responsible for the M&E of its respective components and will designate a core staff member to be in charge of the M&E function. PMRC and PC will submit semiannual reports, tracking output and outcome indicators, and semiannual FM reports. A project audit will be undertaken annually in line with the terms of reference (TOR) included in the POM. The midterm review is expected to be in month 30 of implementation.

C. Sustainability

33. The sustainability of the project's outcomes will be ensured by a number of key factors embedded in the project design: (i) using existing institutions such as PMRC, whose capacity will be strengthened for its

successful operation as it seeks to provide not only long-term funding but also rigor and discipline to the mortgage market; (ii) the adoption and implementation of minimum quality standards will result in PMLs' originating better loans and fewer nonperforming loans (NPLs); (iii) more conducive regulations of the mortgage industry by SBP will encourage PMLs to increase the number of loans to a larger set of households; without proper regulation and supervision, markets fail to develop and grow adequately; and (iv) addressing fundamental issues in the housing industry through the housing policy will pave the way for a stronger housing sector.

D. Role of Partners

34. The project is being undertaken with parallel funding from IFC, which is providing technical assistance (TA) to PMRC. Trust funds from DFID will also be used to provide TA to SBP on regulations. DFID also plans additional interventions in low-income housing finance.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

35. **The overall risk rating is Substantial**. The risk that the project will not be able to meet its PDO to increase access to housing finance is substantial because of the presence of substantial political and governance risks, institutional capacity risks, and sector strategies and policies risks.

36. **The security and political environment in Pakistan present substantial risks.** These factors can have a bearing on the country's ability to proceed with the housing finance reforms, including those that are supported under the project and that are part of the NFIS action plans. However, over the past decade the authorities have been able to implement and sustain significant reforms in the financial sector, especially the microfinance industry. The risks are further mitigated by the presence of a strong regulator (SBP) and a well-established financial sector.

37. **The substantial institutional risks relate to the capacity of PMRC—a young institution—to execute its mandate**. PMRC will need to be fully functional when the project starts; to fulfil its important role it will need an adequate regulatory regime and the proper governance framework, staffing, and funding. To mitigate PMRC capacity risks, IFC has been providing advisory services to assist with its operational set-up and the management of its facility/refinancing program; this should be achieved by the time the proposed project is effective. The technical design of the project has been kept simple, and coordination between MOF and PMRC, and MOF and PC will be ensured through (i) representation of the MOF on the Board of PMRC and consistent communication, and (ii) PC's approval of the overall project concept, in addition to its contribution to project implementation.

38. **The substantial sector strategies and policies and stakeholder risks are linked to four key supply-side constraints:** (i) the lack of an updated housing policy; (ii) the low capacity of the Ministry of Housing and Public Works; (iii) the lack of progress on the implementation of Government housing schemes; and (iv) the weak capacity of municipalities (with a few exceptions) to facilitate access to serviced land. To mitigate these risks, the project will focus on building the capacity of the GoP to update the 2013 national housing

policy and implementation strategy, and on strengthening the new urban and housing policy unit at PC. The project will consider providing capacity building to relevant stakeholders, such as the Ministry of Housing and Public Works and selected provinces or local governments.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

39. **An analysis of the net present value (NPV) and economic rate of return (ERR) shows the quantitative benefits that can be derived from project activities.** The economic analysis of this project is built as a financial analysis, with the estimated difference in cash flows to beneficiaries accounted for as cash flows to the project. The ERR is calculated on the basis of the cost of US$140 million (components 1 and 2 of the project) versus the cash flows from increased bank profitability. A discount rate of 15 percent is applied to the calculation. The ERR assumes a market growth rate of 10 percent, a premium on PMRC bonds of 0.60 percent, a margin on refinance of 0.75 percent, and no change in SBP. The calculation yields an ERR for the project of 54 percent and NPV of US$379 million, which clearly support the project's value creation. It is estimated that an additional PKR 111.9 billion (US$1.1 billion) in 36,854 mortgage loans will be originated by 2027 as a direct result of the project, and PMRC's contribution to GDP will be 0.06 percent in 2027.

B. Technical

40. **The project's technical design draws on knowledge that the team obtained through research on the ground, analyses published by different stakeholders in Pakistan, and the World Bank's knowledge and lending projects.** Pakistan NFIS in particular has identified housing finance as a priority area for the Government's intervention to address the country's housing shortage and has recommended needed reforms. Key principles underlying the project design include: (i) creation of PMRC, a market-based refinancing facility with adequate institutional capacity; (ii) commitment to improving the housing market policy and analytics; (iii) appetite for implementing good practice programs; (iv) increased awareness of mortgage products and development of the underlying bond market; (v) enhanced capacity of the housing finance regulator and market to deliver tailored mortgage products; (vi) balanced and clear foreclosure mechanisms; and (vii) clear indicators and monitoring to track project performance.

C. Financial Management

41. **The FM arrangements relevant to the project were assessed for the implementing entities (PMRC and PC)** to determine whether they have in place acceptable FM arrangements that satisfy the World Bank's OP/BP 10.00. The results of the assessment show that PMRC and PC have adequate FM systems in place. However, to be satisfactory, these systems will need to be strengthened by implementing the FM action plan shown in Annex 2. The overall FM risk is Substantial, but upon application of mitigation measures the residual risk rating will be Moderate under the project. The key actions to be undertaken are detailed in Annex 2.

42. **Advances - Designated Accounts (DAs).** Currently the disbursement method "Advance" is not available, therefore project will follow disbursement arrangements stated in the Disbursement and Financial Information Letter (DFIL). Once the method is available, PMRC will set up a DA for the LOC. Disbursement for the LOC will be report-based: funds will be front-loaded to the DA on the basis of a six-month cash

forecast for the following semester as provided in the interim unaudited financial reports (IUFRs). The same disbursement method will be followed for the DA to be established at PC for the TA activities. Each implementing entity will submit separate audited financial statements. A separate account will be opened for the subordinated debt and the RSF, which will both be disbursed in one tranche. As PMRC makes every effort to raise funds on the capital market as soon as it can, the subordinated debt of US$60 million will act as a bridge fund and an incentive to respond to market demand for long-term funds in the interim. The returns from the subordinated debt investment may be directed toward bringing down rates offered to lenders from funds raised on the bond market and allow for some blending of rates. Payment for the US$60 million subordinated debt in one tranche will be subject to PMRC's obtaining its Commencement of Business Certificate and regulations from SBP to start operations as a DFI after mobilizing its Tier 1 capital from shareholders.

43. **A subsidiary agreement between MOF and PMRC will detail the implementation modalities of the IDA credit for Components 1 and 2.** This agreement will spell out the mark-up to be applied to the funds transferred from MOF to PMRC, in accordance with the provisions of the financing agreement and the on-lending policies and procedures of the Government.

D. Procurement

44. **No procurements under Components 1 and 2 would be implemented by PMRC.** Procurements of goods and consulting services are planned under Component 3, in addition to several training events. The goods procurements consist mainly of computers/IT/office equipment, office furniture, IT networking, and so on. The consultancies would consist of studies, formulation of policy documents and training materials, capacity-building events, and so on. The procurement profile would be finalized as soon as the TOR for consultancy services are finalized and goods requirements with specifications are established.

45. **The World Bank's Procurement Regulations for Investment Project Finance Borrowers, July 2016 (revised November 2017) and online procurement management system "STEP" (Systematic Tracking and Exchange in Procurement) are to be used for carrying out the project procurements.** Under the Procurement Framework, a short form of the Project Procurement Strategy for Development and a Procurement Plan are being prepared by the Housing Unit (and more specifically, by the Physical Planning & Housing Section at the PC) to identify the needed procurement of goods and consulting services. No works procurements are anticipated under the project. The Housing Unit staff will also need focused training to understand and manage the procurements under the World Bank's Procurement Regulations. The summary of the procurement review for the Housing Unit is presented in Annex 2.

46. **The Housing Unit will be responsible for managing its own project-specific procurements** The staff are familiar with the Procurement Rules of the Federal Public Procurement Regulatory Authority. However, because they have not carried out any procurement under the WB's procurement regulations, the current procurement risk is rated High.

E. Social (including Safeguards)

47. The integrated environmental and social (E&S) risk management appraisal summary is presented in Section F below, pursuant to the applicable policy OP/BP 4.03, *World Bank Performance Standards for Private Sector Activities*.

48. **Citizen Engagement.** As part of its M&E activities, PMRC will conduct client surveys with primary and secondary-level beneficiaries. Particular attention will be paid to feedback from middle-/low-income borrowers, especially women. The client will also establish an effective grievance redress system under component 2 to address grievances related to project activities. The following key indicator is included in the project M&E framework: "Direct project beneficiaries that feel that project investments reflected their needs (end target is 80%)." The design of the project has benefitted from regular engagement and consultations held with stakeholders including banks, developers, potential borrowers, and the National Financial Inclusion Strategy Technical Committee on Housing Finance.

49. **Gender.** About 7 percent of mortgage borrowers in Pakistan are women, according to SBP housing finance review of December 2016. The project will foster increased home ownership among women (individual or joint ownership) through the LOC and RSF. This will be achieved through pricing incentives that may lower the cost of financing on mortgage loans for female-headed households and those co-signed by husband and wife on both mortgage and ownership. The following gender-disaggregated indicator is included in the project M&E framework as a PDO indicator: "Percentage of outstanding women borrowers refinanced by PMRC (end target is 10%)." In addition, more gender-related analytics under component 3 will help inform interventions and products that can support higher female home-ownership and labor force participation.

F. Environment (including Safeguards)

50. OP/BP 4.03 will apply to the project in lieu of the World Bank's safeguard policies. OP/BP 4.03 is better suited for this project, which will constitute private sector activities and will be executed through a wholesale/secondary financial institution (PMRC) and retail/PMLs, which are mostly commercial private sector financial institutions. The project is a financial intermediary project and is categorized as FI-2. OP/BP 4.03 will apply to project components and activities that have E&S risks and impacts, such as in Components 1 and 2. OP/BP 4.12 (Involuntary Resettlement) will apply to Component 3.

51. **Given the nature of the project, the approach to E&S risk management will be designed around a screening process by PMLs with verification by PMRC.** E&S screening will be ex-post or, where possible, ex-ante. Risk mitigation measures will be applied in accordance with the screening outcomes for specific E&S issues associated with the properties financed and the end-borrowers, in accordance with the following applicable E&S requirements: (i) applicable E&S national and local laws and regulations of Pakistan; and (ii) an exclusion list specific to housing finance that will specify circumstances in which housing loans will not be eligible for PMRC (re)financing based on associated E&S issues that present unacceptable risks ("List of Excluded Activities"). Additionally, a set of screening criteria has been built around key E&S risk areas as identified above that PMLs should be aware of and include in their analysis of housing loans as part of their credit risk analysis (including those related to climate change, as mentioned below).

52. **Pursuant to OP/BP 4.03, E&S risks for the project will be addressed by putting in place and continually strengthening a formal Environmental and Social Management System (ESMS).** This would enable the project to meet applicable E&S requirements. Such a system will include processes and implementation capacity within the multilevel project structure (PMRC and PMLs) to manage key identified E&S risks and impacts. The ESMS will also incorporate a grievance redress mechanism at the PMRC level that will accept and address complaints and concerns regarding PMRC's lending operations in a manner that is accessible to and understandable by affected parties.

53. **The project includes interventions with climate co-benefits.** Climate change is expected to exacerbate extreme weather events in Pakistan, increasing the vulnerability of people, assets, and infrastructure to climate-induced disasters, especially in urban centers because of unplanned urbanization and vulnerable house construction. First, application of the E&S risk management under the project will help promote climate benefits by encouraging mortgage loans for climate-resilient properties and not properties in locations that are hazardous for human habitation or prone to natural disasters. Second, the project TA activities will include policy research, education, training, and awareness-raising activities on climate change mitigation to support the national housing policy and SBP Green Banking Guidelines. Third, PMRC will seek the assistance of the IFC EDGE advisory to establish guidelines for energy efficiency in buildings to be used by PMLs in underwriting. This tool will be essential to estimate energy consumption savings for a given construction design and materials, and to facilitate development of products and pricing differentials that encourage climate-friendly homes. Finally, PMRC financing through tripartite agreements with lenders and developers will include energy efficiency impact as a selection criterion, using this new approach and possible price differentials to promote pilot projects that demonstrate climate benefits.

G. Other Safeguard Policies (if applicable)

54. **In accordance with World Bank OP 4.03, the requirements of OP/BP 7.50, *Projects on International Waterways* may be applicable to any World Bank-supported private sector activity.** Since it is not expected that any activities under this project will involve international waterways, the policy will not be triggered. Should any activity affecting international waterways arise during implementation of the project, it would be excluded.

H. World Bank Grievance Redress

55. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS**). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Pakistan
Pakistan Housing Finance Project

Project Development Objectives

The Project Development Objective is to increase access to housing finance for households, and support capital market development in Pakistan.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of Total Mortgage Loans Refinanced by PMRC		Number	0.00	15400.00	Annual	PMRC financial reports	PMRC
Description:							
Name: Number of Total Outstanding Mortgage Borrowers		Number	60000.00	150000.00	Annual	SBP	PMRC
Description:							
Name: Percentage of Outstanding Women		Percentage	0.00	10.00	Annual	PMRC	PMRC

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Mortgage Borrowers Refinanced by PMRC							
Description: The target to be achieved is 10 percent by the end of the project							
Name: PMRC Bond Issuance Volume		Amount(USD)	0.00	261000000.00	Annual	SECP	PMRC
Description: Indicators are in US dollar equivalent of PKR amounts							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Amount of PMRC-Refinanced Mortgage Loans		Amount(USD)	0.00	400000000.00	Annual	PMRC	PMRC
Description:							
Name: Number of Mortgage Loans of PKR 3 million or less		Number	0.00	5000.00	Annual	PMRC	PMRC
Description: Reference to the amount of mortgage loan is in constant PKR							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: New low income strategy prepared and adopted		Yes/No	N	Y	Annual	Planning Commission	Planning Commission
Description:							
Name: Direct project beneficiaries that feel that project investments reflected their needs		Percentage	0.00	80.00	Annual	Survey tools	PMRC and Planning Commission
Description:							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Number of Total Mortgage Loans Refinanced by PMRC	0.00	1000.00	2600.00	2000.00	3800.00	2600.00	3400.00	15400.00
Number of Total Outstanding Mortgage Borrowers	60000.00	67320.00	77400.00	92900.00	114200.00	125000.00	150000.00	150000.00
Percentage of Outstanding Women Mortgage Borrowers Refinanced by PMRC	0.00	0.00	3.00	4.00	6.00	8.00	10.00	10.00
PMRC Bond Issuance Volume	0.00	0.00	10000000.00	10000000.00	70000000.00	75000000.00	96000000.00	261000000.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Amount of PMRC-Refinanced Mortgage Loans	0.00	10000000.00	25000000.00	70000000.00	100000000.00	120000000.00	150000000.00	400000000.00
Number of Mortgage Loans of PKR 3 million or less	0.00	250.00	1600.00	1700.00	1450.00	0.00	0.00	5000.00
New low income strategy prepared and adopted	N	N	N	Y	Y	Y	Y	Y

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Direct project beneficiaries that feel that project investments reflected their needs	0.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: Pakistan
Pakistan Housing Finance Project

1. **The PDO of the proposed project is to increase access to housing finance to households, and support development of the capital market in Pakistan.** The project has three main components to help achieve this objective: (a) Supporting PMRC in strengthening its capital base; (b) Expanding access to mortgages loans; and (c) Capacity building for housing policy and analytics. The following sections describe in detail the components and subcomponents of the project.

Component 1. Supporting PMRC in Strengthening its Capital Base (US$60 million)

2. The objective of this component is to help strengthen PMRC's capital base so it can operate on a sustainable basis and become a credible bond issuer in Pakistan. Support will be provided to PMRC through the MOF in the form of a subordinated loan to comfort PMRC's position in the market and offer a higher credit ranking to future PMRC bond-holders. The subordinated loan will be used for Tier II capital including to refinance current demand of housing loans, to invest in low risk Government securities, and for issuance of non-participatory additional Tier 1 capital acceptable to SBP. This support will be instrumental in ensuring that PMRC succeeds in accessing domestic and international capital markets to provide liquidity to the primary mortgage market for longer-tenor, fixed-mortgage-rate loans.

3. Financial support from the project will complement TA that has been provided by IFC for operationalization of the PMRC: development of a well-defined credit policy and operations manual, as well as capacity building to undertake market/product development activities, including Shariah-compliant housing finance products, and training.

Component 2. Expanding Access to Mortgage Loans (US$80 million)

4. The objective of this component is to help PMLs expand access to mortgage loans to households, the majority of which are currently underserved. Among the obstacles hindering access to housing finance and the ability of financial institutions to lend to middle-income households is the lack of adequate long-term funding. The mortgage product can be made more affordable and better secured by offering fixed rather than variable interest rates and higher LTV, and by lengthening the tenor beyond 15 years to 20 years.

5. **Subcomponent 2a. Line of Credit (US$70 million).** An LOC of US$70 million will be made available to financial institutions through PMRC, providing an incentive to extend mortgage loans where there is a significant gap—that is, in the range of PKR 500,000 to PKR 5 million.[11] Eligible participating financial institutions (PFIs)—banks, MFBs[12], DFIs and other financial institutions -- will be selected through transparent and clearly defined eligibility criteria described in the POM: their financial health, institutional capacity to onlend, governance, and the quality of their operational processes. All PFIs will also be required to abide by underwriting and other quality standards as per the POM. In addition, PMRC may seek

[11] The average bank mortgage loan is PKR 6 million, and micro credit housing loans are below PKR 1 million.
[12] Microfinance banks are currently allowed to lend up to a maximum of PKR 500,000 per client.

partnerships with Government agencies such as the Pakistan Housing Authority, the PC, and the Ministry of Housing to provide affordable mortgages in Government-sponsored housing schemes and eco-friendly housing.

6. **Subcomponent 2b. Risk Sharing Facility (US$10 million).** An RSF will also be offered to mitigate the risks to PMLs of going down-market and catering to an unfamiliar clientele, including women. This well-tested guarantee instrument would provide an incentive for PMLs to offer loans of PKR 500,000 to PKR 3 million, a segment that banks currently do not serve. Households belonging to the 3rd decile of the income distribution could thus be served. The eligible loan portfolios for the RSF would consist of refinanced mortgage loans of PKR 0.5 to PKR 3 million by PFIs to households within a certain income range for their residential house costing between PKR 625,000 and PKR 4 million for a 20-year mortgage with LTV of up to 80 percent. The facility will be managed by PMRC as an agent, and PFIs will pay risk-based premiums calibrated to cover expected losses and operating expenses, while the capital will cover the occurrence of negative events.

7. **The RSF will be issued for a partial risk-sharing with PMLs.** It will cover the first loss in case of defaults by mortgage borrowers and will be payable on first demand when a loan is in default according to precise criteria, as per the POM: specified number of days (e.g., 360 days), foreclosure process initiated, etc. World Bank-funded TA will be provided to set up the operational features of the RSF based on the Principles for Public Credit Guarantee Funds,[13] with (i) development of policies and procedures for the operations of the RSF, (ii) strengthening of PMRC's capacity to assess and manage risk of PMLs; and (iii) marketing to and awareness-raising of PMLs. The capitalization and disbursement of the funds for the RSF will be made upon adoption by PMRC and upon IDA's approval of the POM.

Component 3. Capacity Building for Housing Policy and Analytics (US$5 million)

8. The objective of this component is to enhance analytical capacity and policy formulation for sound national housing policy and for addressing supply-side constraints that hamper the development of affordable housing stock in Pakistan. Main support will be provided to the recently created Urban and Housing Policy Unit under the Ministry of Planning, Development and Reform. The proposal to create an Urban and Housing Unit was approved through a cabinet paper in 2016 to enhance the analytical and research capacity to inform urban and housing policy.

9. The cabinet paper emphasizes the importance of building analytical capacity at the Ministry level to feed into sound and robust national urban and housing policies and proposes partnering with the existing research institute to tap into existing knowledge and evidence. It also proposes creating a platform to integrate spatial data and generate critical information and data, and setting up a comprehensive information system. Currently, the national Government has limited analytical capacity to articulate integrated urban and housing policy. In particular, there is very little assessment of or knowledge about the urban land market and about the effect of regulatory and institutional barriers on housing affordability. The existing low-income housing strategy is outdated and needs to be updated to better reflect key issues and

[13] http://www.worldbank.org/en/topic/financialsector/publication/principles-for-public-credit-guarantee-schemes-cgss-for-smes.

constraints in the supply of serviced land, affordable housing finance, and construction finance. In addition, there is little analysis and assessment of the existing initiatives on housing and urban poor that are implemented at the provincial level. The Housing Policy Unit would serve as a convening and coordinating body for formulating urban and housing policy, streamlining the regulatory framework for the housing market (e.g., professional licensing), developing a national repository for housing statistics and other relevant data, and conducting research.

10. Thus, the proposed component will support increasing the institutional and technical capacity of the Urban and Housing Policy Unit and other stakeholders, such as the Ministry of Housing and Public Works and selected provincial and local governments. Financing will be provided for (i) a multiyear research program, including understanding main supply-side constraints such as land management, land titling/registry, land financing instruments; reforms on regulatory requirements for developers; developers' financing; comprehensive demand assessment for housing; promoting public-private partnerships for affordable housing; and green/energy efficient building technology, gender gap and constraints in housing market; (ii) strategy for and implementation of the establishment of a data repository of spatial information on land and the housing market; (iii) analytical support for updating the national affordable housing policy and gender-responsive implementation strategy; and (iv) demand-based capacity-building and knowledge exchange activities for housing sector policy.

11. Project support will also be provided for strengthening low-income housing policy and analytics at the national level. A feasibility study or assessment will be conducted to establish the institutional, financial, and governance model of the research program and to prepare an action plan for its creation, including a detailed description of its mandate and tasks. Qualified staff and consultants, various studies and research activities, establishment of a data platform, training, and other operational costs of the established unit will also be financed. The component will also support the Government in providing incentives to households for increasing energy efficiency and adopting climate- and disaster-resilient construction designs and materials. As part of adaptation measures, the TA would provide support to create awareness of safe construction practices to both homeowners and the construction industry to reduce vulnerability to climate impacts.

12. The PC is well positioned to coordinate different ministries and stakeholders that are responsible for housing and urban development. It also has the capacity to convene a high-level Government dialogue and bring in provincial-level stakeholders. The project will also finance the development of an integrated data management system within the research unit, as well as the preparation of just-in-time policy notes targeting the urban land market and a low-income housing strategy.

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Pakistan
Pakistan Housing Finance Project

Project Institutional and Implementation Arrangements

1. The Islamic Republic of Pakistan is the borrower, and the project's activities will be implemented by PMRC and the Housing Unit at the PC. PMRC will be responsible for project Components 1 and 2 and the PC for Component 3, including activities related to FM, procurement, and E&S risk management. Their staff will undertake project activities alongside their day-to-day responsibilities. The key responsibilities at each agency will be as follows: (i) overall monitoring and supervision of the components; (ii) overall procurement and contract management; (iii) overall coordination among participating departments within the agency; (iv) procurement and disbursement with responsibility for adherence to all fiduciary and E&S risk management requirements of the World Bank; and (v) any other functions needed under the project's components.

2. To facilitate project implementation, a detailed POM will be prepared by PMRC and the PC. The POM will include details on the implementation arrangements, including the eligibility criteria for PMLs and the principles of the appraisal processes that will be followed; fiduciary and E&S risk management arrangements (also defined in the ESMS); project audit requirements, including the TOR for the project audit; disbursement arrangements; the IUFR formats; etc. It will provide guidance for each responsible agency on the procedural aspects of the project. It will also include the organizational chart of project implementation.

Financial Management

3. **An FM assessment was conducted for PMRC and PC to determine whether the implementing entities have in place acceptable FM arrangements that satisfy the World Bank's OP/BP 10.00.** PMRC and the PC Housing Unit will be responsible for maintaining satisfactory FM arrangements throughout the life of the project. These institutions will constitute the operational links with the World Bank (IDA) during implementation, and their fiduciary staff will have to be trained on the World Bank's FM and Disbursement Guidelines.

4. **Budgeting arrangements.** The implementing agencies will prepare annual budgets based on their work plans and submit them to the World Bank at least one month before the beginning of the project's fiscal year for review and approval. The budgets will follow applicable Government/entity budgeting guidelines, which will be set out in detail in the POM. During the financial year, budgets will be monitored semiannually using interim financial reports (IFRs), which are to be submitted to the Bank within 45 days after the end of the semester. The IFRs will compare the budget and actual expenditure, and significant variances (15% or above) will need to be explained.

Accounting Arrangements

5. **Accounting policies and procedures**. PMRC and the PC Housing Unit will use their institutional accounting policies and procedures for the project. To capture project-specific FM requirements to meet the terms of the Financing Agreement, a draft POM with adequate FM arrangements that are acceptable to the Bank, was made available at negotiations.

6. **Accounting staff, accounting information systems software, and accounting standards**. PMRC has qualified and experienced staff headed by a qualified Chartered Accountant with rich industry experience. The accounting for PC is carried out centrally by the Accountant General of Pakistan Revenue (AGPR). These arrangements are adequate to prepare the accounts of the project. Accounting staff from implementing entities will be trained on the World Bank's FM and Disbursement Guidelines. A dedicated accounting staff member from AGPR will be required in PC for project activities. PMRC will require a core banking software (for its refinancing and LOC activities) that should feature accounting information system; it should be acquired before project disbursement. A new chart of accounts will be required at PMRC with the start of the LOC operations. PC is using the Government FM information system. A separate project code will be created in the Government FM information system for the project, which has a comprehensive chart of accounts to prepare financial statements for the project activities. PMRC has adopted international financial reporting standards as the financial reporting framework. PC follows International Public Sector Accounting Standards as adopted by GoP.

Internal Control and Internal Audit Arrangements

7. **Internal controls.** The internal control policies and procedures for implementing entities will be documented in the FM chapter of the POM. The latest external audit report for PMRC was reviewed, and it had an unqualified (clean) audit opinion. The major internal control issues related to this project that will need to be mitigated are related to PMRC and the hiring of two key positions in PMRC—Head of Risk and Head of Internal Audit. PMRC is now finalizing its Policy and Operational Manual. The eligibility and collateralization criteria for refinancing mortgage loans provide sufficient comfort over the safeguard of funds. The 25 percent recommended overcollateralization on the mortgage portfolio provides additional security. The PC Housing Unit requires a dedicated FM staff, either from AGPR or hired competitively from the market, to ensure timely recording and reporting of transactions.

8. **Internal audit.** PMRC should establish its internal audit department or outsource this activity. Internal audit units need to include the project-related activities in their work plan to ensure that the audits are done semiannually using a risk-based approach. These semiannual internal audit reports need to be submitted to the Bank within 45 days after the end of the six-month period, and should cover a review of IUFRs. Internal auditors will also be provided training in the Bank's FM and Disbursement Guidelines.

9. **Reconciliations.** The implementing agencies will prepare monthly reconciliation of the DAs with the AGPR as required by the assignment account procedures for foreign-funded projects, issued by the MOF. The IUFRs will be shared with the Bank after due reconciliation with the client connection system.

Disbursements and Funds Flow Arrangements

10. The disbursement method “Advance” is not available at this time, therefore, disbursements will be processed following the procedure stated in the Disbursement and Financial Information Letter. Once the method becomes available, each implementing agency will maintain a foreign currency DA at the NBP that will follow the Foreign Currency Assignment account procedures issued by the MOF who will assume the foreign exchange risk. PC will open one DA to receive funds for Component 3 from the Bank. PMRC will open one DA for implementation of the LOC in Component 2. A separate account will be opened for the proceeds of the subordinated debt and the RSF. Upon effectiveness, a Withdrawal Application (WA) will have to be submitted to the Bank, supported by a six-month cash flow forecast. Once the WA is approved, the Bank will disburse funds to the DAs. Thereafter, WAs and IFRs, supported by a six-month cash flow forecast, will have to be submitted to the Bank within 45 days after the end of the semiannual period, in order for funds

to be disbursed to the DA. The DAs will receive funds from the Bank using report-based disbursement. PMRC will onlend to the PMLs on mutually agreed terms and in compliance with the World Bank's OP/BP 10.00, "Guidelines on Financial Intermediary Funding." The withdrawals from the DAs will be for eligible expenditures only. On the basis of the IFRs, the Bank will document expenditures incurred against advances disbursed into the DAs.

11. Disbursement of funds in one tranche for subordinated debt in Component 1 will be made subject to SBP's issuing a Commencement of Business Certificate and regulations to PMRC to start operations as a licensed DFI after it mobilizes its minimum capital from shareholders. Disbursements for the LOC will be made upon PMRC's presentation of a pipeline of requests to refinance eligible loan portfolios. For the RSF planned under Component 2, the expenditure will be defined as the amount transferred by the MOF to the risk-sharing guarantee account to create the guarantee reserve for the RSF. It is being stipulated that the proceeds to the guarantee reserve fund will be subject to satisfactory financial control mechanisms, including independent financial audits, which will be determined and agreed as part of the proposed FM Assessment. Subsequently, the funds may be transferred in a single tranche to an account to be managed by PMRC as an agent.

12. **Advance contracting and retroactive financing.** Up to 25 percent of approved Bank financing will be allowed for eligible expenditures made during the period of retroactivity. Retroactive financing will be made up to 12 months before the expected date of signing of the legal agreements as long as project implementation arrangements agreed with IDA, including, as applicable, fiduciary and E&S risk management procedures, have been used. Retroactive financing will be for eligible expenses incurred by PMRC or PC. Table 2.1 shows the project disbursement categories.

Table 2.1. Disbursement Categories

Category	Amount
Subordinated debt	$60 million
LOC	$70 million
RSF	$10 million
Consultants' services, goods, trainings & workshops,[1] goods and project management cost including incremental operating cost[2]	$5 million
TOTAL	**$145 million**

[1] *Trainings & workshops* means the reasonable costs of training, workshops, and conferences conducted in the territory of the recipient, including the purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees.
[2] *Incremental operating costs* means the reasonable costs of incremental expenditures required for the project, including consumable material and supplies; office rental costs; utilities fees; insurance; communications; advertising and newspaper subscription; printing and stationary costs; vehicle and/or office equipment operation and maintenance; charges for opening and operating bank accounts required for the project; travel; lodging and per diem for project staff, excluding salaries of the recipient's civil servants.

External Audit Arrangements

13. **The external audit of the project's funds handled by PMRC will be done by an independent private external auditor acceptable to the Bank.** The Auditor General of Pakistan will conduct the audit of the project managed by the PC Housing Unit. All audits should be carried out in accordance with International Standards on Auditing. Table 2.2 shows the project's financial management plan.

Table 2.2. Financial Management Action Plan

No.	Action	Due date	Responsibility
1	Prepare and submit to the Bank an acceptable POM with adequate FM arrangements.	Legal covenant	PMRC, PC
2	Submit semiannual internal audit reports to the Bank within 45 days after the end of the audit period. Also provide review comments on IUFRs.	FM covenant in Financing Agreement	PMRC, PC
3	Hiring of Risk Manager and Internal Auditor in PMRC and deputation/hiring of Finance Officer in PC housing unit.	Before disbursement	PMRC
4.	Business Commencement Certificate and appropriate regulations for PMRC issued by SBP	Before disbursement of subordinated debt in one tranche	PMRC

Procurement

14. **Procurement capacity of the implementing agencies.** There is no procurement under Components 1 and 2; accordingly, PMRC will not carry out any procurement to be funded through the project financing. There will be procurement under Component 3, which will be implemented by the Housing Unit at PC. However, because there is no procurement professional at the Housing Unit, very focused procurement training would be required to support the unit team in undertaking project-specific procurements using the World Bank's Procurement Regulations.

15. **Recommended procurement approach.** Because the TOR for consulting services are not fully developed, exact procurement methods are not defined yet. However, it is expected that the procurement split would be between recruitment of individual consultants and consulting firms. The procurement of goods is considered straightforward. Considering the value of consultancies and goods, it is expected that consultancy services and goods procurements would all be national.

16. **Procurement risk analysis.** Because the Housing Unit has had no procurement exposure, the overall procurement risk is rated High. Table 2.3 below shows the procurement risks and how they will be mitigated.

Table 2.3. Procurement Risks and Mitigation Measures

No	Risk	Mitigation measures
1	Fear of misprocurement	Training to be provided by the World Bank
2	Delays in the procurement process	Training + adopting a selection method that is quick to administer.
3	Selection of an inexperienced consultant	The TOR will outline the expected qualifications and experience of the consultant to be selected. This will ensure that a well-qualified and experienced consultant with a good track record is selected.
4	Inadequate response from the market	Ensure that all procurement opportunities are well advertised and disseminated.

17. **Summary of Project Procurement Strategy for Development.** The Housing Unit has an approved PC-1 for the "Establishment of Pakistan Urban Planning and Policy Centre" with an approved cost of PKR 284.23 million (equivalent to US$2.58 million). Table 2.4 contains the anticipated procurement activities.

18. **Procurement Plan.** A Procurement Plan (PP) will be developed by the Housing Unit using the Bank's online system "STEP." The plan shall be subject to the Bank's review and approval prior to implementation.

Table 2.4. Proposed Procurement Activities

S#	Description	Amount (equivalent US$)	Remarks
1	Urban Observatory / Urban Information Management System	350,000.00	Several consultancies are anticipated. Considering the nature and small values of the consultancies, selection method and market approach would be decided later, once the TOR are available.
2	National Spatial Policy Formulation and related studies	350,000.00	-To be done-
3	Office equipment & allied charges	150,000.00	Several small procurements anticipated that would be carried out using Shopping method.
Total		850,000.00	

Environmental and Social (including safeguards)

Key E&S Risks and Mitigation Measures

19. In general, E&S risks associated with housing finance may include inappropriate development location, poor building design (including ability to withstand natural disasters) and inadequate construction, prior resettlement or illegal forced evictions, locations hazardous for human habitation or prone to natural disasters, impacts on biodiversity /critical habitats, impacts on cultural heritage, lack of access to basic services, and impacts on vulnerable groups within communities. Some of these risks can result in damage or loss of the property or injury and safety concerns for residents. Such risks may then translate into credit and/or reputational risk for PFIs and PMRC.

20. E&S risk management requirements will be with respect to Component 2. E&S impacts would be expected to occur before housing loans are originated by PMLs and subsequently refinanced by PMRC. Nevertheless, these impacts can still pose credit or reputational risks to the financiers. Therefore, the primary method to manage the risks would be ex-post screening by PMLs, with verification by PMRC, against applicable E&S requirements for specific E&S issues associated with the properties considered for financing.

Design of Environmental and Social Management System

21. According to the requirements of OP/BP 4.03, for projects involving financial intermediaries, an Environmental and Social Management System (ESMS) that is commensurate with the level of risk in existing and/or prospective business activities is required. In line with the nature of the project, the Pakistan Housing Finance ESMS will be designed to enable screening for specific E&S risks that are most relevant to mortgage finance, taking into account the project’s multilevel structure.

22. PMRC will, accordingly, develop an institutional E&S policy, procedures, and internal capacity (i.e., designating staff with clear responsibility for E&S risk management), which together will constitute an ESMS at PMRC’s level. E&S aspects will be implemented in a coordinated manner with the overall PMRC lending procedures that will be established and institutionalized in PMRC’s operating rules and manuals. Specifically, the core applicable E&S requirements incorporated in PMRC’s E&S policy (namely, compliance with relevant laws and regulation of Pakistan and the List of Excluded Activities) will form part of PMRC eligibility criteria and will be included in the Master Refinancing Agreement, as well as potentially in the corresponding SBP Prudential Regulations. This will help PMRC ensure that, as part of PFIs’ overall risk management, they adequately screen transactions for key E&S risks and certify to PMRC in writing that such screening was completed for all transactions submitted for refinancing (including retroactive financing) and, most

importantly, that no activities ineligible on E&S grounds—as stated in PMRC List of Excluded Activities—are included in the portfolios provided for refinancing. This screening process and capacity to systematically and reliably carry it out with respect to portfolios to be submitted to PMRC for refinancing will constitute the ESMS at the PFIs' level. PMRC would verify this representation during the normal course of overall audits and checks it will perform on PMLs. Table 2.5 describes the E&S risks management action plan for PMRC.

Table 2.5. E&S Risk Management Action Plan

No	Action	Due date	Responsibility
1	PMRC to prepare and submit to the Bank an acceptable E&S Policy and Procedures that incorporate Applicable E&S Requirements of WB.	Met before negotiations	PMRC
2	PMRC to submit annual E&S performance reports to WB within 45 days after end of calendar year (from first disbursement of credit line).	E&S risk management Covenant in Financing Agreement	PMRC
3	Designation of E&S risk management coordinator.	Before disbursement of the line of credit	PMRC
4	PMRC to prepare an E&S Capacity Building Plan, put in place and maintain a grievance mechanism that will also address E&S-related concerns and complaints.	Before disbursement of components 1 & 2.	PMRC

Monitoring and Evaluation

23. **The M&E system will be based on the Results Framework and will be used to track and monitor progress and impact.** The framework will assess project activities using the indicators described in section VII, including a citizen engagement indicator. Additional indicators will also be collected for monitoring purposes during the project's implementation to measure in more detail the uptake, demand, and disbursement of the project. The full M&E framework for tracking short-, medium-, and long-term results as finalized with the responsible agencies will be included in the POM. Project progress will be monitored over time on the basis of the framework.

Role of Partners

24. **Project activities will be coordinated with development partners.** IFC, ADB, and Proparco from France have shown interest in investing in PMRC. TA financed by DFID is being provided by IFC for the operationalization of PMRC as a complement to the proposed project.

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY: Pakistan
Pakistan Housing Finance Project

Strategy and Approach for Implementation Support

1. The WB team will support the implementation of the project and provide the technical advice and risk mitigation measures necessary to facilitate the achievement of the PDO. The Bank's implementation support will follow a risk-based approach. At least two missions will be carried out annually in addition to follow-up visits as deemed necessary, as well as engagement through ongoing dialogue through video and audio conferences and e-mails. During implementation support visits, the Bank will cover FM and disbursement arrangements, procurement, and E&S risk management under the project in addition to overall support. The Bank's implementation support team, located both in Washington, DC, and in Pakistan (Islamabad), will ensure adequate support on a regular basis. TA support under the project, will largely be provided by consultants (individuals and firms), and the Bank team will review their TOR and the deliverables and will review TA performance during implementation support missions. The WB project team will also monitor the progress of project implementation and achievement of results through formal and informal reporting channels. Formal reporting channels include Implementation Status and Results Reports and results monitoring reports coordinated between the two agencies. Informal channels include interaction with direct beneficiaries of the project, reports from local media, and country economic analyses.

Implementation Support Plan and Resource Requirements

2. The WB's implementation support team will consist of technical specialists from the WB Finance, Competitiveness and Innovation (FCI) and Social, Urban, Rural and Resilience (SURR) Global Practices, Regional Client Services Unit, and other operations specialists based in Islamabad, such as specialists in procurement, FM, and E&S risk management. During project implementation, support will be provided as indicated in Table 3.1. The Implementation Support Plan may be reviewed to meet the implementation support needs of the project.

Table 3.1. Implementation Support

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First 12 months	• Selection of all consultants and implementation agency's staff • Procurement • FM	• Technical (see table 4.2) • Procurement • FM	180,000	
12–60 months	Project management, implementation, and completion	Please refer to Table 3.2.	180,000 per year	
Other				

Table 3.2. Skills Mix Required

Skills Needed	Staff Weeks	Number of Trips	Comments
Task team leader/Sr. financial sector specialist	50	Minimum of 2 a year	Will need to be adjusted depending upon the skills mix of Pakistan-based World Bank staff
Task team leader/Sr. Urban Specialist	30	Minimum of 2 a year	
Housing Finance Specialist	30	Minimum of 2 a year	
Financial inclusion specialist	30	Based in Islamabad, minimum of 3 a year	
Capital Market Specialist	30	Based in Islamabad, minimum of 3 a year	
Environmental risk management specialist*	20	Based in Washington, minimum of 2 a year	
Social risk management specialist*	20	Based in Islamabad, minimum of 2 a year	
Procurement specialist*	20	Based in Islamabad, minimum of 2 a year	
FM specialist*	20	Based in Islamabad, minimum of 2 a year	

Note: * Staff costs expected to be covered out of the specific budget allocated to each function in the program.

ANNEX 4: ECONOMIC ANALYSIS

COUNTRY: Pakistan
Pakistan Housing Finance Project

1. **Impact on mortgage market.** The proposed project will provide financial resources to boost housing mortgage finance and put in place a market/institutional structure to ensure that the mortgage market is well funded and can expand over time. The development of the mortgage market will catalyze growth in the financial and construction sectors, making housing ultimately more affordable to a greater number of people. Most of these benefits are, however, difficult to quantify. A simple economic analysis of project benefits was conducted using NPV and ERR methodology. The economic analysis of the project is built as a financial analysis with the estimated difference in cash flows to sub-borrowers (mortgage holders) accounted for as cash flows to the project. The analysis shows that incremental GDP growth resulting from the project will gradually reach 0.17 percent of GDP in the last year of project implementation.

2. **Direct impact of IDA credit.** It is estimated that by 2027, the project will contribute directly to 36,854 new loans originated—that is, more than 3,685 loans per year (triple the current level)—and an estimated additional PKR 111.9 billion (US$1.1 billion) of net mortgage lending. The IDA credit will contribute 8 percent growth on average to the mortgage market during 2018-2027. In addition, GDP will grow by an additional 0.01 percent in 2018 to an additional 0.06 percent in 2027. Finally, it is expected that the mortgage-market-to-GDP ratio could reach 0.68 percent by 2027 from 0.27 percent currently. These results are derived from the following: (a) Component 1. PMRC's financial plans are to refinance loans offered by PMLs,[14] with a total of 31,904 new loans originated with support of project funds by 2027. (b) Component 2. Mortgage lenders will have access to an LOC of US$70 million managed by PMRC, including a US$20 million lower-income mortgage window for smaller mortgage loans. It is estimated that by 2027 the LOC will generate 3,850[15] housing loans of PKR 7.7 billion. (c) According to PMRC financial plans, the RSF will leverage up to 10 times its funding as it provides guarantees for new loans originated by PMLs. Based on the average loan size of PKR 2 million, it is estimated that by 2027, the RSF will be able to generate about 4,000 new loans amounting to a total of PKR 10.00 billion.

3. **Indirect impact of IDA credit.** The indirect impact of the project is expected to be significant, maximizing finance for the development of the mortgage and capital markets. The LOC, the subordinated debt, and all the TA components are intended to support overall growth in the market. The project will help demonstrate the viability of expanding lending from the top to other lower-income brackets and will support financial institutions in allocating much larger amounts of capital toward housing loans. The financial model uses a premise that the mortgage market will grow more rapidly with PMRC providing long-term liquidity, as well as through the demonstration effect and incentives to "kick-start" lending to the lower-income housing sector. PMRC estimates that with the operationalization of the company, the mortgage market will grow by a constant 15 percent per year in 2018-19 and by 20 percent thereafter. In addition, the subordinated debt provided to PMRC will directly support further bond-raising efforts, besides bringing down the cost of the bond financing by strengthening PMRC's capital base. All of these combined effects will help increase PMRC's leverage ratio substantially.

[14] Average loan size will decrease from PKR 6.1 million in 2016 to PKR 4 million in 2026.
[15] Based on an average loan size of PKR 2 million.

4. By 2027, PMRC is expected to capture 25 percent of the total mortgage market, amounting to PKR 111.6 billion (see Table 4.1). Beyond the direct impact of the IDA credit, PMRC will have a broader impact on the entire market by promoting a stable lending environment, introducing standardization, and providing a liquidity "safety net" that allows lenders to engage in maturity transformation. This provides an initial big jump-up in lending that will gradually taper off as earlier loans amortize. Since PMRC will have a catalytic effect on the market, the IDA credit could indirectly contribute to additional new loans as lenders gain confidence in the stability of the mortgage market. Also, the project will indirectly benefit the construction sector and help generate employment in both the construction and building material sectors. These effects cannot be quantified at this early stage of the project, but the project will conduct an evaluation of their economic impact before its end date.

Economic Rate of Return (ERR)

5. **The economic analysis of this project is built as a financial analysis with the estimated difference in cash flows to beneficiaries accounted for as cash flows to the project**. The NPV and ERR have been calculated for Components 1 and 2. These valuations are constructed through scenario-based analyses with sensitivity testing. The ERR is calculated on the basis of the total project cost versus the cash flows from increased bank profitability. A discount rate of 15 percent is applied. The ERR assumes the following:

- (i) A mortgage market growth rate of 10%
- (ii) A premium on PMRC bonds of 0.60%
- (iii) A margin on refinance of 0.50%
- (iv) A discount rate of 15%
- (v) SBP benchmark rate of 5.95% that will increase to 6.95% by 2019
- (vi) Average loan size of initially PKR6.1 million will reduce by 10% until average it reaches PKR4 billion
- (vii) No change in SBP regulations
- (viii) PMRC paid-in capital reaches PKR6 billion in 2021
- (ix) An overcollateralization of 125% and capital adequacy ratio of 10%
- (x) PMRC issues 3-year bond in 2019; 5-year bond in FY2020; 7-year bond in FY2022; 10-year bond in FY2024
- (xi) No general provision is taken as loans are extended to PFIs supervised by SBP

6. **The ERR for the project is 54 percent with a positive NPV of US$379 million, which clearly supports the value creation engendered by the project.** The calculations use an assumption that an additional PKR 111.9 billion of mortgage lending will be done by 2027 as a direct result of project support. It is estimated that PMRC's contribution to GDP will be 0.01 percent in 2018 and reach 0.06 percent in 2027. Sensitivity analysis shows that the key ratio affecting overall ERR rate is the leverage of the IDA resources in the mortgage market. Reducing leverage by half will yield an ERR of 29 percent. A different scenario focused on reducing the growth rate of the mortgage market from 15 percent to 12 percent; however, the reduction in growth rate did not yield any major impact on the ERR. A deeper analysis could also include benefits that are not listed here but have been included in other projects—for example the increasing value of homes created under the project, inputted rents, or the effect on jobs creation and economic stimulus across the economy.

Table 4.1. Economic Rate of Return

Description	Assumptions	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Estimated GDP	GDP growth @ 4% - US$ 300 Bn @ 105	33,136,480,000,000	34,461,939,200,000	35,840,416,768,000	37,274,033,438,720	38,764,994,776,269	40,315,594,567,320	41,928,218,350,012	43,605,347,084,013	45,349,560,967,373	47,163,543,406,068
Estimated growth in mortgage market with out PMRC	Constant 10% annual growth	86,337,680,000	94,971,448,000	109,217,165,200	125,599,739,980	144,439,700,977	166,105,656,124	191,021,504,542	219,674,730,223	252,625,939,757	290,519,830,720
Loans size	Average Size of loan initially at PKR 6.1 Mn as per SBP Report on Housing Finance- Dec 16. However, with financing available to low and middle income group we assumed that the 10% reduction in average amount outstanding till its reach PKR 4 Mn approx.	5,490,000	4,941,000	4,446,900	4,002,210	4,002,210	4,002,210	4,002,210	4,002,210	4,002,210	4,002,210
PMRC Mortgage Market %	4% in 2018, increasing gradually to 25% in through refinancing facility and LoCs.	4%	9%	13%	16%	18%	20%	22%	23%	24%	25%
PMRC Mortgage Market in PKR	Through refinancing facility and LoCs - Gross	3,610,484,800	9,342,129,420	16,193,024,328	23,915,851,315	32,286,399,276	43,048,532,367	56,824,062,725	71,288,369,600	89,265,436,717	111,581,795,896
Conventional and Islamic - incremental growth	Net increase per annum.	3,087,984,800	3,944,144,620	1,460,894,908	7,722,826,987	8,370,547,960	10,762,133,092	13,775,530,358	14,464,306,875	17,977,067,117	22,316,359,179
PMRC Mortgage Amount after taking into account Banks own equity due to over collaterilization	125%	3,859,981,000	4,930,180,775	1,826,118,635	9,653,533,734	10,463,184,950	13,452,666,365	17,219,412,947	18,080,383,594	22,471,333,896	27,895,448,974
Number of loans	based on average loan sizes listed above.	703	998	411	2,412	2,614	3,361	4,302	4,518	5,615	6,970
Refinance through LOCs (middle income and low income LOCs)	Net increase per annum.	522,500,000	1,787,500,000	5,390,000,000	-	-	-	-	-	-	-
Number of loans	Based on average loan sizes of PKR 2 million	261	894	2,695	-	-	-	-	-	-	-
PMRC Mortgage Market in PKR	Through refinancing facility and LoCs. Net increase	3,610,484,800	5,731,644,620	6,850,894,908	7,722,826,987	8,370,547,960	10,762,133,092	13,775,530,358	14,464,306,875	17,977,067,117	22,316,359,179
Risk sharing facility ($9mil)	Seed capital for a RSF. Assuming a leveraging factor of 10.	522,500,000	3,300,000,000	3,300,000,000	2,777,500,000	-	-	-	-	-	-
Number of loans	Assume PKR 2mil.	261.25	1,650	1,650	1,389	-	-	-	-	-	-
Cumulative Additionality (Direct and Indirect impact of IDA loan) in PKR	**Additional Mortgage Market Debt Due to IDA project and Mortgage Debt due to Affordable Housing Credit Line**	**4,382,481,000**	**8,230,180,775**	**5,126,118,635**	**12,431,033,734**	**10,463,184,950**	**13,452,666,365**	**17,219,412,947**	**18,080,383,594**	**22,471,333,896**	**27,895,448,974**
Total number of loans	**Number of loans**	**964**	**2,648**	**2,061**	**3,801**	**2,614**	**3,361**	**4,302**	**4,518**	**5,615**	**6,970**
Total Gross Mortgage Market after IDA loan	**Total Gross Mortgage Market (PMRC refinancing + RSF)**	**90,720,161,000**	**103,201,628,775**	**114,343,283,835**	**138,030,773,714**	**154,902,885,927**	**179,558,322,488**	**208,240,917,489**	**237,755,113,818**	**275,097,273,653**	**318,415,279,694**
Additional Mortgage market growth (after IDA loan)	**IDA loan impact on the Mortgage Market (PMRC refinancing + RSF)**	**5%**	**9%**	**5%**	**10%**	**7%**	**8%**	**9%**	**8%**	**9%**	**10%**
Additional GDP growth due to IDA loan	**IDA loan impact on the GDP (PMRC refinancing + RSF)**	**0.01%**	**0.02%**	**0.01%**	**0.03%**	**0.03%**	**0.03%**	**0.04%**	**0.04%**	**0.05%**	**0.06%**
Mortgage Market to GDP (with IDA Loan)	**Mortgage to GDP ration (after IDA loan)**	**0.27%**	**0.30%**	**0.32%**	**0.37%**	**0.40%**	**0.45%**	**0.50%**	**0.55%**	**0.61%**	**0.68%**

Table 4.2. ERR with 15 percent discount rate

Years		1	2	3	10
Additional Tier 1 loan from WB ($60mil) : exchange rate is PKR 110/USD		(6,600,000,000)			
Credit lines from WB ($75mil for refinancing and $20mil for affordable housing)		(8,800,000,000)			
Cumulative Additionality (Direct and Indirect impact of IDA loan) in PKR (including $20 affordable housine line)		4,382,481,000	8,230,180,775	5,126,118,635	27,895,448,974
Total Operating Expenses from PMRC income stmt		(185,498,457)	(187,929,114)	(201,287,202)	(273,324,673)
Taxes		(39,068,051)	(91,729,653)	(144,819,466)	(442,022,547)
Cash flows after in PKR	15%	-11,242,085,508	7,950,522,008	4,780,011,967	27,180,101,754
Present value of Cash flows in PKR		(9,775,726,529)	6,011,736,868	3,142,935,459	6,718,505,464
	NPV	41,706,843,693			
	ERR	54%			

Table 4.3. ERR with 12 percent discount rate

Years		1	2	3	10
Additional Tier 1 loan from WB ($60mil) : exchange rate is PKR 110/USD		(6,600,000,000)			
Credit lines from WB ($75mil for refinancing and $20mil for affordable housing)		(8,800,000,000)			
Cumulative Additionality (Direct and Indirect impact of IDA loan) in PKR (including $20 affordable housine line)		4,382,481,000	8,230,180,775	5,126,118,635	27,895,448,974
Total Operating Expenses from PMRC income stmt		(185,498,457)	(187,929,114)	(201,287,202)	(273,324,673)
Taxes		(39,068,051)	(91,729,653)	(144,819,466)	(442,022,547)
Cash flows after in PKR	12%	-11,242,085,508	7,950,522,008	4,780,011,967	27,180,101,754
Present value of Cash flows in PKR		(10,037,576,346)	6,338,107,468	3,402,318,102	8,751,265,333
	NPV	50,776,121,381			
	ERR	58%			

ANNEX 5: FINANCIAL ANALYSIS AND INTERMEDIARY ASSESSMENT

COUNTRY: Pakistan
Pakistan Housing Finance Project

Financial Sector and Housing Finance Market Review

1. **The size of Pakistan's financial sector was about 68.5 percent of GDP in 2016, which compares well with other South Asia markets but is behind relevant emerging markets.** Banking sector assets were approximately 48.7 percent of GDP. Excluding the National Savings Scheme (NSS), the nonbank financial sector constitutes about 5.8 percent of GDP. There is limited diversification within the nonbank financial sector. Insurance companies, mutual funds, pensions, mortgage, leasing, *modarabas*, and other DFIs are still very small in outreach and asset base. Banks dominate the financial sector, representing about 74.7 percent of financial sector assets. The remaining assets of the financial system are in the NSS (16.5 percent), insurance companies (4.8 percent), nonbank financial institutions (4.0 percent), and MFIs (0.5 percent).

2. **The housing finance market was estimated to be 0.25 percent of GDP or 1.6 percent of private sector credit in December 2016, with only 70,000 mortgages.** Variable rates, non-standardized underwriting practices, and significant maturity mismatches led to high credit and liquidity risks that are reflected in the high spreads charged on mortgage loans and high NPLs (see Figure 5.1). The mortgage market is growing, but from a very low base; and while NPLs have been declining (31 percent in 2013 to 17 percent in 2016), average loan maturities have been increasing (12.2 years in 2013 to 14.2 years in 2016).

Table 5.1. Housing Finance Market Trends

Factor	Dec 13	Jun 14	Dec 14	Jun 15	Dec 15	Jun 16	Dec 16
Gross loans (PKR bn)	51.3	52.7	53.7	56.1	60.8	65.7	69.3
NPLs to gross loans	31%	30%	29%	24%	22%	19%	17%
Weighted avg. mark-up	13%	13%	13%	13%	10%	10%	9.8%
Avg. maturity	12.2	12.5	12.8	11.6	12.4	13.2	14.2
Loan-to-value ratio (%)	44%	41%	37%	45%	45%	48%	48%
Avg. loan size (PKR mn)	3.3	5.0	3.8	5.5	4.1	5.0	6.1

Source: SBP.

Financial Review of Potential PFIs

3. Currently, 24 commercial banks (including Islamic banks), one microfinance bank, and House Building Finance Company Limited (HBFCL) are providing housing finance. As of December 2016, the market shares in terms of loan portfolios were as follows: public sector banks (7%), private banks (32%), Islamic banks (38%), HBFCL (22%), and microfinance banks (0.3%). A financial review of PFI segments and HBFCL that could be potential candidates for participation in the refinancing facility and/or lower-income affordable housing guarantee mechanism was undertaken to determine compliance with the eligibility criteria under OP 10.00 and ascertain which institutions are in line with the project's envisaged eligibility criteria for PFIs. A Financial Statement Analysis of the financial sector is carried out annually by SBP and is publicly available. Key financial and operating indicators for potential PFI segments are presented in Table 5.2.

Table 5.2. Selected Key Indicators of Potential PFI Segments and Housing Finance Portfolios

	Public banks	Private banks	Islamic banks	HBFCL
Overall Financial Performance				
Net interest income (PKR bn)	75	395	50	1
Profit after tax (PKR bn)	33	152	12	(1)
Deposits (PKR bn)	2,404	9,323	1,573	--
Loans and advances (net) (PKR bn)	1,035	4,316	821	12
Total assets (PKR bn)	2,964	12,617	1,853	21
Net assets (equity) (PKR bn)	243	1,040	124	(1)
Net interest margin (%)	2.5%	3.1%	2.7%	6.9%
Return on assets (%)	2.0%	2.1%	1.0%	-4.1%
Return on equity (%)	23.3%	25.0%	15.4%	--
Advances-to-deposits ratio (%)	43.1%	46.3%	52.2%	--
Liquid assets to deposits (%)	63.2%	72.0%	38.8%	--
Capital adequacy ratio (%)	16.5%	15.4%	10.1%	--
Gross NPLs to gross loans (%)	15.9%	8.1%	4.1%	28.5%
Provisions (%)	81.4%	90.1%	84.7%	77.1%
Net NPLs to net loans (%)	3.4%	0.9%	0.7%	8.4%
Housing Finance Portfolios				
Number of borrowers	3,914	9,077	4,426	52,106
of which NPL status	*565*	*1,385*	*290*	*32,852*
Total portfolio (PKR bn)	4.8	22.3	26.6	15.6
% of total loans portfolio	*0.3%*	*0.4%*	*2.7%*	*98.7%*
Loans by category				
Outright purchase	48%	75%	86%	24%
Construction	31%	19%	12%	49%
Renovation	21%	6%	3%	27%
Gross NPLs of gross mortgage loans (%)	28%	19%	6%	32%
Weighted average mark-up (%)	10.6%	8.5%	10.5%	9.9%
Avg. maturity (years)	12.5	14.0	11.3	14.8
Loan-to-value ratio (%)	47%	31%	54%	40%
Avg. loan size (PKR mn)	1.4	8.5	7.6	2.3

Notes: Data for banks and housing finance portfolios as of Dec 2016, for HBFCL as of Dec 2015, for borrowers in NPL status as of Sep 2016.
Source: SBP; financial statements of selected institutions.

Financial Intermediary Assessment - PMRC

4. PMRC has been set up to address the prevalent market failure in intermediation of long-term fixed-rate financing for mortgage lending and significant affordability challenges (see affordability analysis in Annex 6). As a DFI, PMRC will be subject to SBP's capital requirements and prudential regulations; it will have a paid-up capital of PKR 6 billion (US$57.14 million). The Securities and Exchange Commission of Pakistan will be the regulatory body for PMRC's sources of financing through market instruments such as bonds and Sukuks. Within these activities, PMRC may be subject to certain differentiated requirements aligned with its specialized business functions—for example, exemption/reduction of valorem stamp duty on PMRC loan documents, shelf registration of instruments, eligibility of PMRC instruments for statutory liquidity reserve requirements, and lower risk weighting for capital adequacy ratio calculations.

5. ***Business practices.*** PMRC is expected to be an efficient way of connecting long-term investors with the institutions generating long-term assets in Pakistan, thus helping develop the debt market and longer-term yield curve. PMRC's initial capital will come from nine commercial banks and the GoP, with 51 percent of shareholding from the private sector. PMRC will neither take deposits nor lend directly to individual borrowers. It will operate on commercial principles to attract equity investment from private

parties and raise market-based debt funding for PFIs on a wholesale basis. PMRC will provide refinance loans (conventional as well as Islamic) to PFIs with full recourse. The refinanced loans will be secured by the PFI's portfolio of eligible mortgage loans with 125 percent overcollateralization. The PFIs will undertake to replace any ineligible/defective mortgage loans with eligible mortgage loans to maintain the level of overcollateralization at all times. The pricing of loans from PMRC to PFIs will be based on a cost-plus basis over cost of funding and is expected to be predominantly fixed-rate once PMRC begins issuing debt instruments. PFIs are expected to also adapt similar risk-adjusted market-based pricing to mortgage customers on a fixed-rate long-term basis. PMRC has an important role as a catalyst to develop the Pakistani mortgage and capital markets, and it will be crucial in developing prudential lending standards and standardization of mortgage operations by the introduction of minimum quality standards.

6. ***Governance structure***. On the 12-member Board of Directors, 4 directors (one-third) are independent directors, and the remaining 8 represent PMRC's shareholders. Both the Chairpersons of the Board Audit Committee and Board Human Resource Committee will be independent directors. The company has already set up a Board Risk Committee; the Chief Risk Officer will report functionally to the Board Risk Committee and administratively to the Chief Executive Officer (CEO). Likewise, the Internal Auditor will report functionally to the Board Audit Committee and administratively to the CEO. A Shariah Advisory Committee will be formed to assist the Board when PMRC commences Islamic business.

7. ***Operational capacity***. PMRC senior management is made up of a CEO, a Chief Financial Officer, and a Company Secretary. The CEO has over 35 years' experience in the mortgage finance business and secondary mortgage market institutions. He was formerly the CEO of *Cagamas Berhad*, the world-renowned National Mortgage Corporation of Malaysia. He has also been a director of the Egyptian Mortgage Refinance Company and has worked on similar liquidity facilities in several other markets. The operational teams are being strengthened with IT, procurement, financial management, and other skill sets as PMRC prepares to commence operations. PMRC will be a wholesale institution, dealing with relatively few transactions, which may involve the refinance of large pools of mortgage loans at a time. PMRC's main clients will be the primary mortgage originating banks (including Islamic banks) as a first resort and market-based liquidity provider. Only mortgage loans meeting the criteria set out in the POM will be eligible collateral for PMRC's refinancing.

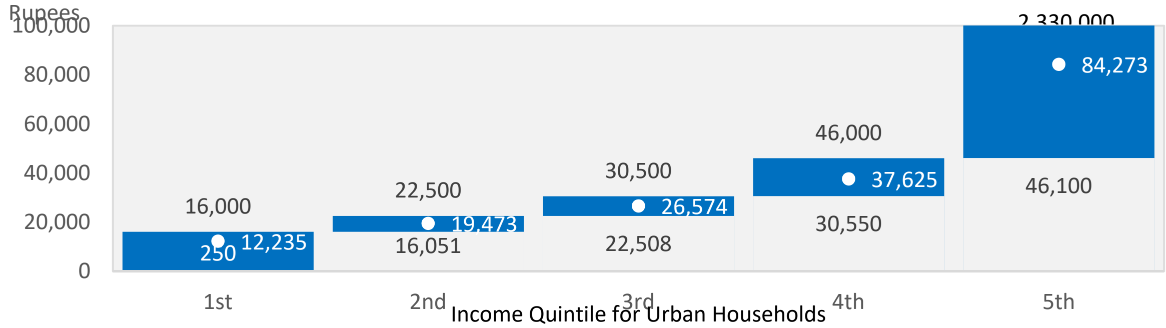
8. ***Financial projections.*** PMRC's business plan presents financial projections for the next 10 years. The financial model provides for scenario analysis that can be altered and refined as the assumptions change. The sources of financing will initially be equity and quasi-equity from shareholders and LOCs such as in the proposed project, followed by financing through long-term instruments in the Sukuk and bond markets. PMRC plans to start issuing debt instruments from year 2 of its operation, and 80 percent of the refinancing portfolio will be funded by debt by 2025. The coupon rates for PMRC instruments are expected to be 40-60 basis points above benchmark rates such as Pakistan Investment Bonds. The lending rates proposed by PMRC are based on a market spread of 50 basis points over the cost of funding for same-tenor bonds. The margin is expected to cover administrative costs, tax, and required profitability in line with commercial practices. In the base-case scenario, PMRC is forecast to earn an after-tax profit of PKR 77 million in the first year of operation, rising to PKR 842 million in 2027. Return on equity will remain in the range of 6.0-9.16 percent during 2021-2027.

ANNEX 6: AFFORDABILITY ANALYSIS AND CHARACTERISTICS OF THE URBAN GAP

COUNTRY: Pakistan
Pakistan Housing Finance Project

1. **To estimate housing affordability, 2015-16 HIES survey data were used to construct new income quintiles for urban households.** Each quintile represents 20 percent of all urban households. Average monthly incomes range from PKR 12,235 (US$117) in the lowest quintile to PKR 84,273 (US$804) in the highest quintile (Figure 1). On average, urban households allocated 14.4 percent of their monthly income to housing and utility costs—that is, about PKR 2,273 (US$22) monthly for the lowest income quintile, and PKR 8,714 (US$83) monthly for the highest income quintile.

Figure 1. Range and average monthly household incomes by urban household income quintiles, 2015-16.



Source: World Bank staff calculations based on Pakistan Bureau of Statistics. 2016. Household Integrated Economic Survey (HIES) 2015-16.

2. **Current house prices are unaffordable for most.** The average home in Pakistan costs about PKR 10,000 (US$95.38) per square foot.[16] Assuming the average household in urban areas includes 6 people and requires a minimum of 5 square meters (53 square feet) per person, the minimum cost of a house would be about PKR 3.2 million (US$30,802). The price-to-income ratio is substantially above international affordability norms: 7.1 and 21.8 times the average annual income for the fourth and lowest quintiles respectively, and affordable only to households in the highest urban income quintile. Affordability constraints are compounded by a lack of long-term financing options for housing.

3. **While promoting access to housing finance, addressing the underlying cost drivers of housing will go a long way in addressing Pakistan's housing shortage.** The Government should focus on enabling a functional housing market with private sector providers at a large scale, while targeting highly specific subsidies to the most vulnerable and lowest-income groups. The Government (and local governments within each urban market) should first conduct a detailed housing market study using the housing value chain to identify the main constraints and bottlenecks for market provision of housing at scale and affordable costs. The value chain consists of links on both the demand and supply sides, including city planning and building regulations, land supply, infrastructure, the construction sector, and end-user finance./.

[16] Zameen. 2017. "Pakistan House Price Index (Mar 2017)." https://www.zameen.com/index/buy/houses. Accessed April 18, 2017.