

Overview of the 5 South Asian Financial Systems

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Case of five regional Countries in South Asia

India and Pakistan represent a very sizeable population, a massive housing backlog, a fast growing urban population, a fairly developed housing finance market and yet they still show meager mortgage debt (MD) to GDP Ratios. In Bangladesh, a large portion of land is covered with rivers and lakes resulting in a much higher Population Density of 1,198 Persons/Sq. KM. These factors provide this country with its own challenges in the housing sector. Lastly, Afghanistan, a largely mountainous terrain has most of its people living in a tribal culture and has a financial infrastructure which has been virtually destroyed due to internal conflicts and wars. This country is faced with a massive challenge of new construction and reconstruction in the housing sector.

Some basic statistics of these countries is given in Table-1:

Table-1 SOCIO ECONOMIC STATISTICS

Countries	Population (mn)	Housing Backlog (mn units)	Population Growth Rate (%)	Urban Population (%age of total)	House Hold (mn)	MD* to GDP Ratio (%)	Occupancy / House Hold	Population Density per sq km	GDP / Capita (PPP)
India	1,100	72	1.4	29	214	5	5.3	373	2,469
Pakistan	160	7	2.1	35	23	2	7.1	206	2,361
Bangladesh	156	5	1.8	26	26	2	6.1	1,198	1,155
Afghanistan	24	1.5	N/A	N/A	N/A	< 1	N/A	N/A	N/A
* MD = Mortgage Debt									
<i>"International Housing Finance Program 2008." Wharton - University of Pennsylvania. June-July 2008.</i>									

Bangladesh: Till recently, the State owned Bangladesh House Building Finance Corporation (BHBFC) had been the only player in the mortgage business. The commercial banks and two private sector specialized institutions (Delta-Brac and International Housing and Finance) are recent entries into housing finance. Bangladesh has an estimated backlog of about five million housing units. In the absence of the long term debt market, the relatively small private sector housing finance institutions lack of long term funding. The market needs a refinance window, the absence of which has restricted their loan operations. 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%) and Chittagong (20%), the two main metropolitan cities of the country. However, these institutions serve the middle and high end of the population. This is evident from the average loan size per client which is nearly three times the average loan size of BHBFC. The BHBFC loan portfolio covers 18 cities of the country and shares 71% of the mortgage market in terms of number of loans and 30% in terms of outstanding portfolio value (as of June 30, 2007 Bangladesh Bank).

India: The mortgage industry in India is relatively developed but at the same time India faces a much bigger challenge in terms of its huge population and housing backlog.

The population of India is 1.1 billion as per 2007 estimates and is likely to touch 1.37 billion by the year 2023. The urbanization level is 26% and is likely to touch 33% by year 2023, which roughly translates to an increase of 225 million in the population of Urban India. This increase in urban population is likely to worsen the already alarming issue of urban slums, squatter settlements and shanty towns (Jhopar Patti) in urban India. The existing backlog of housing in India is assessed at 72.1 million housing units, out of which an estimated 24.7 million is in urban areas. While the new mortgage originations were around \$25 billion during 2008 and are likely to reach \$40 billion by the year 2012, the access to mortgage finance for low and middle income people still remains a challenge for the leading players in housing finance (HDFC, ICIC, State Bank etc), and the commercial banks. The National Housing Bank of India, having a unique role of being a regulator as well as a provider of long term funds to the housing finance institutions, is proactive in meeting the challenge of pro-poor and affordable housing. Some model projects for providing affordable housing are being attempted under Public-Private Partnership. For affordable housing, the rising land prices in major metropolitans like Mumbai and Delhi is the main challenge which is depriving the low and middle income people from affordable housing. As in other countries of the region, the matter of long term funding is another major constraint resulting in issues of tenor and rate mismatches.

Pakistan: In Pakistan, until recently the state owned House Building Finance Corporation (HBFC) was the only player in the mortgage market. The entry of commercial banks into housing finance business is a recent phenomenon. Apart from HBFC there is no mentionable specialized housing finance institution in the country. Pakistan has an estimated shortage of about seven million housing units, of which nearly two-thirds is in low and middle income segment of the population. Until 2005, HBFC had a presence in 50 cities. Under its program for expanding its outreach to smaller cities and towns by setting up Service Centers and Representative Offices, HBFC has expanded its outreach to nearly 90 cities. With a wider “access to finance” and with a business focus on “Small and Medium Housing (SMH)” finance, HBFC’s loan portfolio is now expanded to nearly 90 districts out of a total 131 Districts in the country. The target is to ensure access to finance at all Districts of the country. The commercial banks mortgage loan portfolio is concentrated in the major 6-8 metropolitan cities of the country, and thus mostly serves the middle and high income market segments. Average loan size of the banking sector is nearly ten times the average loan size at HBFC. Another interesting aspect is that while 80 % of HBFC housing finance is for “new constructions”, for commercial banks 70-80 % of the housing finance is for sale/purchase. Commercial banks are more keen in funding housing purchase and avoid financing new construction since they consider it more risky investment, hence higher loan processing costs.

The present Government has announced a Pro-Poor Program for Housing aimed at building one million housing units per year. Most of it would be implemented under a Public-Private Partnership model. To support the program, the Government and the State Bank (the Central Bank) are creating a facilitating fiscal and regulatory environment. While the program appears too ambitious, at least it reflects the Governments intention to move forward to meet the housing backlog.

Afghanistan: The estimated housing backlog in Afghanistan is around 1.0-1.5 million units. Most cities in Afghanistan have an acute shortage of livable housing since the country has faced a war-like situation during the past two and a half decades. For this reason, most of the social and economic infrastructure in the country has been destroyed.

According to the World Bank estimates, an investment of \$ 2.5 billion in Kabul alone would be needed, excluding land, for rehabilitation and new construction. Informal settlements provide shelter for 80 % of the population and cover 69 % of the residential land in Kabul. As such, Kabul is facing a severe problem of informal settlements, mostly built on Government land (World Bank Report “Housing Finance in Afghanistan: Challenges and Opportunities” July 2008).

Afghanistan had a state owned housing finance bank, which for various reasons could not continue as a viable and sustainable entity and was closed down in 2003. The continuing conflict in Afghanistan for the last 25-30 years is primarily responsible for the decay and demise of the financial infrastructure. There are 16 commercial banks operating in the country and most of them are now keen to play some role in the housing finance area. The state owned Bank-e-Millie aims to take a lead role in this field. Most of the secondary market transactions in housing are usually on cash. The bank’s lending ability is restricted to short tenors of 3-5 years for housing finance. While the Banks have excess liquidity, the tenor of their liability book does not permit creating long term assets. Due to the absence of a developed financial market, the availability of long term funds is the binding constraint on the banks to provide long term housing finance.

The Ministry of Urban Development and Da Afghanistan Bank (Afghanistan’s Central Bank) are now playing a proactive role in the development of housing and housing finance in Afghanistan. Some NGOs are also keen in getting involved in the area of micro housing and micro housing finance. The Government has an ambitious project of creating 450,000 housing units for the country to partly meet the backlog in housing. The current Government initiative includes a project of 20,000 housing units and aims to make it affordable by providing infrastructure and land. While Afghanistan is working for the development of its financial sector as well capital markets, multilateral institutions like the World Bank and IFC are providing much needed technical and financial assistance. However, the Government has to play a much bigger role in promoting affordable housing and housing finance alongside developing a Regulatory Framework, Title Registration and Mortgage Laws.