



IDB Member Countries

Affordable Housing and Housing Finance – Issues and solutions

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Housing is a 'Numbers' game – The Muslim World is no exception!

- ❑ The Muslim world represents 1 of 4 humans on the planet
- ❑ Nearly the same share in number of countries
- ❑ Represents 1 of 2 poor on the planet
- ❑ An acute challenge of widening demand/supply gap and rising housing backlog
- ❑ Most of the housing backlog and short supply is in low-income segment of the population
- ❑ Population growth and urbanization are further compounding the existing huge backlog
- ❑ Rising costs (land, construction, construction materials) are making housing unaffordable for the poor

Housing Supply Challenge – Figures speak for themselves

- ❑ IDB study suggests housing needs of the Muslim World at 8 mn units, nearly all in Low-Income Segment
 - The estimate needs further analysis and breakdown
 - MENA 3.2 mn;
 - Asia 2.7 mn; and
 - Africa/others 2.3 mn.
- ❑ Urban population likely to rise from 1/4th to 1/3rd of total
- ❑ Rapid Urbanization a major issue in low income housing
- ❑ Need for new housing of 8 mn due to population growth is based on 5-5.5/HH and population growth at 2.5%
- ❑ Urbanization and population growth further increases the year-on-year housing needs in major metropolitans
- ❑ Supply is 30-40% on new demand for housing

Housing Finance Challenges

- ❑ As most of housing shortage is in low income segment, poor need empowerment through housing finance
- ❑ Institutional Housing Finance is either non-existent or in infancy stages in most of the Muslim World (Afghanistan and some African Countries)
- ❑ Slightly advanced in some others (Malaysia, Turkey, Egypt, Morocco, Indonesia, Pakistan and Saudi Arabia)
- ❑ Regulatory Framework is also quite similar
- ❑ Additional challenges include:
 - Role and responsibilities of Specialized Housing Finance Institutions (HFIs) and Commercial Banks (CBs)
 - Long Term Liquidity Facility Institutions and Instruments

An Asian Snapshot

- ❑ Asia-Pacific represents:
 - 1/4th of the Worlds population, and
 - Nearly 1/2 of the Worlds Poor
- ❑ Housing is an essential part of political sloganizm
 - “Housing for all”;
 - “Slum Free Cities”
 - “Maang Raha hai har Insaan-Roti, Kapra, aur Makan”
(Every human demands food, clothing and shelter); etc.
- ❑ In some countries there is SOME delivery but in most there is NONE
- ❑ Each country in the region has its own geo-socio- economic parameters and all face a common issue of “shelter less poor”
 - Regional successful models would be need for sharing experience and knowledge

Regulatory Regimes – Much more needs to be done

- ❑ Central Banks as regulators with limited focus on housing
- ❑ Need to strengthen regulatory regimes with development and implementation of:
 - Prudential Regulations;
 - Mortgage Guidelines;
 - Developer Finance Framework etc.
- ❑ Mortgage Law/Foreclosure Law with a focus on Sharia- Compatible Housing Finance
- ❑ Housing Finance Regulatory Framework for developers and construction industry with a focus on Low-Cost Housing
- ❑ Fiscal Regimes with a focus on Low Income Housing (“LIH”)
- ❑ Country specific definition of Affordability in term of Cost of house and area

Sharia-Compatible Housing Finance

- ❑ An issue of faith e.g. Afghanistan with nearly 100% Muslim Population
- ❑ Also an issue of Financial Inclusion. Even if conventional finance is available, Faith-Based clients do not availit
- ❑ Standardization and Diversification of RE/Housing Products on Asset Side and Liability Side
- ❑ Islamic REITS and MBS Products
- ❑ Role of Islamic Banks and Islamic Windows of Conventional Banks
- ❑ Need for Research and Development Center

Housing Information System – Housing Observatory

- ❑ No Muslim country has any Housing Observatory or Housing Information System-HIS (exception Egypt)
- ❑ To address the challenge of Pro-Poor LIH detailed data on Income Segments, Affordability in terms of Finance and Supply are needed
- ❑ Central Banks need to play a pro-active role in compilation of Data on Housing Finance, Income and Affordability
 - Such data should cover Geographical and Income segments
- ❑ Developers and Governments (e.g. Housing Ministry) need to compile data on Housing Supply
- ❑ An increased role of Developers Associations, Mortgage bankers Associations, and bodies of other Stakeholders

The Asian Scenario

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Housing Challenges in Asia-Pacific region

- ❑ Region represents more than 1/4th of Worlds population and 1/2 of the poor on the planet
- ❑ Including China, Asia-Pacific represents 1/2 of the Worlds population
- ❑ Region still among the lowest in terms of Mortgage Finance
 - Average Mortgage Debt to GDP Ratio 3.3
- ❑ Region is faced with massive housing shortage
 - India alone faces an Urban Housing shortage of 27 mn
- ❑ Nearly entire urban shortage is in Low-Income Category
- ❑ Persons per Room Density:
 - India/Pakistan is 3.5;
 - EU is 1.1; and
 - USA is 0.5

Population explosion in Asian Cities

- ❑ In 1950, about 232 mn people lived in urban areas representing 17% of Asia's total population. Today it is more than 1/3rd and by 2025 nearly 1/2 of Asian Population will be Urban
- ❑ By 2030, 1 of every 2 urban residents in the world will reside in Asia
- ❑ In India, as per census 2001, total housing stock was 249 mn units of which 29% (72 million) were in urban areas. India today faces an Urban housing shortage of 25 mn units (Pakistan around 3 mn)
- ❑ Nearly entire Urban Housing Shortage is in Economically Weaker Sections of society
- ❑ India, Thailand, Indonesia, Malaysia and more from the region have unique success stories in different areas
 - Regional countries could benefit from knowledge and experience sharing

Slums Prevalence in Asia

- ❑ Afghanistan: 80% of Kabul's population (2.44 mn) live in slums or damaged/destroyed housing
- ❑ Bangladesh: 2,100 slums. In Dhaka, 2 mn people live either in slums or are without any proper shelter
- ❑ India: 52,000 slums providing housing to 8 mn people (about 14% of the total urban population)
- ❑ Pakistan: Karachi alone has between 600-800 slums sheltering 7.6 mn people (1 million households) out of the total city's population of 15.1 mn people
- ❑ Sri Lanka: A considerable share of the population of Sri Lanka lives in plantations, slums or shanties
- ❑ Mongolia: 51% of the population residing in temporary 'ger' dwellings
- ❑ Indonesia: 17.2 mn families live in approximately 10,000 slum areas

Where the Urban Poor Live

- ❑ Slums known through various names across the region: Shanty Towns, Jhopar Patti, Jhuggi, Basti, Katchi Abadi, Squatter Settlements, legal/illegal habitat, etc
- ❑ Hidden behind higher persons per room density
- ❑ Most, if not all, shelter in slums
- ❑ In some cases homeless poor live on footpaths, and even in abandoned sewerage pipes
- ❑ Nearly 50% of major metropolitans in the regions are slums
- ❑ A two pronged approach is required:
 - Slums improvement programs; and
 - Slums rehabilitation programs

Urban Realities – A glimpse into reality





Role of the Developer Industry and the Construction Industry

Major players in the Construction sectors

- ❑ Developers/contractors;
- ❑ Designers;
- ❑ Construction material Industry (CMI);
- ❑ Labor/employment;
- ❑ Financial Institutions/Banks;
- ❑ Capital Market (REITs, MBS, Sukuk etc.);
- ❑ Regulatory agencies/Fiscal Authorities;
- ❑ Trade Associations; and above all
- ❑ the Federal and Provincial Governments

Construction sectors covers the following

- ❑ Real Estate
 - Residential real estate (retail & wholesale)
 - Commercial real estate (office, markets etc)
- ❑ Industrial
- ❑ Infrastructure

Contribution to Construction Material Industries (CMIs)

- ❑ In the developed world, the real estate sector contributes to the growth and development of 71 CMIs
 - Contribution to GDP is 7-10%.
- ❑ In the developing world, its contribution spreads over about 42 CMIs
 - Contribution to GDP is 3-6%.
- ❑ The main industries are steel, cement, wood, electrical, and ceramics

Construction industry and challenges of low cost housing

- ❑ India faces an urban housing shortage of 27 mn units - nearly all in low income category
- ❑ Pakistan faces an urban housing shortage of 3-4 million units - again nearly all in low income category
- ❑ In Afghanistan, nearly 90% of population is a candidate for housing micro finance
- ❑ Low income housing:
 - Is a challenge to the developer industry; and
 - Needs to be addressed in a professional and commercially sustainable manner

Urbanization Challenges

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Urbanization Explosion

- ❑ World population expected to reach between 7.9 to 10.9 billion by 2050
- ❑ By 2030, nearly 60% of the world's population will be urban, and nearly 1/2 will comprise of urban poor living in poor habitat and in slums
- ❑ Urban growth rates highest in the developing world, absorbing an average of 5 mn new urban residents/month
 - Responsible for 95% of world's urban population growth
- ❑ Factors contributing to urban migration are: greater economic growth, rising income levels, employment opportunities in the cities, occupational shift from agriculture to manufacturing and services, and changing attitudes towards consumption and life style
- ❑ Changing family culture and shrinking household size.
- ❑ Slum population in India has increased from 26 mn units in 1981 to 61.8 mn units in 2001

Housing Micro-Finance (“HMF”)

- ❑ Nearly 1/5th of population in the Muslim World is a candidate for HMF
- ❑ At this income segment people are more concerned on Faith-Based Finance
- ❑ Issues with HMF:
 - Product Design;
 - Outreach;
 - MF Housing Microfinance Regulations;
 - Income Assessment;
 - Appraisal, Surveillance;
 - Delivery; and
 - Recovery
- ❑ Facilitate and management of Default

HMF Institutional Framework

- ❑ Social Housing Finance Institutions (HMFIs)
- ❑ Social Housing Finance Institutions with a focus on slums improvement, Incremental Housing etc
- ❑ Sponsor a Shelter Programs: as delivery channels for Charity, Zakat.
- ❑ Specific Regulatory Regimes for HMF, both for financiers and developers
- ❑ Specific Fiscal Regimes on Smart Subsidies and Cross Subsidies
- ❑ Need to define HMF for regulatory and fiscal support

Institutional Framework for Housing at Government Level

- ❑ Define roles at Federal and Provincial Level
- ❑ Integrate Housing and Urban Planning
- ❑ Housing Policies
- ❑ Land Banking and Role of the Government
- ❑ Smart Subsidies and Cross Subsidies
- ❑ Wisdom Sharing with all Stakeholders

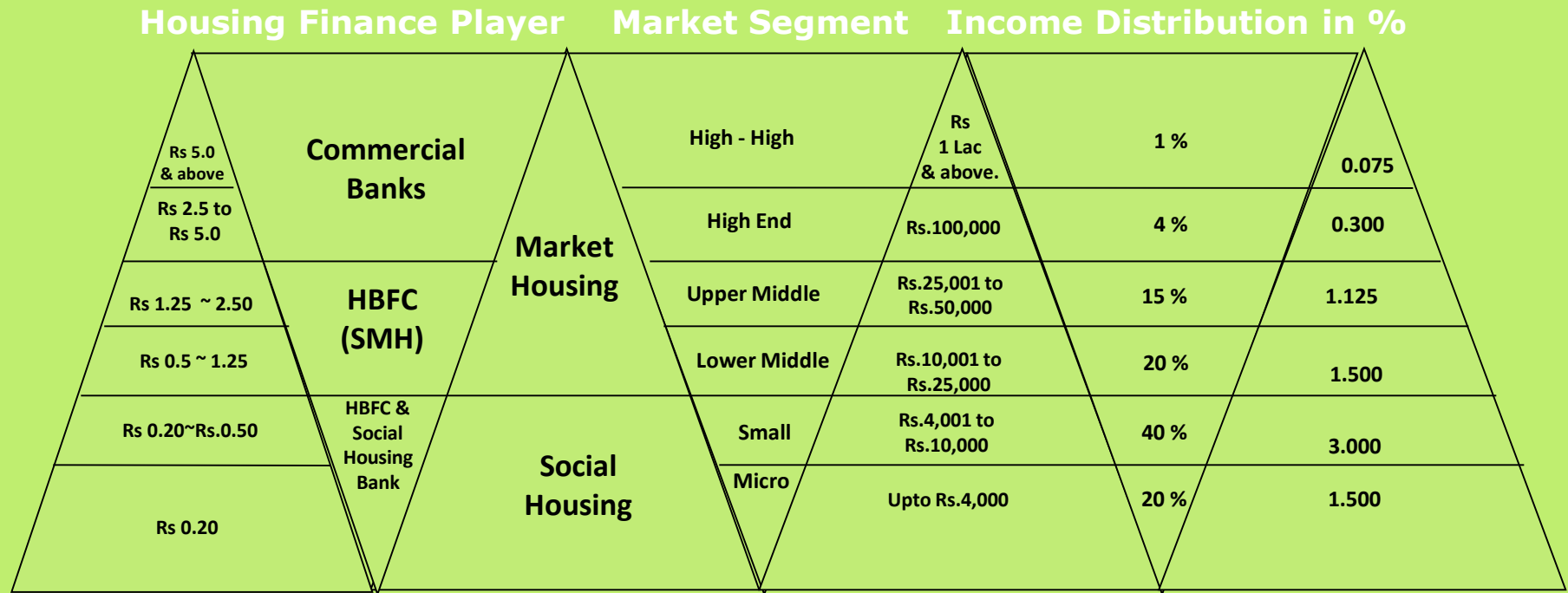


Just a few Examples

Pakistan: Some statistics

- ❑ Population:
 - 160-170 million
 - 2/3rd Rural, 1/3rd Urban
- ❑ Major metropolitans:
 - Karachi, Lahore, Rawalpindi/Islamabad, Peshawar, Hyderabad and Faisalabad facing high rate of urbanization
- ❑ Karachi: Population 16-17 mn and growing @ of 7 to 8%
- ❑ Nearly half of Karachi's population is in squatter settlements (600-800 squatter settlements)
- ❑ Karachi only needs 100,000 new housing units per year to meet natural growth, cover backlog and urbanization pressure

Housing Continuum in Pakistan



Mortgage Affordability (Rupees in millions)

Housing Market

Housing Shortage * (millions)

- Per Capita Income: Rs.5,000 per month
- Minimum Wage Rate Rs.4,000 per month

* Total existing backlog is estimated at 7.5 mn units. The shortage in various income segments is assumed in the same proportion as per income distribution pattern. However, actual shortage is much higher in low income segments as opposed to higher income segments.

Afghanistan

- ❑ Afghanistan has a population of nearly 27 mn people
- ❑ Most of its population is a candidate for HMF
- ❑ Three to four decades of war has partially or totally destroyed institutional infrastructure in many cities
- ❑ Land records have been either destroyed or manipulated
- ❑ In Kabul Land Records are now being recreated and computerized under LIETRA Project
- ❑ Only Specialized HFI which existed in the past has been closed down for various reasons
- ❑ In Kabul only, an estimated \$ 2.5 Bn are needed to repair and rehabilitate damaged/destroyed housing (World
- ❑ Central Bank of Afghanistan (DAB) is actively working on different initiatives on housing and seeks TA and Funding Support

Case of some other countries

- ❑ Recent uprising in some **ME Countries** have brought to surface the social issue of low-income affordable housing
- ❑ Nearly all countries in the region have allocated huge funding and have initiated plans and projects to address it
- ❑ Most of these programs are based on State Subsidy, and thus would not be viable and sustainable in the long run.
- ❑ **Indonesia**, over the years have developed and implemented a very comprehensive program of State Subsidized Pro-Poor Housing.
- ❑ **Africa** has a unique challenge of Low-Income housing, with challenges of Affordability, HMF, major Slums etc.
- ❑ In many African Countries, largely Muslim population is a candidate for Sharia-Compatible Housing Finance

A few recommendations

- ❑ Develop country specific Housing Observatory and HISs
- ❑ Standardize and simplify Sharia-Compatible Housing Finance Products
- ❑ Regulatory Regimes and Regulations
- ❑ Proactive role of National and Provincial governments in Housing, supported by proper institutional framework
- ❑ Capacity Building
- ❑ Creation of an Affordable Housing Fund
- ❑ Channeling Loans through Community Savings Groups
- ❑ Strengthening of Laws related to Recovery of Loans
- ❑ Need for Exclusive and Intermediate Institutions
- ❑ Need for continuous Dialogue and Dissemination

A few recommendations (cont.)

- ❑ Risk Mitigants:
 - Credit Guarantee Programs, Mortgage Insurance
 - Title Insurance
 - Credit Bureaus
 - Alternative Forms of Collaterals
 - Mortgage Counseling and Consumer Education
 - Technical Assistance for Low cost construction Technologies and, Construction Materials

A need to share common wisdom and experience

- ❑ Issues are common, answers are different and not shared
 - Experiences are varied but rarely documented
- ❑ Essential to promote Networking and Joint Ventures
- ❑ An immediate need to share:
 - Low Cost Construction Technologies
 - Low Cost Construction Material
 - Builders with technical and financial muscle
 - Long Term Funding, issues and answers
 - Product innovation and experiences
 - Policy Initiatives and Programs in different countries
 - Provision of Affordable Serviced Land, and Land Banking
 - Housing Micro-Finance Institutions
 - Use and Abuse of Subsidies (Smart Subsidies vs. Charities)

Issues we know – Answers we need

- ❑ Generally Political Sloganism
 - “Housing for all”,
 - “Slums Free Cities”,
 - “Maang Raha hai har Insaan-Roti, Kapra, aur Makan”,
and so on.....
- ❑ In some countries delivery is SOME, and in most it is NONE
- ❑ Each country facing a common issue of “shelter less poor”
with an ever increasing backlog
- ❑ Regional successful models are to be shared and
INDIGENIZED
- ❑ Islamic Development Bank to play a pivotal Role

Potential Roles for IDB

Set up an exclusive function for Housing

- ❑ World Bank, ADB have now well equipped functions on Housing and Housing Finance, linked to Urban Development
- ❑ Technical Assistance on housing to member countries
- ❑ Funding Support and LT Credit
- ❑ Non-Funded Credit Enhancement Support
- ❑ Promote country specific and region financing instruments like Securitization (MBS), i-REITS etc
- ❑ Help establish LT Liquidity Facility Institutions
- ❑ Research, Development, Knowledge Sharing Platform at IDB
- ❑ Housing Data/Info Centre for the Muslim World (like HOFINET)
- ❑ Fund Projects to convert Raw Land to Serviced Land
- ❑ Computerization of Land Records and Mortgage Registry

Thank you

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Notice:

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