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# Bangladesh's Experience with Low-income Housing Finance

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# Introduction

- Bangladesh is a densely populated country and has one of the lowest land-person ratios in the world.
  - A large portion of land is covered with rivers and lakes resulting in a much higher population density of 1,198 Persons/Sq. KM
  - High population growth rate in urban areas (4.5 percent), the standard of shelter is correspondingly low.
  - Approximately 77 percent of urban dwellings and over 98 percent of rural dwellings are not permanent.
  - Housing is one of the five basic needs incorporated in the constitution of Bangladesh. Government alone cannot provide house to all and realizing this, they decided to share the task of providing safe decent places to live with NGOs, to make these people a productive resource. Many NGOs are promoting low cost safe housing schemes through skills enhancement, networking, technical assistance, advocacy, credit, and access to government land.
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# Review of the Housing Sector

- The national housing policy 1993 commits the government to take initiatives in housing as a provider, for weaker section of the people and as a facilitator in all housing initiatives.
  - The basic principle of the 1993 NHP is that the government would play the role of an enabler or facilitator in the housing sector, and not the role of a developer or provider.
  - Government has extended housing support in: 'Cluster village' to rehabilitate homeless and cyclone –affected people in costal areas, Ideal village project for low-income men and women, Shelter project, Housing fund to NGOs to provide housing for the rural poor and 'Return to Village Project' to rehabilitate urban slum dwellers evicted by the government.
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# General Housing Situation in Bangladesh

- The poor population (47%) in Bangladesh make their houses at a very low cost, which do not serves purposes in protecting the inhabitants from monsoon rain and winter breeze.
  - The poor population cannot generate required savings for repair these, then they are forced to borrow at a very high interest rate from the NGO's since they do not have easy access to any financial institution.
  - Each year many people loose their houses and ancestral land due to flooding and river erosion of the river Padma, Jamuna, Brahmaputra and other principal rivers. So, people are compelled to migrate to urban areas.
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# Housing for the Poor

- It is a vital investment in health leading to increasing in productive capacity and overall well being of a family.
  - Living under leaky roofs in a house made of jute sticks and other leaves of trees in winter and heavy monsoon does not equip a person to meaningfully engage in any income generating activities.
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# Low-cost Housing Technologies

- Several organizations and rural innovators in Bangladesh developed and modified various designs of rural low-cost house after the devastating flood of 1987 and also doing the same for the SIDAR (in 2007) affected people. The houses vary in appearance throughout the country but have the similar basic structural components.
  - The basic design for low cost house varies in terms of floor area, height, floor, building material., etc. the designs are sometimes are adjusted as per the need, interest and capacity of the owner, availability of locally building materials, locality, etc.
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# Description of the Components of the Low-cost House

- **Plinth:** The plinth or floor of the house usually is raised 30 cm above the ground level and is built with compacted clayish earth.
  - **Pillars and structural frame:**
    - **R.C.C pillars:** R.C.C pillars are the basic structure of the house. Each pillar is 133 mm square size and 3352 mm long. These R.C.C. pillars are made of cement, sand, brick chips and reinforcing steel..
    - **Bamboo post:** Six bamboo posts are used as supporting structural member for reducing the span and to make the frame of the house more rigid.
  - **Roofing materials:** Wooden rafter and purlins, wooden/bamboo tie beam and wall plate are used as roofing frame. Corrugated Iron Sheet are fixed on wooden frames by nails to construct the shed.
  - **Fencing:** Bamboo mats/jutes ticks are used as walls of the house.
  - **Floor:** Floor is made of mixture of clay and cow dung. (In case of ITDG model, pucca floor is recommended in flood prone areas).
  - **Fixing:** Wall plates, and roofing frame with R.C.C. pillars by nuts and bolts.
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# Low cost Housing in Urban Area

- The pressures on the urban people's life and living would much ease from their owning or building their own homes and paying for the costs of building or ownership in bearable installments on a long term basis.
  - Bangladesh's housing finance continues to be monopolised by people in the high income brackets. The takers of such finance can afford to service their debts at rates of interest ranging from 14 to 15 per cent and completing the payment cycle within maximum 15 years.
  - The non affluent people in the cities certainly are in need of housing finance on particularly easy terms and conditions and it is in this area that institutions such as the government itself and donor agencies can come together to provide a solution.
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# Housing Sector Development in Bangladesh

- The residential housing sector of Bangladesh is characterized by a three-tier market.
    - First are those households with the highest disposable income, able to afford high-quality housing in fully serviced neighborhoods, and able to utilize bank financing or specialized housing finance institutions. This group represents less than 3 percent of the housing market.
    - The second tier is the relatively narrow stratum of middle-income households that are the main users of specialized housing financial institutions such as the Bangladesh House Building Finance Corporation (BHBFC). This group is the major beneficiary of available public subsidies and is composed predominantly of public servants and wage/salary earners of large private companies and public sector corporations; it represents 12-15 percent of the housing market.
    - The third and largest of the tiers is the low-income households, for which housing is provided largely by the private sector, often under illegal and unsatisfactory site conditions. Access to and servicing of loans, regardless of debt servicing, is not possible. Urban development laws are largely ignored or disregarded for this large and growing market segment.
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# Housing and Housing Finance: A Social Challenge and Economic Opportunity

- State owned Bangladesh House Building Finance Corporation (BHBFC) had been the only player in the mortgage business in Bangladesh, till recently.
  - The commercial banks and two private sector specialized institutions (Delta-Brac and International Housing and Finance) are recent entries into housing finance.
  - The business focus of the commercial banks and private sector institutions is the middle and high income population, and nearly 100% of their housing finance portfolio covers Dhaka (80 per cent) and Chittagong (20 per cent), the two main metropolitan cities of the country.
  - The BHBFC loan portfolio covers 18 cities of the country and shares 71 per cent of the mortgage market in terms of number of loans and 30 per cent in terms of outstanding portfolio value (Bangladesh Bank, 2007).
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# Impact of Global Recession on Bangladesh Housing Sector

- There is no noticeable direct impact of world recession on Bangladesh housing sector; although there are some indirect impact on housing sectors which is because of reducing expatriates earning sources working across the globe.
  - Also, price hike of the construction materials in 2008 has hampered the housing sector as the total construction cost increased substantially.
  - There is no adverse impact of sub prime in Islamic banking system financed housing sector of Bangladesh as all the finances of this sector are primarily secured by the project land and building. Besides, selling of debts are not also permissible under islamic financial system, especially in housing sector. So, question of sub prime mortgage does not exist in the Islamic financial system of Bangladesh.
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# Banks for Developing Housing Sector

- A Tk. 300 crore housing refinance scheme has launched by the central bank in July, 2007 and some dozens of banks and 17 financial institutions signed participation agreements with central bank.
  - Under this scheme, someone earning below Tk 30,000 a month will qualify for a maximum of Tk 20 lakh loan to buy a flat not bigger than 1250 square feet in Dhaka or in any other city.
  - The bank has fixed at 10 per cent interest rate and the loan is repayable in 20 years with one year grace period. But the disbursement remained so far slow and totalled less than Tk 10 crore in six months till December 2007.
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## Table-3: IBBL's Housing Investment

Serial	Particulars	Investment Scheme Name		
		Housing Investment Scheme	Real Estate Program	Staff House Building Investment Scheme
1	Total Clients	471	4839	1276
2	Average size of Investment (million US\$)	0.0219	0.0252	0.0268
3	Amount Disbursed (million US\$)	10.30	122.00	34.20
4	% of actual recovery	98	95	99
5	% of recovery including advance recovery	109	102	105

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# Provision of Finance for Low-cost Housing in Bangladesh

- **The Government has two distinct housing responsibilities:**
    - the regulatory responsibility of encouraging the development of viable housing institutions and of monitoring the credibility of the banking system;
    - to address the housing needs of low-income households, primarily through providing finance.
  - **Problem of reconciling several conflicting objectives are:**
    - affordability for the households,
    - viability for the financial institutions, and
    - resource mobilization for the expansion of the sector and the economy.
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# Provision of Finance for Low-cost Housing in Bangladesh (cont.)

- The eight-point financing strategy involving:
    - (i) introducing a National Home Lending program (NHLP);
    - (ii) redirecting housing subsidies;
    - (iii) increasing lending recovery rates by BHBFC;
    - (iv) expanding the primary mortgage market;
    - (v) rehabilitating BHBFC;
    - (iv) adopting a legal and regulatory reform program to safeguard lenders;
    - (vii) enhancing lending in rural areas through village microcredit schemes; and
    - (viii) improving the climate for attracting finance to the housing sector.
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# Recommendations

- The country needs to create long-term funding options for low-cost homes to make those affordable to a vast majority of middle and low income people, recommended by World Bank.
  - The banks and non-banking financial institutions can launch 'Contractual Housing Savings Scheme,' as suggested by the World Bank in its workshop on 'housing finance market'. In such a scheme, risks involved in housing finances may largely be assumed by the depositors'. Their can be proactive policies to ensure housing facilities for commoners rather than leaving it to the spill-over effects of economic growth.
  - The existing legal, regulatory and taxation frameworks should be facilitating the primary and secondary housing finance market development. Three rates of taxes: lower tax for low-cost housing, moderate tax for semi-luxury apartments and higher tax for luxury apartments have to be introduced.
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# Recommendations (cont.)

- A new welfare-oriented housing policy as well as affordable housing finance schemes can be formulated as national priorities. Funds of insurance companies and provident funds may be used to raise housing fund.
  - Financial sector experts suggested restructuring of the House Building Finance Corporation, the state-owned mortgage lender, for supporting both public and private housing schemes so that major cities, including capital Dhaka, could be saved from proliferation of slums. The corporation is undergoing some reforms and planning to build low-cost houses targeting low-income buyers.
  - The government has to ensure availability of land, major cost of housing beside the construction, and suggested public-private partnership with funds from multilateral lending agencies.
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# Recommendations (cont.)

- An indicative, but not exhaustive scope may be i) customization of IFC Global Mortgage Toolkit for Bangladesh, ii) developing an Bangladesh-specific legal plan and regulatory framework relevant to the mortgages and housing microfinance business in Bangladesh; iii) working with the IFC and Bangladesh to develop MFI and Housing Building Finance Corporation for low-cost financing.
  - Bangladesh can plan to establish a Bangladesh based housing finance company in Dhaka, in association with the International Finance Corporation (“IFC”) as there is an urgent need to provide Bangladeshi home buyers with a competitively structured housing finance product that will contribute significantly to the increased affordability of low-cost of poor peoples of Bangladesh.
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End of the Presentation

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**Thank You**