

# Bangladesh's Experience with Low-income Housing Finance

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## 1. Introduction

Bangladesh is a densely populated country and has one of the lowest land-person ratios in the world. 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; and a 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. Overcrowding and minimal or no infrastructure support services are further problems. The situation has not improved significantly over the past decade. According to numerous Bangladesh agencies, the plight of low-income households has worsened in recent years, particularly in relation to the provision of basic housing. The situation is further aggravating every year through an irrevocable reduction of per capita share of land for housing.

Acknowledging the importance, housing is one of the five basic needs incorporated in the constitution of Bangladesh, compelled Government constitutionally to play a vital role in securing housing rights. 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.

Table-1: Recent Populations Statistics of Bangladesh

<b>Population data as per SVRS Report (million)</b>				
	<b>1<sup>st</sup> July, 06</b>	<b>1<sup>st</sup> July, 07</b>	<b>1<sup>st</sup> July'08</b>	
Total	140.6	142.6	144.5	
Male	72.0	73.1	74.0	
Female	68.6	69.5	70.5	
Urban	34.6	35.7	36.7	
Rural	106.0	106.9	107.8	
Annual growth rate	1.41	1.40	1.39	
Sex ratio (males per 100 females)	105.2	105.0	105.0	
Density (per sq. km)	953	966	979	
	Male	65.4	65.4	65.6
	Female	67.8	67.9	70.0

Soource: BBS, 2008

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Table-2: Projected Population of Bangladesh

<b>Projected Population (million)</b>			
	<b>July, 2007</b>	<b>July, 2011</b>	<b>July 2015</b>
Total	143.91	151.41	158.96
Male	74.09	77.85	81.63
Female	69.81	73.56	77.33
Sex ratio: (males: females)	106.00	106.00	105.56

## **2. Review of the housing sector:**

The constitution of Bangladesh binds the Government to play an effective role in ensuring Housing rights to all as basic rights as a citizen. 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. As significant development in the housing question has been the adoption of the National Housing Policy (NHP) in 1993 (amended in 1997). 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. The 1993 NHP also promised special attention to housing needs of women, particularly women in difficult circumstances and disadvantaged women, such as widows, single women and women headed households living below the poverty line.

Government has extended housing support in various projects, such as: ‘Cluster village’ to rehabilitate houseless people including cyclone –affected people in costal areas, ideal village project in which titles were given on land/housing to low-income men and women jointly, 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.

## **3. The general housing situation in Bangladesh:**

The poor population (47%) in Bangladesh find it beyond their means to make a roof to protect themselves from rainwater, suns heat in summer and cold in winter. Most of them make their houses at a very low cost, which do not serves purposes in protecting the inhabitants from monsoon rain and winter breeze. These houses cannot withstand even the moderate onslaught of nature manifested through storm or incessant rain. The poor population cannot generate required savings for repair these, then they are forced to borrow at a very high interest rate from NGO’s, since they do not have easy access to any financial institution.

Natural calamity like River erosion, flooding, storms, cyclones, and fires are the main causes of destruction of housing in Bangladesh. Each year many people loose their houses and ancestral land due to flooding and river erosion of the river Padma, Jamuna, Brahmaputra and other principle rivers. So, people are compelled to migrate to urbane areas.

### 3.1. Housing for the Poor:

Housing for the poor is an absolute necessity for survival. But it is not just a commodity to be consumed. It is also a productive asset for the poor. In fact it is a vital investment in health leading to increasing in productive capacity and overall well being of a person and her/his family. Living under leaky roofs in a house made of jute sticks in winter and heavy monsoon does not equip a person to meaningfully engage in any income generating activities.

### 3.2. 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. There are four reinforced concrete pillars on brick foundations at the corners of the house and six intermediary bamboo posts, with bamboo tie beams, wooden rafters and purlins supporting corrugated iron roofing sheets. This provides stability in the flood and strong monsoon wind and protection from the heavy rain during monsoon. Pillars and sanitary latrine are being provided by the concerned NGO. The housing programme of NGOs is usually linked with livelihood promotion activities to improve the income and food security of the families. A range of skills is gained as a result of the integrated programme including construction (carpentry, RCC pillar making, masonry, brick/stone cutting, rope making, bamboo treatment, black smithy, plumbing, etc), forestry, livestock raising, home-based micro enterprises, etc.

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.

### 3.3. Description of the components of the low-cost house:

- a) **Plinth:** The plinth or floor of the house usually is raised 30 cm above the ground level and is built with compacted clayish earth. When completed, it is a dry, mildly hard earth surface, vulnerable to pressure, absorption of moisture. Routine (usually weekly) maintenance is required for normal wear and tear caused by stress and strain of live load.
- b) **Pillars and structural frame:**
  - i. **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..
  - ii. **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.

- c) **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.
- d) **Fencing:** Bamboo mats/jute sticks are used as walls of the house.
- e) **Floor:** Floor is made of mixture of clay and cow dung. (In case of ITDG model, pucca floor is recommended in flood prone areas).
- f) **Fixing:** Wall plates, and roofing frame with R.C.C. pillars by nuts and bolts.

#### **4. Low cost housing in urban area**

Among the worst problems faced by the urban population, is the acute housing shortage. This shortage specially affects people of middle income and low income groups. They have to rent dwellings at costs very disproportionate to their income. In fact, the greater part of the earnings of these people is devoured by the need to pay rent on a monthly basis.

This situation could be much different if these groups of people, who are the majority in the urban population, could have access to house financing or mortgage lending on easier terms and conditions. In that case, the pressures on their 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. Indeed, such facilities for house ownership exist in the developed countries and in many developing countries that enable even their common people to become home owners by paying for the same gradually without feeling so many burdens. But 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. Understandably, the middle and lower income groups consider it a sheer impossibility to borrow on such terms and conditions and to viably go on repaying their loans.

The housing need of the lower segments of the urban population is an important issue in Bangladesh and the World Bank was devoted the importance of the issue. Country's mortgage lending system is not a well developed one and its main inadequacy is bypassing the needs of those who are most acutely in need of such financing. Developers in the main cities of the country are doing a good job of catering to the housing needs of the affluent sections of the population. They are serving to customers who can buy apartments or houses for which they have resources to pay either in the short term or the longer term. But 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.

#### **5. 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 per cent 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.

## **6. Housing and Housing Finance: A Social Challenge and Economic Opportunity**

As mentioned before that Bangladesh is a densely populated country and this factor provide this country with its own challenges in the housing sector. 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. 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 per cent) and Chittagong (20 per cent), 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 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).

### **6.1 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 is 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.

## 7. Banks for Developing Housing Sector

Following a request from the Government in 1989, the Bank fielded a Sector Mission in early 1990 to review the problems and issues facing the housing sector. The Mission identified the need to strengthen the institutional and technical capabilities of the various housing sector agencies. Lending to the sector was considered precarious unless the various agencies had a more unified approach to its development. Subsequently, the Government requested assistance for institutional strengthening of the housing sector.

A Tk. 300 crore housing refinance scheme has launched by the central bank in July last year 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 totaled less than Tk 10 crore in six months till December 2007, officials said.

Construction of dormitories for workers is also among the development plans of the HBFC. The World Bank has recommended subsidies like the one provided by HBFC in the past to middle and lower income home buyers. World has also suggested to introduce and focus on lower income people instead of higher income people. The government was also considering simplification and further modernization of land registration system and a decision had already been taken to reduce the steps required for it for allowing a healthy growth of the housing sector. Involvement of IBBL to the Housing Financing Sector of Bangladesh is given below:

**Table-3: Performance of Investment under Special Investment Scheme of IBBL**

Sl. No.	Particulars	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

## **8. Provision of Finance for Low-cost Housing in Bangladesh**

From a policy perspective, the Government has two distinct housing responsibilities: (i) the regulatory responsibility of encouraging the development of viable housing institutions and of monitoring the credibility of the banking system; and (ii) to address the housing needs of low-income households, primarily through providing finance. For Bangladesh, like many DMCs, the problem is how to reconcile several conflicting objectives, namely (i) affordability for the households, (ii) viability for the financial institutions, and (iii) resource mobilization for the expansion of the sector and the economy. The consultants' Report provided an 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; (vi) 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.

The key elements of the strategy have yet to be enacted. Of the eight key components, only the recommendations relating to the redirection of the lending activities of BHBFC and legal improvements to safeguard lenders have been implemented. The introduction of the national housing program through the NHLP has not yet materialized. It is considered unlikely that this major recommendation will be achieved, unless NHA is established and there is broad political support for the introduction of the NHLP.

## **9. 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 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.

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.

The government of Bangladesh (GOB) can take the initiative to create a special fund for housing schemes for the middle and lower income groups. This fund can be bolstered with finance received from donor bodies such as the World Bank (WB), Asian Development Bank (ADB), the International Finance Corporation (IFC) and others. These donor organisations usually provide loans at 1.0 or 2.0 per cent interest rates spread over 30 or even 50 years in some cases. Thus, funds received from these sources can easily be disbursed to low income groups at interest rates of no more than 3.0 or 4.0 per cent and repayment schedule can be spread over a period of 30 or 40 years. The doing of this will meet the needs of housing finance of non affluent people at bearable interest rates as well softer terms of repayment. The GOB can also operate these housing schemes by developing low-cost on its own lands by utilising this fund and then mortgaging the same among willing takers. The costs of home ownership are likely to fall even further with this approach. Not only the urban areas, systematically all areas of the country or the rural areas need to be brought under a low-cost housing finance system.

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 project 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.

**The End**