

AFFORDABLE HOUSING SECTOR – BANGLADESH

ROADMAP DEVELOPMENT



Creating Markets, Creating Opportunities

July 27, 2022

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BUSINESS CASE FOR BANGLADESH

- Market Opportunity
- Demand and Supply Gap
- Key Challenges



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HOUSING ROUNDTABLES & WBG APPROACH

- Objectives of Roundtables
- Key Takeaways
- New Operational Way across Housing Value Chain



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FUTURE & HOW

- Affordable Housing Sector Development Roadmap





Ranks as the 8th most populous country

Population density: 1265 per Km² (3,277 people per mi²).
Median age: 27.6 years



Population growth is skewed towards urban areas

Urban population comprises almost **39.4%** of the total population



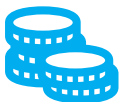
Increase in middle-income households in urban areas

Household incomes have significantly increased due to multiple factors resulting in a growing middle-income class (earning between BDT 31K-99K per month)



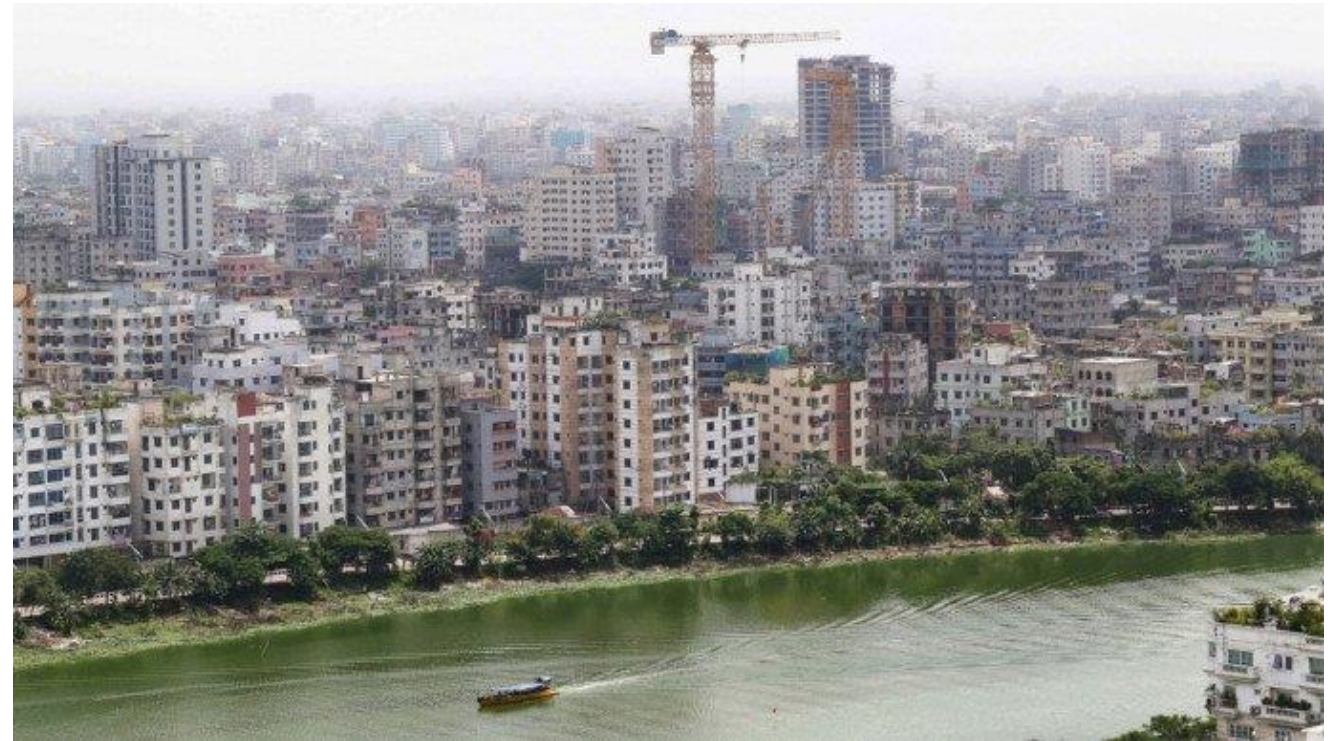
Increase in informal housing in urban areas

11.9 million urban households (69%) reside in informal housing



Low mortgage finance penetration

Mortgage finance penetration in housing market is low at **3%** (11% in India and 50 - 70% in developed countries). Housing finance portfolio comprising only **6.56%** of the total loans of the financial sector (December 2021)



50% of the Bangladesh population is estimated to live in urban areas by 2030

Middle-income population is expected to be 37% of the total urban population in the next 5 years

The changing climate due to global warming may force almost 20 million people to migrate by 2050

Affordable Housing: Definition

- The “affordability” is defined in terms of ability of households to procure housing loans from financial service providers
- TYPE A Households:** 7-9th income decile households, average monthly income of **USD 480 – 1,224**; 30% of population are considered Affordable Housing Target Market
- TYPE B Households:** 5th and 6th income decile households; 20% of the urban population. It is unlikely that these can afford housing loans in the existing market unless housing loans at concessional rates are available

Urban households of Bangladesh segregated into income deciles and their average monthly household incomes

	Deciles	Income share (%)	Average monthly household income (USD)	Income range (USD)	
				Min	Max
Type C households	1 st	1.16	72	0.0	132
	2 nd	2.99	192	132	240
	3 rd	4.18	276	240	300
	4 th	4.99	324	300	360
Type B households	5 th	5.91	384	360	432
	6 th	7.17	468	432	480
Type A households	7 th	8.35	552	480	612
	8 th	10.49	684	612	780
	9 th	13.31	876	780	1,224
	10 th	41.44	2,712	1,224	Above

Source: Population Census 2011 has been used to estimate the population in 2016, and the income distribution has been taken from HIES 2016

Affordable Housing GAP



AFFORDABLE HOUSING FINANCE HAS POTENTIAL TO INCREASE IN BANGLADESH

- Currently, there are around **3.5 million** Type A households that require a 600 sq. ft. housing unit
- The minimum cost of each housing unit is calculated to be **BDT 2.04 million (US\$24,480)**
- At Loan-to-Value ratio (LTV) of 70%, financing worth **BDT 1.4 million (US\$16,800)** is required per housing unit.

BDT 4.9 trillion

(Current Financing Requirement for 3.5 million Houses)

Source: Understanding the Housing Sector in Bangladesh - IFC 2020

DEMAND – Access to affordable housing finance

Borrowers (informal sector)

- Lack of documentation - no proof of income
- Do not have savings to contribute equity portion of 30%

Financial institutions lack long-term funds

- Tenor mismatch and non-availability of long-term deposits; capital market instruments are non-existent

Foreclosure

- Non-existent foreclosure practices
- Misleading property valuation – low prices at auction
- Complex legal procedures
- Defaulters can take stay order from the court and make it difficult for banks to repossess the house

Regulations for Banks and NBFIs

- **For Banks:** Strict directives to finance agriculture, SMEs and women entrepreneurs; housing finance portfolio can not exceed 10% of the total advances. Maximum individual party limit is up to BDT 20 million; maximum debt-equity ratio while disbursing a loan is 70:30; maximum interest rate is capped at 9%
- **For NBFIs:** No limit on maximum loan size, debt-equity ratio and total portfolio; interest rate is not capped. There is restriction on foreign borrowing on NBFIs



SUPPLY

Land availability and affordability

- High value of land in metropolitan cities, and rapidly increasing land prices
- Land ownership transparency (land records and related problems)



Weak regulatory delivery

- Registration – clearance and approval is a complex and long process (can take up to 6 months)
- Streamlining of land related public offices can reduce development cost by 10% for developers

Connectivity and infrastructure

- Limited success of small unit projects / low demand in peripheral areas due to transport connectivity
- Infrastructure like multi-modal connectivity, schools, healthcare, etc. are important part of eco-system for making peripheral areas attractive

High cost of construction material

- Wide fluctuation in prices of construction material making it difficult for builders to manage project costs
- Ownership structures of 50:50 or 60:40 between landowner and builders in cities constrain margins for builder which reduces their interest in low-cost housing
- Green housing –yet to gain traction given lack of awareness and mis-perceptions about high incremental costs

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Housing is Key Driver of Direct and Indirect Development Impact

The Housing Sector contributes directly to 8 and indirectly to 5 Sustainable Development Goals:



Housing contributes to the GDP of the country

Housing is comprised not only of housing units, but an entire housing value chain of complex, inter-connected sectors including: i) construction material, ii) construction builders, iii) related services that involve brokers, finance and insurance providers, iv) utilities, v) labor, vi) financial institutions, etc. **On an average, each new house construction creates 5 new direct jobs.**

Better housing conditions increase quality of life

Healthy housing is shelter that supports a state of complete physical, mental and social well-being. It does so by providing shelter from the elements and facilitating comfortable temperatures, adequate sanitation and illumination, sufficient space, safe fuel or connection to electricity, and protection from pollutants, injury hazards, mold and pests.

Sustainable buildings improve the resilience of cities

Making cities safe and sustainable means ensuring access to safe and affordable housing, and upgrading slum settlements. Sustainable building design, climatic and cultural adequacy of housing can improve the impact of housing in the urban environment, on climate change, and on city **resilience**.




Shelter & Safety

- Provides **shelter** which is a **basic need** required for humans to have a decent life
- Provides **safety, stability, community belonging, self esteem and social status** that often influence quality of life



Job Creation, Job Mobility & Income Generation

- Creates **both direct and indirect jobs** throughout the value chain from construction to maintenance of the house
- Leads to **training and skills development** especially at entry level/unskilled work force
- Housing represents **dual use opportunities** for shelter and income generation



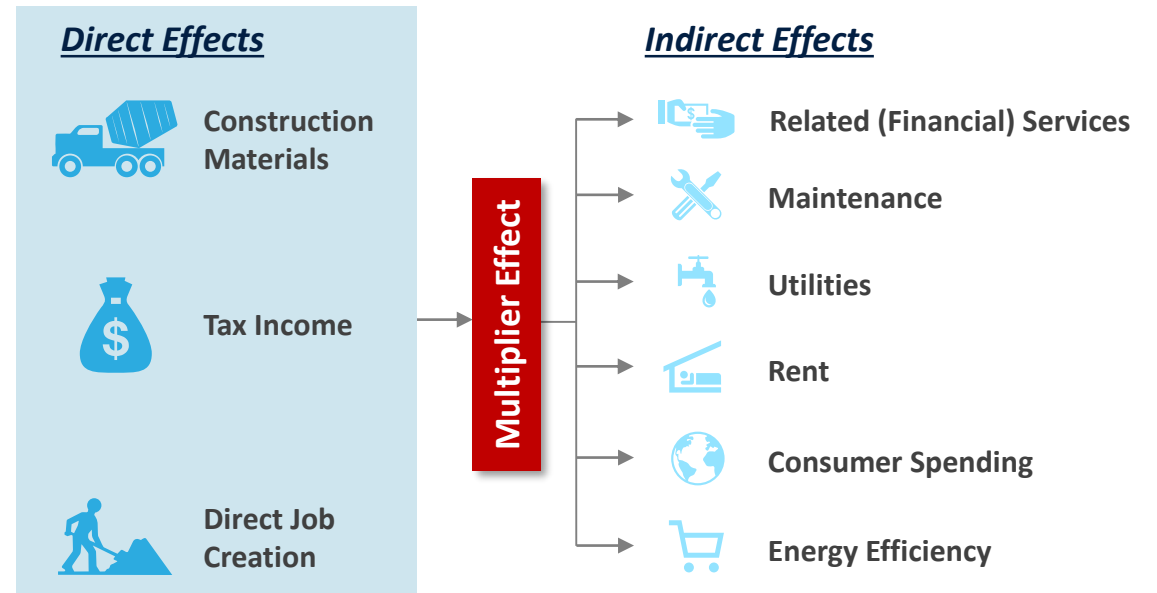
Wealth Creation, Savings & Access to Credit

- Home ownership creates immediate capital which **unlocks access to credit** for families to borrow
- Unlocked credit can then be used for **small businesses**, especially in developing countries
- Home ownership **protects and conserves assets and wealth creation**, especially during old age

➔ It has significant spillover effects to other areas:

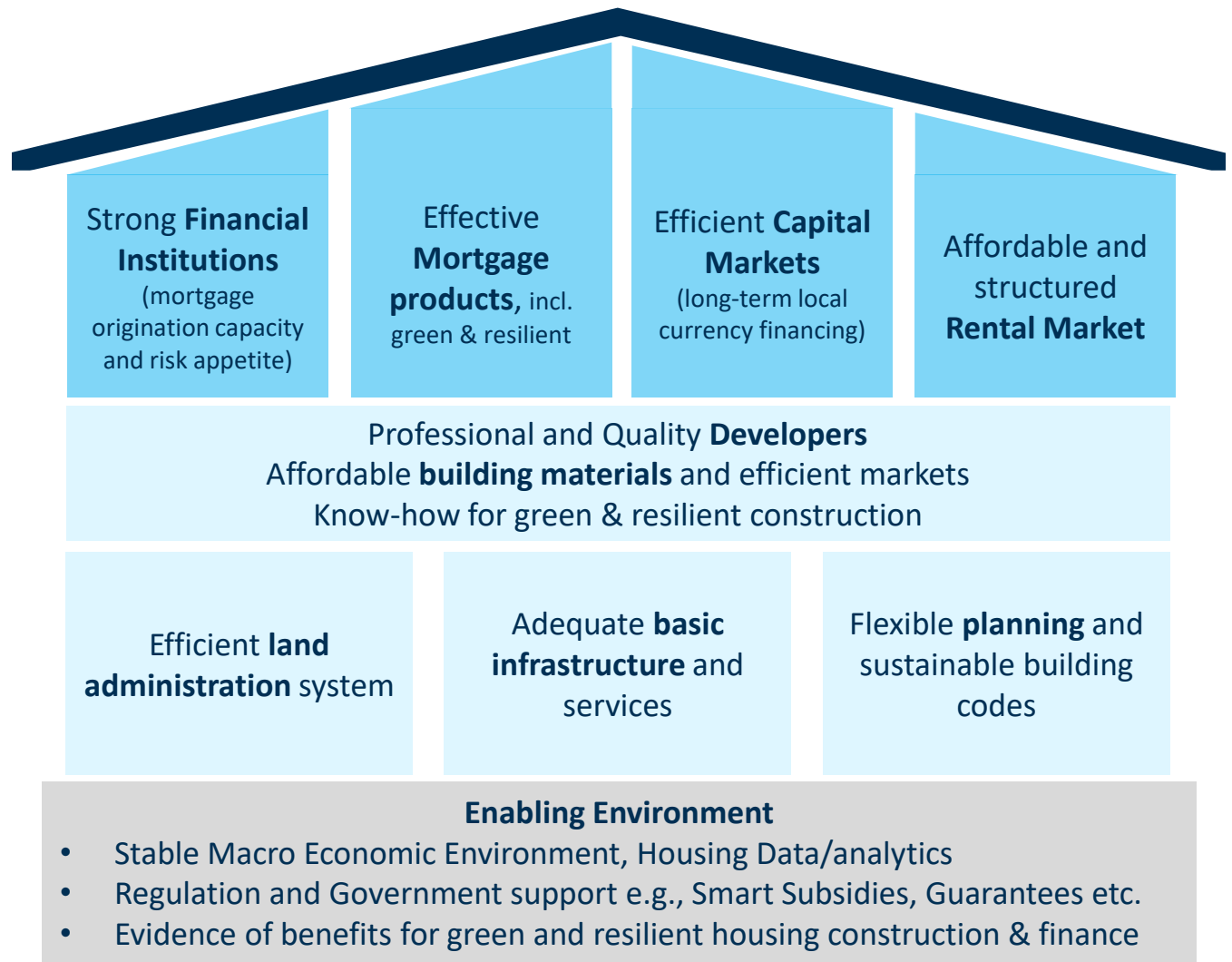


➔ The Housing Sector has both direct and indirect multiplier effects:





Adequate income levels



Demand

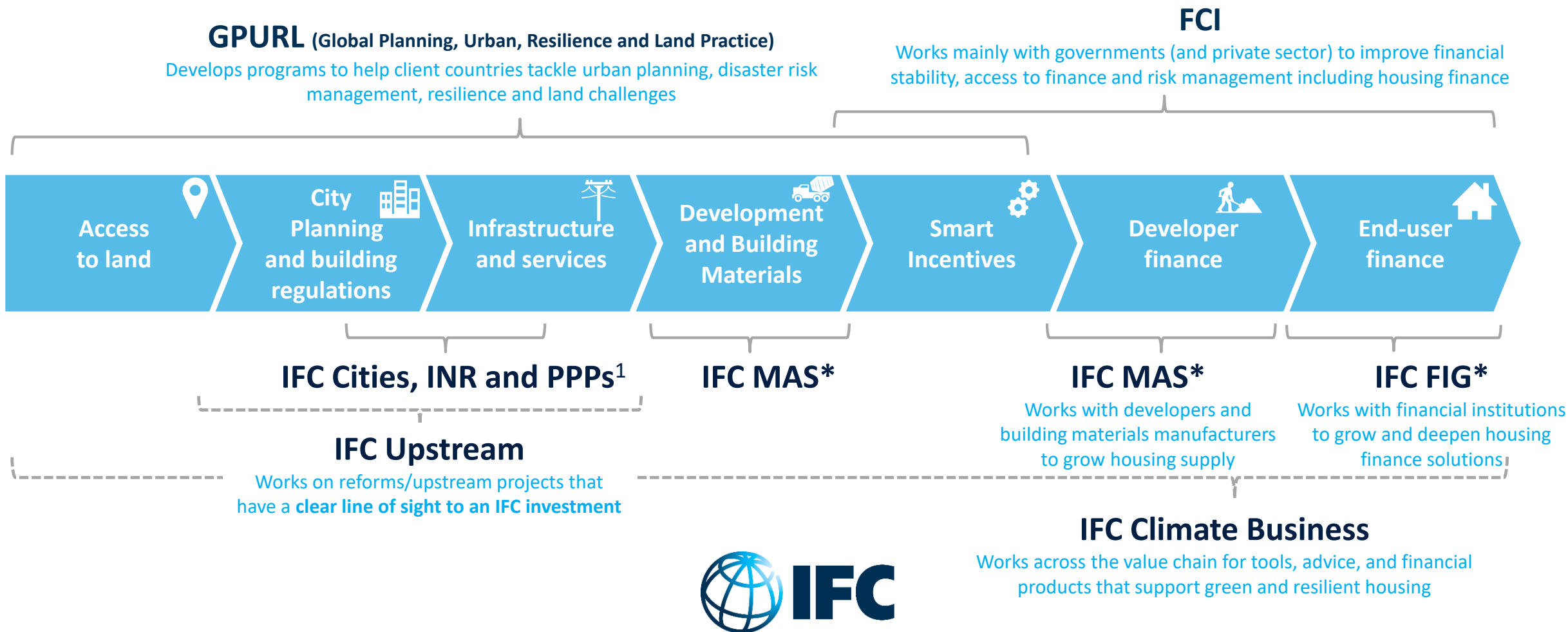
I.e., how to improve access to affordable housing, with emphasis on green and gender-inclusive, resilient homes

Supply

I.e., how to improve efficient delivery of affordable housing, with emphasis on green and gender-inclusive, resilient homes

Enabling Environment

Including IFC Upstream work and WB



Note: ¹IFC's Cities Initiative develops long-term relationships with mayors working with them to develop and implement solutions for key urban infrastructure challenges. Client relationship managers coordinate across IFC's investment and advisory services teams, PPP and WB colleagues to deliver holistic solutions for infrastructure development.

*IFC Upstream develops MAS / FIG projects in these highlighted areas of the value chain if they lead to an IFC investment in the next five years

Supply

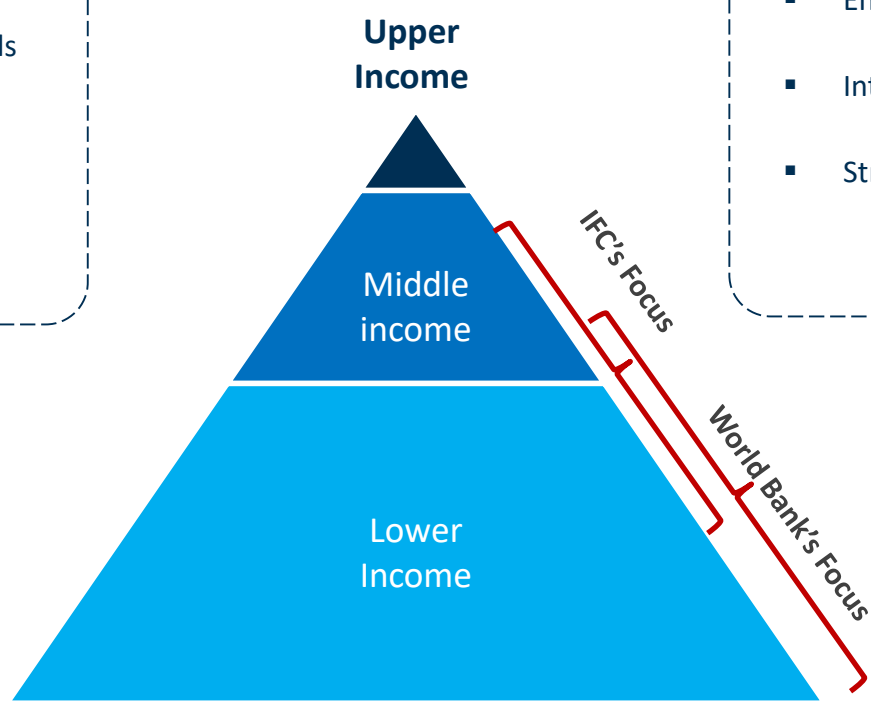
Reduce formal housing costs

- Improve city planning, building regulations, and access to land*
- Invest in basic infrastructure and slum upgrading*
- Strengthen local construction & building materials sectors
- Collect and analyze Housing market data on a regular basis to inform better decisions

Demand

Boost housing demand through access to finance

- Enhance access to mortgages
- Enhance access to housing microfinance
- Introduce efficient, well-targeted subsidies*
- Strengthen residential rental markets



*In collaboration with the World Bank



OBJECTIVES

- To create awareness within the government and private sector stakeholders about the large market gap
- Deliberate on the multiple challenges constraining the development of the sector and collectively identify solutions to these challenges
- Identify and propose actionable plans/projects where the WBG can support the Government of Bangladesh and private sector to develop the affordable housing sector

5 THEMATIC ROUNDTABLES

- Enabling Environment: Rebuilding the Economy post-COVID through Housing Finance and Construction
- Green Affordable Housing
- Housing Finance
- Supply of Affordable Housing Units

PARTICIPANTS

- Chaired by a Minister/Senior Advisor to the Prime Minister
- Government: Ministry of Finance, Housing and Public Works, Environment
- Regulators: Bangladesh Bank, BSEC and RAJUK
- Banks and Financial Institutions
- Builders and Developers
- Civil Society

	October 06, 2021	December 02, 2021	December 13, 2021	February 16, 2022	March 10, 2022
Title	Rebuilding the Economy Post-Covid-19	Green Affordable Housing	Affordable Housing Finance Part-I	Affordable Housing Finance Part-II	Affordable Housing Supply
Key Recommendations	<ul style="list-style-type: none"> There is NEED for a STRONG GOVERNMENT POLICY FOR HOUSING, land price and transparency and non-digitized records, housing finance. Government can play a key role in closing the housing gap. Housing sector (urban and rural) should be treated as a productive investment for which the mindset has to change. The are learning from global experiences, which must be leveraged upon. There is need for a special Bangladesh Bank window to support affordable housing. The private sector must also come forward to develop this sector. Housing PPPs can address the constraints. 	<ul style="list-style-type: none"> Bangladesh was the 7th most climate-affected country. With GHG emissions of 18% from residential and 10% from building construction, if the right investment choices (green housing) are not made today, the country will be locking into high-energy urban infrastructure for decades. Green housing is not expensive if the lifetime savings are considered. Home buyers can save on monthly utility costs. Construction and certification cost for builders can be minimized through efficient planning. Builders can access concessional financing. Government to consider subsidies for incentivizing green affordable house building and financing. 	<ul style="list-style-type: none"> Housing needs to be defined a PRIORITY sector. Bangladesh needs an official DEFINITION of Affordable Housing. PPP models need to be encouraged along with fiscal incentives. Diverting resources from insurance, pension and provident funds from NSS to develop Capital Bond Market. REITs to be explored. Digitizing land records, reduce registration cost. Develop housing near EPZs/SEZs. Integrated approach is required. More effective coordination among MoHPW, FD, FID and the private sector is needed. 	<ul style="list-style-type: none"> Deepening the financial sector with APEX institutions - Mortgage Refinance Company (MRC). Apex institution model like the NHB, India needs to be considered. Specialized Housing Finance Companies (HFCs) need to be considered (can be regulated by the Bangladesh Bank under separate guidelines). Learning from NHB, India to be used on expanding outreach to the informal segment of the population Risk sharing through mortgage guarantee schemes, credit risk management mitigation are necessary. Government should consider targeted subsidies/incentives for builders, FIs and home buyers in this segment. 	<ul style="list-style-type: none"> Government to enable critical element of housing value chain: land, urban planning and regulations, infrastructure, developer financing and subsidies. Affordable housing PPP models to be explored, along with Affordable Housing Fund, as per the experience of Tamil Nadu Shelter Fund. PPP experience from other countries should be leveraged upon. RAJUK has set a goal to build 100,000 affordable flats in the Dhaka metropolitan by 2035. RAJUK has identified 56 sites for PPP housing projects. Green housing to be considered to contain GHG emissions. Explore housing projects in SEZs. RAJUK should have a more strategic role as a regulator.

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ENABLING ENVIRONMENT

POLICY LEVEL ACTION	START TIMELINE	STAKEHOLDER
<p><u>FORMULATING THE VISION FOR GREEN AND RESILIENT AFFORDABLE HOUSING</u></p> <ul style="list-style-type: none"> Setting up a Working Group to ensure implementation through relevant ministries i.e. Ministry of Housing and Public Works, Ministry of Finance (Finance Division), etc.; Housing (including Affordable and Resilient Green Housing) to be made a Priority Sector Announcement of the “official definition of Affordable Housing” targeting low to middle-income households (earning between US\$ 360 – 1,224 per month i.e. 5th – 9th income decile population group) 	December 2022	Prime Minister’s Office (PMO)
<p><u>Regulations and Incentives for FIs/Developers</u></p> <ul style="list-style-type: none"> Regulations/Incentives for Financial Institutions: Affordable housing as PRIORITY sector; revisions in Prudential Regulations for banks/NBFIs; regulations to enable NBFIs to borrow long term funds from DFIs to lend to affordable housing segment; incentivize FI/NBFIs to lend to this segment; Guidelines for Financing Private Housing Developers; Incentives for beneficiaries/home buyers and target pricing policy Regulations/Incentives for Developers: Provisions to incentivize housing developers to build affordable housing units, and enact regulations to make developers liable of malpractice and protect homebuyers Green Affordable Housing: Define green building policy and guidelines for FIs and Developers. Incentivize builders /developers for constructing green affordable housing units 	October 2022	Bangladesh Bank BSEC Finance Division
<p><u>Pensions and Insurance Sector Reforms</u></p> <ul style="list-style-type: none"> Reforms in the regulatory framework which will enable Pensions Funds and Insurance Companies to channel long term funds to housing via capital market instruments 	December 2022	BSEC IDRA Finance Division
<p><u>Improving Public Land Management to improve access to land for affordable housing</u></p> <ul style="list-style-type: none"> Creation of a central register for Government’s landholding, based on digital land records created under GoB’s ongoing initiative Develop asset management strategy to increase supply of land in well located areas for affordable housing 	March 2023	DC offices
<p><u>Reforms in Foreclosure Law and Practices</u></p> <p>Review of the foreclosure laws and practices to make the foreclosure process cost efficient and timely for the Banks/NBFIs</p>	January 2023	Finance Division Ministry of Law

DEMAND FOR AFFORDABLE HOUSING

MARKET AND FIRM LEVEL ACTION	START TIMELINE	STAKEHOLDER
<p><u>Setting up of Bangladesh Mortgage Refinance Company (BMRC)</u></p> <ul style="list-style-type: none"> Develop a feasible proposition for either setting up of a new entity or transformation of an existing entity e.g. Bangladesh Housing Building Finance Corporation Develop BMRC’s design, feasibility study and business plan Develop BMRC’s regulatory framework, policies and procedures Incorporate BMRC, adequately capitalize it with GoB’s seed funding, then FIs and DFIs BMRC bond issuance transaction advisory and mortgage underwriting policy 	September 2022	Finance Division
<p><u>Addressing the informal and self-employed segments for Financial Institutions(FI)</u></p> <ul style="list-style-type: none"> Work with banks/NBFIs. Develop Innovative credit appraisal and risk management frameworks to go down-market. Develop differentiated underwriting process based on informal income and title assessment frameworks. Facilitate knowledge sharing visits in the region to understand and develop these models Support for building affordable housing portfolio through technical assistance and capacity building in the areas of business model, product, underwriting standards, digitalization, risk management and green housing Explore use of technology to minimize operational costs for Financial Institutions and improve customer experience and service delivery 	September 2022	Bangladesh Bank
<p><u>Operationalizing Green and Resilient Affordable Housing</u></p> <ul style="list-style-type: none"> Sensitizing the market about the potential of green building. Conduct knowledge awareness webinars for Bangladesh Bank, FIs, REHAB developers. Work with select FI/NBFIs. Facilitate operationalization of the green guidelines in their product offering. Enable IFC-EDGE training and certification process for self-built homes For self-built homes, support in building green affordable housing product proposition and certification process (through IFC-EDGE) 	October 2022	Ministry of Housing and Public Works

SUPPLY FOR AFFORDABLE HOUSING

MARKET AND FIRM LEVEL ACTION	START TIMELINE	STAKEHOLDER
<p><u>Affordable Housing – PPP Demonstration Project</u></p> <ul style="list-style-type: none"> Coordinate with RAJUK to identify TWO parcels of lands in and around urban center, which can be considered for PPP Affordable Housing Project Identify basic infrastructure constraints, such as connectivity issues – metro/trunk road, other infrastructure requirements Allocation of land by RAJUK taking into account potential E&S issues Work with the PPP Authority for design the project parameters Work with private sector developers for affordable housing PPP design Work with financial institutions to offer financing facilities for home buyers Work with RAJUK on redefining its strategic role in the sector, as Regulator. 	September 2022	RAJUK PPP-Authority
<p><u>Setting up of Shelter Fund</u></p> <ul style="list-style-type: none"> Explore setting up of an investment/shelter fund which can take equity stakes in projects (e.g.: The Tamil Nadu Shelter Fund, India) Support availability of financing for private sector developers. Develop co-financing and advisory solutions for private developers 	January 2023	Finance Division PPP-Authority
<p><u>Building Capacities of Local Contractors</u></p> <ul style="list-style-type: none"> Developing the pool of local contractors/builders to increase country’s capacity to supply requisite housing units on annual basis to meet the growing demand. Work with developers to implement affordable housing complex – leveraging on IFC’s tools i.e. REAL ESTATE ASSESSMENT OF DEVELOPERS (READ) and AFFORDABLE AND SOCIALLY SUSTAINABLE HOUSING APPLICATION (ASHA), EDGE and Building Resilience Index. Explore different constructions techniques (pre-fab). 	January 2023	REHAB

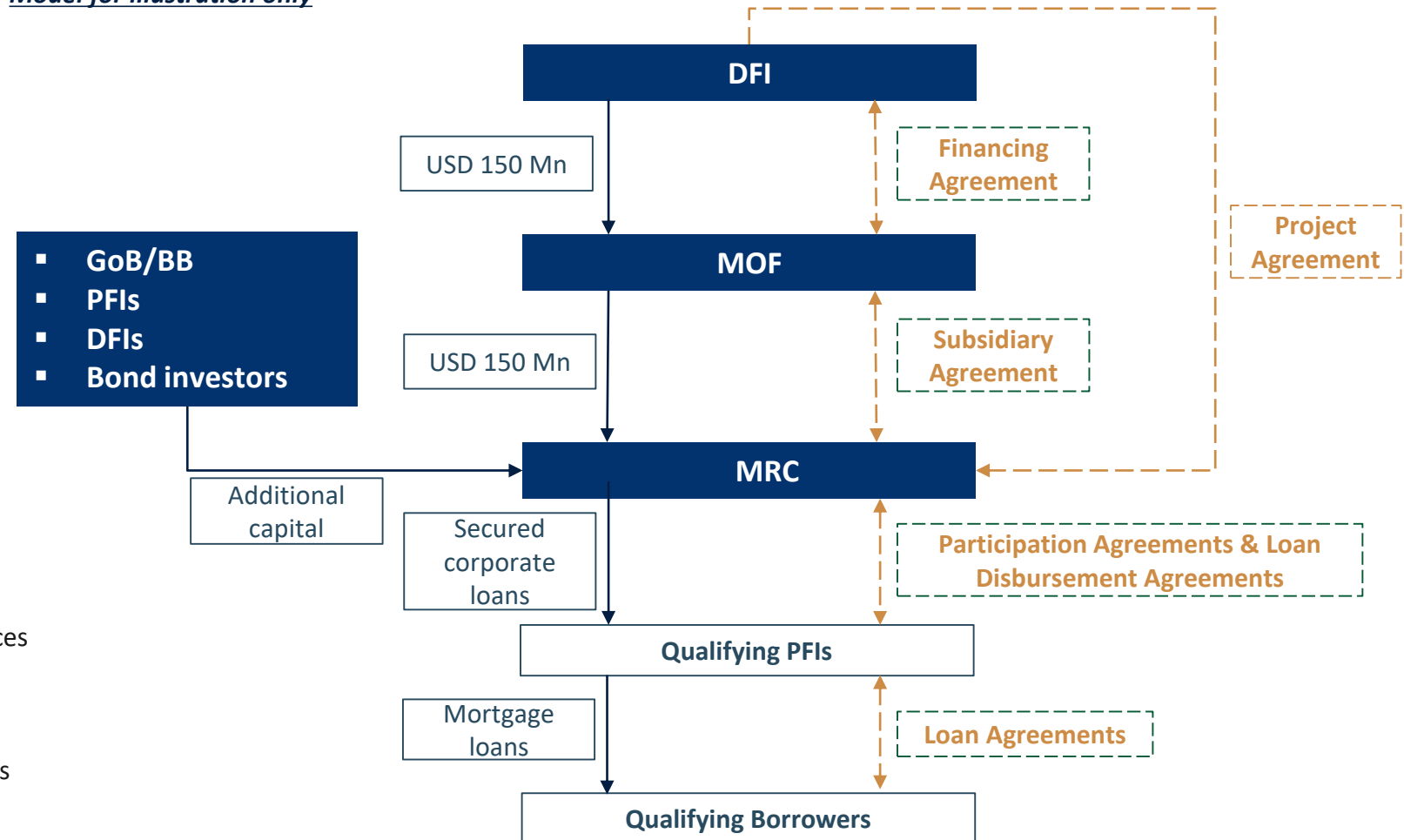
- A majority private company - owned and controlled by Participating Financial Institutions
- A regulated financial institution
- Governance – Board and Management
- Operations:
 - Lend to qualifying PFIs – eligibility criteria for institutions (and not directly to individual borrowers)
 - Against qualifying loans - eligibility criteria for loans
 - Terms & Conditions of loans detailed in the Participating Agreement and Loan Disbursement Agreements

Why a Mortgage Refinance Company

- Overcome asset/liability maturity mismatch and the need for long-term funding
- Standardization and improvement in mortgage lending practices
- Increased competition amongst lenders
- Acts as an intermediate step on the path to a full secondary Mortgage market
- Issues high quality fixed income investments for pension funds
- An MRC is not a State Housing Bank, a subsidy vehicle, a risk taker (interest rate or credit risk), or a mortgage lender

Bangladesh Mortgage Refinance Company (BMRC)

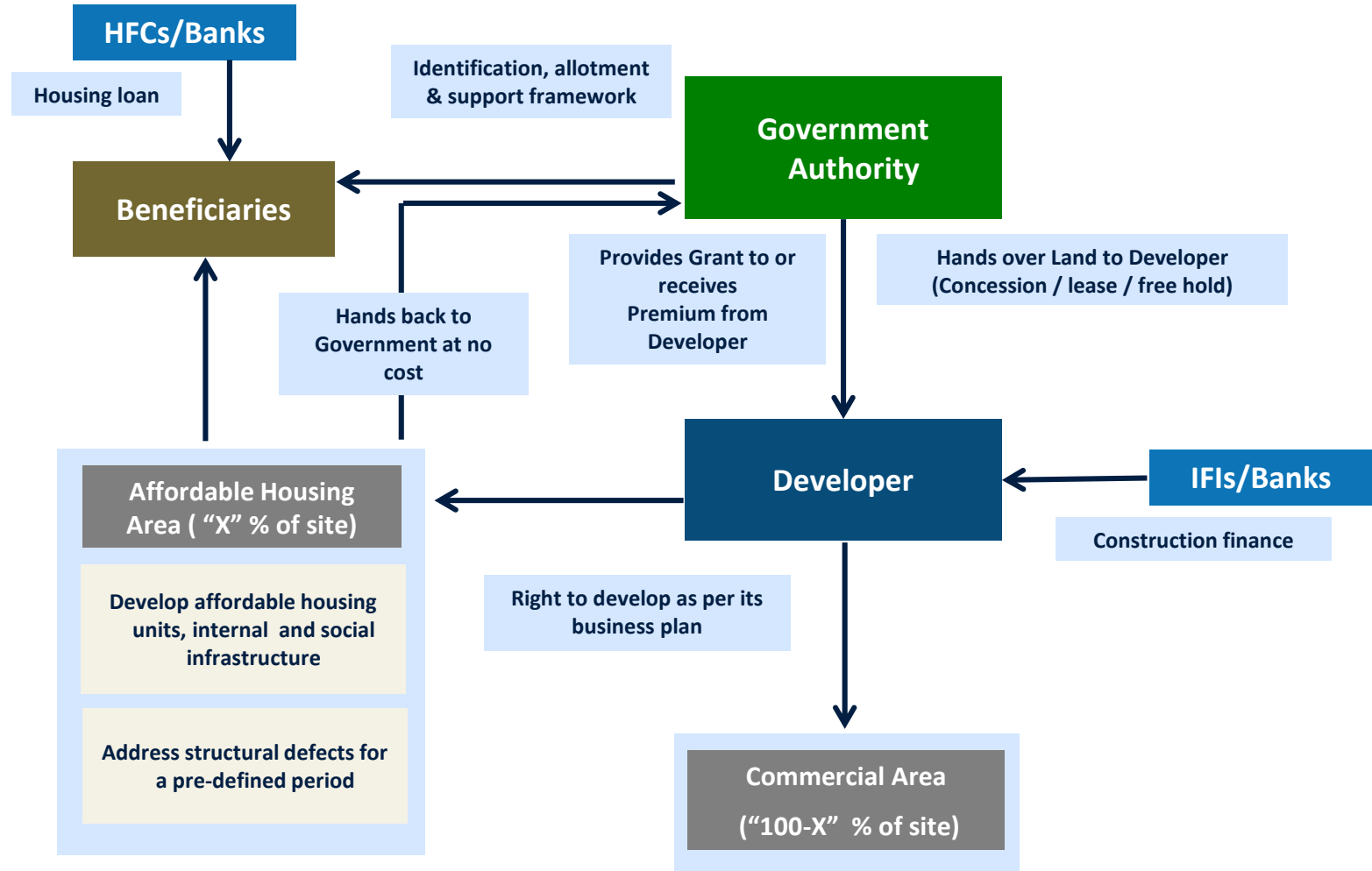
Model for illustration only



Affordable Housing : PPPs

- **CROSS-SUBSIDIZATION MODEL STRUCTURE:**
 where the developer gets freehold rights for a parcel of land (with rights to undertake commercial development) in return for developing a defined number of affordable housing units for the government at no or defined price. Such models have been structured and implemented in India, Cambodia, Papua New Guinea, Timor-Leste, Togo, Kenya, Senegal and Djibouti.
- **AFFORDABLE HOUSING INVESTMENT FUND:**
 To make the PPP model scalable, the Government could also consider setting up an investment/shelter fund which can then take equity stake in projects

 - Tamil Nadu Shelter Fund, created by the State Government, has World Bank and ADB as investors



FORMATION OF WORKING COMMITTEE

#	ORGANIZATION/MINISTRY	NAME OF OFFICAL <i>(to be confirmed)</i>
1	Prime Minister’s Office	Mr. Sarwar Alam Director General (Additional Secretary), Sub-Regional Co-operation Cell
2	Finance Division	
3	Ministry of Housing and Public Works	Mrs. Naila Ahmed Deputy Secretary
4	Ministry of Environment	
5	PPP-Authority	Mr. Muhammad Ibrahim Chief Executive Officer
6	RAJUK	Md. Anisur Rahman Miah Chairman
7	REHAB	
8	Bangladesh Bank	
9	Bangladesh Securities and Exchange Commission	Professor Shibli Rubayat-ul-Islam Chairman
10	Bangladesh Leasing and Finance Companies Association	Mr. Mominul Islam Managing Director and CEO, IPDC Finance Limited
11	Bankers Association	Mr. Selim R.F.Hussain Managing Director and CEO, BRAC Bank Limited
12	World Bank	
13	International Finance Corporation	