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**INSTITUTIONAL CREDIT FOR URBAN HOUSING FINANCE IN
BANGLADESH: AN ANALYTICAL REVIEW**

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Abstract: Housing finance institutions of Bangladesh are playing an important role towards residential house construction in towns and cities of the country. However the assistance of these institutions is limited to a few fortunate ones, and the vast majority of the urban dwellers are left out of their services. This paper has identified a number of reasons regarding inadequacy and inefficiency of these institutions. Firstly, the volume of loan disbursement by these institutions is grossly inadequate to cater for the requirements of the urban people. Secondly, the general poverty of the urban low and lower-middle income group, the majority of whom even cannot meet the basic criteria for loan allocation like ownership of a piece of land. Thirdly, failure of housing loan recovery system of many of these institutions which restricted further flow of funds for new house construction. Fourthly, corruption, rent seeking and bureaucracy in many of these financial institutions, which often favor a vested interest group. And finally, lack of adequate and pragmatic government policies and programs for urban housing development. This paper reviews institutional housing finance system in today's Bangladesh, particularly its merits and demerits in the large metropolises, secondary cities and small towns. The paper examines the contribution of financial institutions in urban housing development, and assesses their performances. The paper also investigates ways and means for increasing institutional finance in urban areas of Bangladesh, and suggests a number of policy guidelines for the low and lower-middle income group in particular.

Key words: Institutional credit; Urban housing; Housing finance; low income group

Introduction

Due to the natural growth of population and migration of rural people to urban areas, the need for residential houses in the towns and cities of Bangladesh has increased tremendously. The growth of house building activities, on the other hand, could not keep pace with the demand for housing in the urban areas. As a result, severe housing shortage has developed, and several sub-standard slums and squatter settlements have grown in the urban areas. Since independence, the pace of urbanization grew steadily, and the urban population in 1991 rose to 20.15 percent of the total population of the country (Huda and Kamal, 1998). The uncontrolled growth of slums and squatter settlements, and illegal encroachments on publicly owned land and other vacant properties are the direct outcome of these pressures. About one third of the urban people of Bangladesh now live in slums

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and squatter settlements under deplorable and unhygienic conditions. If appropriate measures are not taken, over fifty percent of urban population will be living in the slums and squatter settlements by the beginning of the new century (Hasan, 1999).

The increasing demand for urban housing, lack of affordability of the low and lower middle income groups, government's inability to provide shelter and the lack of adequate programs for house construction call for institutional mortgage finance. Housing finance institutions of Bangladesh play a limited role in this connection, and the finance available in this way is much less than 20% of annual housing investment in the country (Huda and Kamal, 1998). These financial institutions engaged in the provision of housing credit, made available a sum of *Taka* 68,408.2 million during the last 25-year period from 1972 to June 1996. Out of the total disbursement, about 17,158.1 million *Taka* (25.08%) was provided by Bangladesh House Building Finance Corporation (BHBFC), about 34368.6 million *Taka* (50.24%) was disbursed by the nationalized commercial banks, and 15630.1 million *Taka* (22.85%) was disbursed by the private commercial banks (Huda and Kamal, 1998). However, most of those provisions that were made during the last two and a half decades, did not reach the target groups. Because, among other reasons, they were too costly and there exists virtually no institutional housing finance scheme particularly for the low and lower-middle income groups in Bangladesh. Moreover, most of the available money was spent for construction of expensive houses or purchase of large sized apartments by the rich or upper middle class (Rahman, 1994; Hasan, 1999).

Current approaches to housing in developing countries evolve around the principles of affordability, accessibility, and replicability. The central issue is, however, affordability for the target groups. Unless housing cost is reduced by way of increasing the availability of cheap housing resources, and households are provided with financial assistance, any housing program would have very little chance of success (Rahman, 1994)

This paper investigates the performance of public and private sector housing institutions, including recovery situations of BHBFC and other lending agencies. The paper also discusses a range of housing finance available from different organizations such as housing societies, developers, employees cooperatives, and from international agencies. Finally some recommendations are made with particular emphasis on increasing institutional credit facilities for housing of the urban low and lower middle income people.

Methodology

Relevant data and information for this paper were collected both from primary and secondary sources. The studies conducted by the first author in 1991 and 1999 (Hasan, 1991, 1999; Hasan and Hayat, 1999) were important documentary materials for this paper. Analyses were made of various reports, journals, manuals and annual reports. Many of these documents were collected from different government departments, published and unpublished sources, and financial institutions. Standard statistical tools were used for analyzing the data and information. As discussed, the objectives of this

paper are to study the key factors in formal sector housing finance in Bangladesh and to investigate their merit and demerits. The objectives also include understanding imbalances and inappropriateness of these agencies in urban housing finance, particularly for the low and lower-middle income people; identify the future housing needs of the growing urban population, and suggest appropriate interventions to help resolve urban housing finance problems of these groups.

Housing Policies of Bangladesh

After the independence of Bangladesh in 1971, Bangladesh Government formulated five-year plans for planned development of the country. Housing policies are incorporated in these five-year plans. The first *five-year plan* is formulated for the period of 1973-78. After the *first five-year plan*, an interim *two-year plan* was formulated for the period of 1978-1980. The *second* and *third five-year plans* were formulated for the period of 1980-1985, and 1986-1990 respectively. Bangladesh Government prepared a *national housing policy* in the year 1993. The *fourth five-year plan* of the country was formulated for the period of 1991-1995. The two years from June 1995 till June 1997 have been a sort of plan holiday for the country. During this period, annual development programs of the country were prepared and implemented outside the framework of any *five-year plan*. Now the *fifth five-year plan* is in implementation phase, and it is prepared for the period of 1997-2002.

Fifth Five Year Plan: A major concern of the fifth five-year plan (1997-2002) is to improve the physical facilities of living such as housing, water supply, sanitation and environment. During the fifth five-year plan, physical planning, water supply and housing sector envisage the provision of basic amenities and services through formulating appropriate policies and undertaking effective programs in these areas (GOB, 1998). The objectives, policies and strategies in this connection are given below:

Housing: At present, there is an acute shortage of affordable housing both in urban and rural areas of Bangladesh. A National Housing Policy was approved by the government in 1993 with the prime objective of ensuring housing for all strata of the society, especially the low and middle income groups and the disadvantaged and the shelter-less poor (GOB, 1993). However, their follow-up activity has been very limited. There has been virtually no government program for improving the conditions of housing in rural areas. The same has been the case with resettlement program for the slum dwellers. The construction of low-cost houses for the low and middle-income groups has also been limited. Then again, it has primarily been confined to areas in and around the metropolitan cities. In Bangladesh, private sector participation in house construction, especially in the metropolitan cities, is encouraging. Residential quarters for government employees can only meet 10 percent of the requirement. Against this backdrop, the objectives and strategies of housing sector have been set for the fifth five-year plan (GOB, 1998).

Objectives: Development of low cost houses, and multi-storied buildings for housing, and resettlement of slum-dwellers, the disadvantaged, the destitute and the shelter-less poor, and *in situ* development of the slums and squatter settlements.

- Development of sites and services schemes for accommodation of the low and middle-income groups of people.
- Developing condominiums for low and middle-income groups of people.
- Construction of multi-storied flats for sale to government employees, at different places to ease accommodation problems;
- Developing housing facilities for working women;
- Construction of low cost houses in the coastal areas of Bangladesh; and
- Greater involvement of the private sector through necessary incentives in the housing sector.

Policies: A National Housing Authority will be set up in accordance with the National Housing Policy of 1993, to address the housing problem of the low and middle income groups, the disadvantaged, the destitute and the shelter-less poor.

- Government *khas* land will be used to its maximum extent, to resolve housing problem, especially for the poor households;
- Tax exemption will be given to those, who build houses with their own resources;
- Hire purchase system for house ownership in the private sector will be encouraged;
- Tenancy Act will be updated for rented houses in the urban areas, for mutual benefits of both the owners and the tenants.
- Abandoned houses will be turned into multi-storied buildings by the Housing and Settlement Directorate (HSD) in different phases to resolve housing problems;
- The size of residential plots will be limited to 3 *katha* in Dhaka City and to 5 *katha* in other urban areas, for housing estates developed by the government and the private sector;
- Necessary actions will be taken to enforce strictly the Building Code of 1993.
- Arrangements of soft loans for housing will be made available for the poor; to this end, a special fund will be created by the government
- Rural housing will be given priority by the government through the provision of better access to land, finance, building materials and technology, following the model of Grameen Bank;
- Houses for working women will be developed by the relevant city, and town authorities; and
- The government will fund the local bodies to develop low cost houses in the coastal areas of Bangladesh.

So far, the Government of Bangladesh has prepared 5 *five-year plans*, a two-year interim plan, and a national housing policy. A number of housing strategies and prescriptions in these plans has been implemented. The emerging trend in the housing policy of Bangladesh, is the gradual shift of housing responsibility from the government to the private developers and non-governmental organizations. Despite the modest success of these plans, the government has failed to provide safe and sanitary housing for the great majority of people of the country. The reasons could be a limitation in government fund,

huge housing shortage, and increasing population pressure of the country. Moreover, many of these housing programs were biased towards the high-income group, and housing standard was often kept exceedingly high. There are also instances of corruption and favoritism in plan implementation. In some cases, housing facilities for the low-income target group, were taken over by higher income people, mainly due to the lack of affordability of the former (Hasan, 1999).

Urban Housing Needs, Shelter Re quirements and Present Housing Stocks

The volume of housing finance depends upon a number of factors including accommodation needs of the present population and its future changes; expansion and upgrading needs of dilapidated residential buildings, semi-permanent houses, slums and squatter settlements; and the maintenance and repair expenditure of the existing housing stock (Hasan and Hayat 1999). Traditionally housing problems have often been discussed in terms of the gap between housing supply and demand - essentially assessed on the basis of a certain housing standard. However, in the urban areas of Bangladesh, even if the housing gap is worked out in terms of minimum housing standard, the additional finance requirements for meeting the housing deficit would be huge and staggering (Huda and Kamal, 1998).

The urban areas of Bangladesh have serious housing problems stemming from shortage of houses and lack of services. For example, Dhaka City, the capital of Bangladesh which has a present population of around 9 million, requires between 45,000-83,000 housing units each year, whereas all public and private efforts together can only produce 25,000 housing units a year. The proportion of people living in slums and squatters settlements in the city is between 15-45 percent (Shafi 1998; Hasan 1999; Hasan and Hayat, 1999). A similar situation prevails in other cities of Bangladesh too.

Shafi (1998) calculated the urban shelter requirements of Bangladesh on the basis of a medium growth rate and an occupancy rate of 6.5 persons per unit in 1980, declining to 5.5 persons per unit by 2000. She showed that approximately around 5.2 million new housing units are required by the year 2000 in the urban areas of the country. This implies a huge backlog in the housing stock and concomitant resource constraints. Ahmed (1997) also calculated the urban housing deficits of Bangladesh and came to a figure of around 5 million. However, previous studies conducted by Mina (1987, 1989) show a higher figure for urban housing deficit. Which, according to him, would be around 8.5 million by the year 2000.

There is an acute shortage of adequate housing in the urban areas, particularly for the lower income group. This has resulted in homelessness and rampant growth of slum and squatter settlements especially in big cities and medium sized secondary towns. The housing shortage estimated in 1991 at 3.1 million units, composed of 2.15 million units in rural areas and 0.95 million unit in urban areas. The current housing stock is deteriorating fast due to aging, general neglect, poverty and civic apathy on the part of the dwellers and lack of enforcement of rules on the part of the authorities (GOB, 1993; 1998).

Housing backlog for metropolitan cities are even more pronounced. The overall urban residential density, occupancy ratio and the structural condition of houses have all assumed critical proportions. Residential densities have increased manifold even in upper income and middle-income areas by the process of densification. In urban low-income areas such as slums and squatter settlements, the densities are extremely high, sometimes even more than 2000 persons per acre on a single story development. The ideal even by Third World standards would have been about 500 persons per acre. The occupancy rate or the average number of occupants per housing unit in urban areas increased from 5.84 in 1961, to 6.05 in 1974 to over 7.07 in 1981 (Shafi, 1998).

Urban Housing Finance in Bangladesh

Finance is a formidable constraint in building and maintenance of houses. The existing resources for housing finance include personal funds of potential urban households, savings of overseas Bangladeshis, government loans, government budgetary allocations, contribution by international donor agencies, commercial banks, specialized financial institutions and non-governmental organizations (NGOs). The share of housing in the public sector development programs has been comparatively less. Banking, insurance, and investment agencies have shied away from this field. Only about 5 percent of the housing units constructed in Bangladesh are financed from formal sector, whereas, for the rest, financing comes from savings, private borrowing, and informal sector (Hasan, 1999). The nation is yet to develop systematic attitudes towards personal savings for housing, backed up by a network of financial institutions. The tax structure has paid little attention to its impact on the housing situation in the country. Housing has remained largely a private or household sector activity (GOB, 1998). Bangladesh House Building Finance Corporation (BHBFC), the largest formal sector financial institution in the field, has served only a very small proportion of households, mostly in the middle and upper income groups in the urban areas.

It has been found that the annual growth rate of housing stock in Bangladesh has been rather low, amounting to only 1.5% to 1.6% per annum in contrast to almost five percent or more in developed countries and even so in some developing countries. Some important reasons behind this could be a high level of poverty and low savings rate in the country, and a short supply of finance for housing. In Bangladesh, housing is just one of the national priorities that compete for government funding, requiring large investments, long term commitments, and often less remunerative than other attractive sectors (Huda and Kamal, 1998).

Several reasons can be attributed for scarcity of funds for urban housing finance. Since the housing sector needs long term capital, and because housing investments are generally less remunerative, the organized money market is often less interested in providing funds for the housing sector. Moreover, the procedures for obtaining funds from the institutional financial agencies are complex, time consuming, and corruption is rampant in these organizations. Finally a large portion of urban people are phased out of

the credit facilities of these agencies as they do not have any mortgage asset like land, bank savings, or property (Huda and Kamal, 1998; Hasan, 1999).

Investments in housing could be encouraged by the government through tax incentives, interest subsidies on housing loans and by others incentives. An important way to increase house ownership is to ensure a steady flow of mortgage finance through housing finance institutions on reasonable terms. Reducing the cost of housing is also an effective means to narrow down the gap between house costs and what people can afford. The increasing rate of population growth and urbanization means that the demand for housing, as well as the shortfall in supply, would continue to increase. Overall economic development and a more equitable distribution of resources would increase what people can afford, and make more finance available to the housing sector. Bangladesh are one of the very few countries at the moment, where very little formal housing finance is available. Thus it has become imperative to make provision for more institutional money for housing finance in the country for the low and lower-middle income group (Rahman, 1994).

Institutional Housing Finance Agencies in Bangladesh

Financial institutions and economic development of a country govern flow of funds for different activities, and therefore determine the availability of housing finance too. Two interrelated factors responsible for the delays in developing the financial sector in Bangladesh are the meager savings of households, who prefer to hold non-financial assets, and the restrictive nature of the governmental regulations affecting the free functioning of financial institutions (Navaratnam, 1985). These factors have resulted in a lack of finance in the social sector, most significantly in housing.

Structure of the Institutional Urban Housing Finance System in Bangladesh: The financial system of urban housing finance in Bangladesh consists of Bangladesh Bank (BB) as the central bank, four nationalized commercial banks (NCBs), four government owned specialized banks, a number of domestic private banks; a few foreign banks, and a couple of general insurance and life insurance companies (Fig. 2). The financial system also includes the stock exchange and the co-operative banks. Among the financial institutions, Bangladesh House Building Finance Corporation (BHBFC) has been the single largest source of funds for house construction. Direct finance extended by BHBFC and other nationalized commercial banks accounted for around 68,408 million *Taka* till the end of June 1996 (Huda and Kamal, 1998). A brief description of these financial institutions are presented below:

The Bangladesh Bank (BB): The Bangladesh Bank performs the traditional central banking role of note issue, and it is banker to the government and all other banks. It formulates and implements monetary policies, manages foreign exchange reserves and supervises banking and non-banking financial institutions. Its overriding regulations include minimum capital requirements; limits on loan concentration, inward borrowing and guidelines for assets classification and income recognition. BB has the power to

impose penalties on other banks for non-compliance and intervenes in the management of a bank if serious problems arise. It also provides deposit insurance to small depositors (Shafi, 1998).

Bangladesh Bank has the discretionary power to supervise and monitor the activities of all other banks including the foreign ones and it issues directives to them from time to time. Credit is subject to the interest rate ceiling in the housing sector. This was 18 percent compound per annum with a maximum 12-year repayment period until 1989. It has gradually been reduced to 14 per cent per annum by 1993. However, the banks were free to choose the credit terms. Excessive demand in the housing sector forces the banks to lend only to the risk-free borrowers. Therefore, wealthy customers with ample collateral in the form of a plot in a high-class urban area developed by the City Development Authorities have access to most of the mortgage money, while low and middle-income clients, who cannot offer suitable collateral, are rationed out (Rahman, 1994).

Housing Loans for Low Cost Housing by Bangladesh Bank: Very recently, the finance department of Bangladesh Bank has formed a Trustee Board for providing housing loans for low-income households (March 5, 1998). The objectives is to build kutchra/tin-shed houses for rural poor, low income and homeless families, mainly for those who have been affected by river erosion, floods, cyclones/flow tides. This loan facility will also fund highrise/semi-pucca buildings in small towns and villages.

Activities of the Trustee Board: The Trustee Board will have the responsibility to derive and manage the housing fund. According to the supervision of the Trustee Board, Bangladesh Bank will execute the entire procedure, maintain accounts of housing funds, and bear the responsibility of carrying out the orders of the Board. The main activity of the Trustee Board will be to disburse loans for implementation of housing projects. For providing loans/grants from the housing fund, the Board will consider applications from govt./semi govt. organizations, NGOs, Welfare Associations, Cooperatives, local government organizations etc. Loans/grants are to be provided by Board approved projects only. The Trustee Board will create a permanent cell for managing housing funds if necessary. Bangladesh Bank will provide necessary help to the Board.

Bangladesh House Building Finance Corporation (BHBFC): To meet the need for mortgage finance, the government established House Building Finance Corporation (HBFC) in 1952. However, this bank was re-established after independence under the House Building Finance Corporation Ordinance of 1973 with an authorized capital of *Taka* one hundred million to be subscribed by the Government from time to time. It used to be funded by the sale of government guaranteed debentures to the nationalized financial institutions. The latter, which also includes government insurance companies, had annual quota of compulsory debenture purchase determined by the Central Bank. The BHBFC sold debentures, which offered profits between six and 8.25 percent per annum. In addition, the government provided the BHBFC with various easy-term funds in different periods. The BHBFC used to run two loan schemes, the General Loan Scheme (GLS) and the Multi-Story Loan Scheme (MSL), in five large cities and a low-interest

loan scheme in other urban centers of the country. At that time, this was the only organization of its kind that advanced loan to the people for home construction in urban areas of Bangladesh.

Presently, BHBFC has nine zonal offices, including four in Dhaka and one in each of the five divisional headquarters (Chittagong, Khulna, Rajshahi, Sylhet and Barisal). It has thirteen regional offices in the district headquarters of Mymensingh, Tangail, Jamalpur, Faridpur, Comilla, Noakali, Jessore, Kushtia, Pabna, Bogra, Rangpur and Dinajpur. It has six more offices in other locations e.g. Savar, Narayanganj, Narsingdi, Satkhira and Chuadanga. In principle, for resolving the housing problems of middle income and lower middle income groups, BHBFC provides loans for construction of houses and expansion of existing residential structures. The primary source for treasury fund of BHBFC is paid up capital by the Government. Authorized capital of the corporation is *Taka* 1100 million and paid up capital is *Taka* 972.9 million. As discussed, the corporation also collects treasury funds by selling debentures to Bangladesh Bank through the Finance Ministry. The term of debenture varies from 15 to 30 years and the interest rate of debenture can be from 2.75 to 8 percent. For low income housing, Bangladesh Bank has provided BHBFC an amount equivalent to of *Taka* 500 million for 30 years with an interest rate of 8 percent.

Loan types: As already mentioned, two types of loans are given by the organization: general and multi-storied dwelling loans. These can be further categorized into six types:

1. General Loans : Single or joint name for husband and wife.
2. Group Loans : Group loans for flats or for group owners of plots.
3. Flat/Apartment Loans : For buying flats/apartments.
4. Adjusted Loans : Adjusting an earlier loan for maintenance, renovation and/or completion of works according to plan.
5. For Construction of Small Unit Multi-storied Buildings.
6. For Construction of semi-permanent Buildings.

For General Loans the Corporation advances loan against security of land and building, after due approval of the site plans. Maximum limit of loans sanctioned is Tk. 2.5 million and minimum is Tk. 0.3 million for each self-sufficient floor or flat for all towns and cities of Bangladesh (including Thana Headquarters). The present rate of interest varies from 10 percent to 15 percent depending upon location of the area. The maximum period of repayment is up to 20 years. A maximum amount of 80 percent of the construction cost (excluding land cost) is advanced as loans. Loans are granted in installments as the construction of the building proceeds. Normally, the high and middle-income people are the target groups of these loans. Covered areas should be from 1000 sq. ft. to 4500 sq. ft. The highest amount of loan ceiling for Dhaka, Chittagong and Sylhet is Tk. 0.1 million to 2.5 million and for other divisional and district towns, is from Tk. 0.27 million to Tk. 0.6 million. The ratio of initial investment of borrower and the bank should be between 20:80 to 30:70. Building construction cost should be between Tk 650 and Tk. 300 per sq. ft. Interest rate is 10 to 15 percent, depending on the location of area and amount of loan. Repayment system is 15 years or 180 regular monthly installments. 10 percent incentive is provided for regular loan repayments, at the end of the loan period.

For group loans, covered area should be 1000 sq. ft. to 3000 sq. ft. The highest amount of loan ceiling is Tk 1.5 million. Ratio of initial investment of the borrower and the bank should be 25:75. Building construction cost should be between Tk. 650 and Tk. 333 per sft. Interest rate, repayments and incentives are similar to the general loan.

For flat/apartment loans, only the residents of Dhaka and Chittagong City are eligible. Covered area should be between 1300 sq. ft. and 1800 sq. ft. and the highest loan ceiling is Tk. 0.78 million. Ratio of initial investment of the borrower and the bank should be 40:60. Building construction cost is allowed to range from Tk. 700 to Tk. 1000 per sft. Interest rates for the loan for Dhaka and Chittagong City is respectively 9 and 11 percent. Repayment period should be 20 years or 240 regular monthly installments.

For small multistoried and semi-permanent structures, the maximum loan ceiling is *Taka* 0.85 million and covered area should be 1600 sq. ft. to 3000 sq. ft. These loans are given in the new and old district towns excluding Dhaka and Sylhet. All other conditions are more or less similar.

Low Income Housing Program of BHBFC: BHBFC approved the guidelines of a loan scheme for low-income group housing in 1997. As per the request of the bank, Bangladesh Bank approved 500 million *Taka* for this program. People of low and lower middle income groups of Dhaka and Chittagong City are the target group for this loan. For flats or apartments, covered area should be between 550 sq. ft. to 1000 sq. ft. (excluding stair and common space). The range of loan ceiling are from Tk.0.2 million to Tk.0.4 million (excluding lift), and from Tk.0.3 million to Tk.0.5 million (including lift) Ratio of initial investment of borrower and the bank should be 40: 60. Building construction cost should be within Tk.800 per sft. for simple construction. The interest rate is 13 percent. Repayment period is 15 years or 180 regular monthly installments. 10 percent incentive will be provided on interest at the end of the loan period for regular loan repayment. For general housing loan, the target groups consist of low income people who own a piece of land in the city measuring 1.5 to 2.5 kathas (1 katha = 720 sft.), an approved plan to build one or two storied housing unit (with maximum covered area of 1000 sq. ft. per unit). Highest loan ceiling is Tk. 0.8 million.

Predicaments and Pitfalls of BHBFC: Bangladesh House Building Finance Corporation (BHBFC) meets housing needs of the urban people only fractionally and it has not served the low-income group at all. Loan recovery by BHBFC has consistently been poor. This poor performance including inadequate loan recovery and low collection of accrued interests is not always reflected in the financial statements. This bank did not make any real profit, and key financial statements often provide wrong impression. In reality, BHBFC has remained operating as a provider of government funds for house construction. Salaries and debts have been paid through additional borrowing in absence of internal cash generation. Recently, the equity released by the government has revealed some of these realities (Shafi, 1998).

The repayment period is short and installments of interest and principal are often too heavy for most of the recipient families. For this reason, the lower middle and the low-

income families cannot avail any BHBFC loan facility in reality. Repayments also vary regionally and reflect the need to stress on viability before loan approval. The bank does not have adequate computing facilities for loan processing, which is rather slow and inadequate to deal with a large number of clientele. Negligence of loan supervision is also common due to rent-seeking tendency of BHBFC's officers, and because of unfair means.

The first instalment of loan disbursement by BHBFC is normally 20 per cent of the total sanctioned amount, which is not enough to cover the initial expenditure. The total amount lent is inadequate in comparison with the house against which it was sanctioned; this is because the amount was based on an under-market government construction rate. The actual expenditure in a building of MSL specifications is sometimes more than double the maximum loan amount. So, it is often necessary to arrange for a second loan, which is even less widely available and more complicated after the first mortgage is taken out (Quyum, 1978). As a result, most borrowers could not finish the buildings and thus failed to repay the loans from rental income. The BHBFC used to charge interest at the compound rate in the interim period between when a loan was sanctioned and the same was actually disbursed in phases. This had to be reimbursed in one lump-sum payment within a year from the date of the last disbursement. Most borrowers (60 per cent of the defaulters, judging by the bank's internal documents) failed to repay this and remained constantly in arrears. Complaints of misappropriating the loan money have also been heard from various quarters (Navaratnam, 1985).

The BHBFC uses the following formula to calculate the total repayment amount (to be divided in equal installments):

$$\text{Amount} = \text{Principal} \times (1 + \text{Mortgage Year} \times \text{Interest Rate}/2)/\text{Mortgage Period}$$

The repayment amount determined by this formula was 22 per cent less than that according to a standard annuity table used universally. This shortfall is an undue and hidden subsidy to fortunate borrowers which nobody was aware of until 1981. Warnings in this regard were never heeded. Unfortunately, the corporation cannot adjust the derogatory credit terms until the expiry of the amortization period, which will be some time in the new century. The accumulated subsidy at the above rate on the amount disbursed in 1986-87 and other outstanding loans only stands at about Tk 1000 million; at least 50000 serviced plots could be developed and distributed among the low and middle-income households with this amount (Rahman, 1994).

This injudicious strategy has only benefited wealthy landowners and people looking for opportunities to convert black money or evade taxes, investors and developers, as this is the group, which is most likely to take on this loans (Siddiqui *et al.*, 1990). For a country with one of the lowest per capita incomes and limited resources is in direct conflict with the acceptable norms of social justice. Due to the above-mentioned misconceived schemes, the low recovery rate and a miscalculation of repayment amounts, the BHBFC has failed to appreciate the legitimate needs of the majority of people and has unwittingly promoted a costly and alien architecture (Rahman, 1994).

Over the past 40 years, total number of housing funded by BHBFC is about 100,000 units. Complicated and lengthy loan procedure is an obstacle to securing loan. Normally, it takes a minimum 7-12 months to get a loan approval. BHBFC's program of housing loan is viable only for the upper income group and does not reflect the realities of the needs of the low-income people. For example, their recent special program for low cost housing allows Tk. 800 per sft. for construction and a ceiling of Tk. 0.8 million. All these are impractical conditions considering affordability of the low-income group. Obviously, this program does not cater for the needs of the target group, and this low-income housing finance scheme is not functioning in reality (Shafi, 1998).

The Nationalized Commercial Banks (NCBs): The nationalized commercial banking system of Bangladesh dominates the country's financial services for the housing sector. However, unlike the industrialized nations, these banks have played a limited role in housing finance of Bangladesh. The difficulties particularly arise from the legal matters related to title and valuation of property; problems in accepting immovable property as security; and in loan recovery, especially in cases of default (Huda and Kamal, 1998). Four bank e.g. *Sonali, Janata, Agrani, and Rupali* dominate the nationalized banking system of Bangladesh. Despite their limitations, the nationalized commercial banks of Bangladesh have a significant role in housing credit. With the rise of urban population, these banks along with Bangladesh House Building Finance Corporation met the increasing demands for housing loans. The total disbursement by NCBs till 1996 was 34,368 million *Taka*, which is 50.24% of the total institutional housing loan (Fig. 1). Although, urban population of Bangladesh doubled during this time, NCBs did not meet their quota according the Bangladesh Bank's directives. Only *Agrani Bank* and *Janata Bank* increased their share of housing loan disbursement. The other two NCBs did not execute the Bangladesh Bank Policy (Huda and Kamal, 1998).

As of June 30, 1997, these four banks controlled a deposit of 293,000 million *Taka* (61% of total) and operated 3619 branches (62% of the total). Despite their dominance, the NCBs are gradually losing their market share due to the rapid growth of private banks. The outstanding house building loans advanced by the nationalized commercial banks (to individuals) are very high (above 80 percent) compared to other loans for construction (Shafi, 1998).

Private Banks: In the banking operation of Bangladesh, the nationalized commercial banks faced no competition till 1983, when the Government of Bangladesh allowed the operation of private commercial banks. Private Banks participation in the market continues to grow and their market share rose from 21 per cent in 1985 to 27 percent in 1997. However, in the case of investment in construction works, the percent of loans for housing to individuals and companies is quite low compared to other banks (Table 1). Private commercial banks are increasingly playing a vital role in housing finance. Till 1996, the disbursement by these banks was 15,630 million *Taka*, which is 22.85% of the housing loan disbursement (Fig. 1).

There are a number of private banks in Bangladesh, and, many of which are involved in housing finance. The notable ones are: Pubali Bank, Uttara Bank, Arab Bangladesh Bank,

International Finance Investment and Commerce Bank (IFIC), Islami Bank Bangladesh Limited (IBBL), National Bank Limited, The City Bank Limited, United Commercial Bank Limited, Al-Baraka Bank Bangladesh Limited, Eastern Bank Limited, National Credit and Commerce Bank Limited, Prime Bank Limited, South East Bank Limited, Dhaka Bank Limited, Al-Arfah Islami Bank Limited, Social Investment Bank Limited, Dutch Bangla Bank Limited and Delta Brac Housing Finance Ltd (DBH).

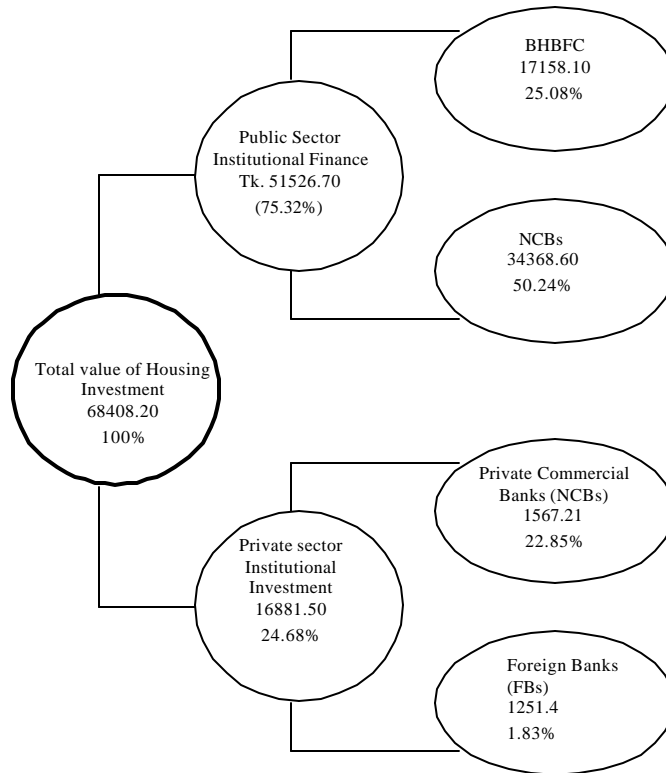


Fig. 1. Bangladesh housing finance system 1986-1996 (Taka in Million)
 Source: Adapted from Huda and Kamal (1998)

Pubali and Uttara banks were previously nationalized banks, which were later de-nationalized by changes in the government and according to prescription of the International Monetary Fund (IMF) over the last decades. A leading real-estate developer bought Uttara Bank, de-nationalized in 1985. Afterwards, it introduced a housing loan scheme only for those buying apartments from the same developer's apartment company (Eastern Housing Limited). The loan element covers 60 per cent of the apartment price and is repayable over ten years at a 16 per cent compound interest rate. The company, which is the leading real-estate developer in Bangladesh, has constructed a large number of apartments so far in Dhaka, with a current annual production rate of approximately 100 apartments. IBBL and Al-Baraka, both with 70 per cent subscriptions from Middle-

Eastern Sheikhs, have introduced the interest-free *Islami Shariah* (religious rule) banking system in Bangladesh. These banks participate in various projects by investing and consequently sharing the profits under different modes of participation (transaction). Most (68 per cent) of the investments undertaken by the IBBL are made in accordance with the 'Murabaha' (profit sharing) mode, which provides 70 per cent of the total project cost in return for 30 per cent of the predicted profit. Real estate is a low-key sector for the IBBL (Rahman, 1994).

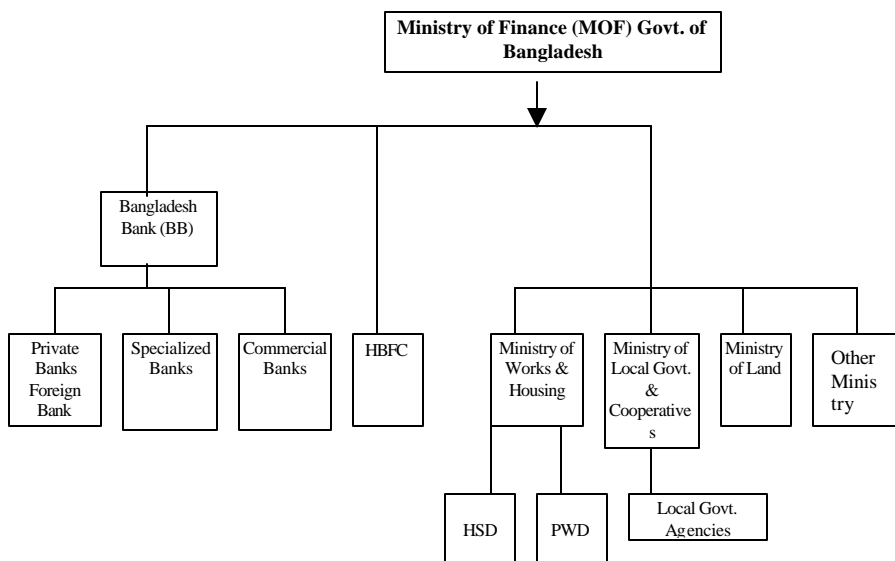


Fig. 2. Structure of the present institutional financial sector for housing in Bangladesh.

Delta Brac Housing Finance Corporation Ltd. (DBH) is a public limited and a financial institution licensed by Bangladesh Bank. DBH is a corporate body of four shareholders e.g. Delta Life Insurance Company, Bangladesh Rural Advancement Committee (BRAC), Green Delta Insurance Company, International Finance Company of World Bank, and Housing Development Finance Corporation Limited (HDIC) of India. The initial paid up capital of DBH is 200 million *Taka*. DBH is a pioneering housing finance institution of Bangladesh. It started in 1997 with the primary objectives of channelling resources to provide finance for housing and promote affordable home ownership. It offers loans for construction of houses, purchase of flats, extension and or improvement of existing houses or apartments, and purchase of housing plots. DBH funds 80% of the construction cost or 70% of the purchase price of any apartment. Maximum loan is up to *Taka* 2 million and the loan is repayable in equal monthly instalments over 15 years. Interest rates depend upon the size of loan and vary between 16% to 17%. DBH has sanctioned over 200 loans since its inception. The total loan amount disbursed in Dhaka is around 2.4 million *Taka*. In future they have a plan for opening offices in Chittagong and other metropolitan cities of the country (Shafi, 1998)

Specialized Banks: The four specialized banks (e.g. Bangladesh Krishi Bank, Bangladesh Shilpa Bank, Rajshahi Krishi Bank and Bank of Small Industries and Commerce Limited) were created with special mandates to address financing needs of specific clients of the private and public sectors. Historically, these banks have been used to distributing subsidies rather than act as financial intermediaries. They rely almost exclusively on external sources of funds including government and the Central Bank. Outstanding house building loans provided by the specialized banks to individuals for house construction stood at Taka.383.0 million at the end of December 1997 as compared to Taka 269.4 million at the end of March 1996 (Shafi, 1998).

Foreign Banks: There are 14 foreign banks operating in the country. The Government of Bangladesh also allowed these banks to invest in housing sector. Although the housing loan disbursement is not the main function of these banks, they sanctioned 1251 million Taka from 1978-79 till 1995 this was 1.83% of the total institutional credit for housing (figure 1). These foreign banks are American Express Bank Limited, Banque Indosuez, ANZ Grindlays Bank Plc., Standard Chartered Bank, Habib Bank Limited, State Bank of India, National Bank of Pakistan, Muslim Commercial Bank Limited, City Bank (North America), Society General (The Bank), Hanil Bank, The Hongkong and Shanghai Banking Corporation, Bank of Nova Scotia, and Al Faisal Bank. The outstanding house building loans extended by the Foreign Commercial Banks to housing companies is 23 percent, which is comparable to individuals loans, which was 32 percent in 1997.

Co-operative Banks: The structure of the traditional type of co-operatives in Bangladesh comprises of a three-tier system with the Bangladesh Samabaya Bank Ltd. (BSBL) at the apex, the central co-operative banks in the middle and the primary societies at the base. The main function of the BSBL is to provide finance to the central co-operatives banks, which in turn provide finance to the primary societies. Membership of the bank is restricted to co-operative institutions. The primary unit of co-operative credit structure is the primary credit society. The object of the primary societies is to finance members engaged in agriculture, forestry, fishing and cottage industries. These societies are partly financed by the central co-operative banks. The land mortgage banks and urban/city co-operative banks also come under this category of primary societies. These banks mostly provide finance to their members who are engaged in agriculture and cottage industries. At present there are approximately 108 co-operative banks in Bangladesh.

NGOs: The non-government micro finance sector is growing rapidly, based on the Grameen model. There are more than 1000 micro-finance organizations operating in Bangladesh. The four dominant institutions are the Grameen Bank, BRAC, Proshikha and Association for Social Development (ASA). The Grameen Bank pioneered a rural housing loan program that provided basic building materials for a simple new houses for which repayment could take place over a 15 years period. Other NGOs have followed this example, with shorter payment periods and a total of approximately 100,000 housing units have been constructed using micro-finance facilities from the time these programs were put in place in the 1970s.

The NGO sector has only been marginally involved in urban housing. The discrepancy between urban and rural house prices, and incomes of the below median income groups has made sustainable housing solutions difficult to conceive for that income group. Recently, the larger micro-finance institutions have shown an interest in entering the multi-family residential market for moderate and lower income households. Proshikha and BRAC have plans to invest in large scale low-and moderate housing development 30 to 40 km outside of Dhaka. Some projects will receive free government land.

Private Developers: Private developers are increasingly important players in the urban land and housing markets, particularly in the market for apartment buildings. A 1995 study by REHAB showed that there were 142 real estate developers in Metropolitan Dhaka, most of whom work in land and apartment development. This sector has produced close to 3 percent of the houses over the last few years, nearly all for higher income segment of the market, and it is growing rapidly. Private land owners, using the land to finance new construction, are also developing multi-family housing units. They operate either as individuals, as businesses under the Companies Act, or form a housing cooperative, and jointly develop a housing project partly for owner-occupation and partly for rental or sale.

An Overview of Urban Institutional Housing Finance:

The investment statistics of the financial institutions in recent time, show that for all scheduled banks out of the total investments in construction, nearly 60 percent is spent on housing loans. The bulk of these are for individual housing loans. In the case of Nationalized Commercial Banks the percentage is even higher. 1997 figures thus show that almost 84 percent of investment have been made for individual housing constructions. Only 3 per cent of these have been made to housing companies. This is an evidence that nationalized and scheduled banks are more interested in providing funds to individuals known to disbursement officers like politicians, Government servants, intellectuals, businessmen and journalists. Further study in depth is needed to find out more about the profile of individual borrowers. The average sizes of loan in any of these banks are very high. The lowest ceiling for individual housing as extended to staff of banks are around .5 million *Taka* and the highest on average to private individuals being 1.2-1.5 million *Taka*. The average size of a private loan in urban Bangladesh is around Tk. 0.8 million. To repay a loan of such amount by a rule of thumb, income of a small household should be between Tk. 35,000 – Tk. 40,000 per month, otherwise the loan will have to be paid from the rental value of the house or other sources (Shafi, 1998). This implies the need for a stable flow of income for the borrowers, for regular repayments of installments.

In 1993, some rescheduling of loan repayment was done in BHBFC by which loan defaulters could regularize their default through four installments and this schedule was further relaxed. In this process 17,000 defaulters were regularized. Employment of qualified professionals in BHBFC such as charter accountants, business graduates having MBA degrees, and engineers have increased the efficiency of the organization to some extent. Research on loan defaulters and reasons for their failures need to be investigated. Such research findings can lead to separate loan policies for different regions of the

country. The performance of the housing market needs to be assessed while dealing with loans. In view of the above limitations, it is evident that the BHBFC with its present structure and policy is unable to meet the housing needs of the urban people. Structural change of the organization is needed to cater to the mortgage market for home ownership of middle and lower income families (Shafi, 1998).

Other sources of Housing Finance

Unlike Bangladesh, in most developed countries, housing societies play an important role as both developer and financier. Construction companies and developers in Bangladesh started real-estate businesses since the late 1960s, producing both serviced plots and complete apartments. These have, however, failed to play the desired role of either a consumer's co-operative or a financing agency, which could accumulate domestic savings and extend affordable housing loans. Since members' subscriptions provide a very insignificant portion of the societies' funds, they depend on commercial banks for monetary assistance. Loans taken up by them were more than double the total capital of these funds, only five per cent have been repaid. The additional cost of borrowing, expensive land development and construction techniques, costly land at central locations, high standards of finish and a high profit-motivated attitude on the part of these developers/societies have limited their production to the upper echelons of society (Navaratnam, 1985). Even then, these loans are producing only a few apartments per year, and forty percent of these are bought by overseas earners (Siddiqui *et al.*, 1990). There is no program specially tailored to the societies needs; for example, BHBFC's MSL scheme could allow up to four borrowers in a group, while the 1940 Co-operative Act requires at least 10 members to form a co-operative society (Rahman, 1994).

Some limited finance is available to employees of the government and semi-government organizations, which can be utilized in housing. Among these, provident fund and gratuity are generally available at the end of a long service spanning at least 18 years. Moreover, beneficiaries are not compelled to spend it on housing. A scheme where the government complements the provident fund to be used only for housing-related activities could provide a substantial amount of finance (Rahman, 1991). Under the House Building Loan Scheme, an employee can borrow an amount equal to his 30 months basic salary, which would be adjusted in 10 years at a simple annual interest rate ranging between 7.5 and 12 per cent. However, the total amounts are not sufficient to buy even an urban plot, though the terms keep the repayment amount to around 30 per cent of income. It was discovered that though government employees contribute regularly to the provident fund, most of them (71 percent) withdraw the money long before retiring, usually to circumvent some domestic crisis. This further undermines the capacity of the fund to meet housing-related expenditure (Helaluzzaman, 1984).

International assistance for shelter is a latecomer in relation to assistance in other sectors. Though the World Bank and its subsidiaries became active in capital investment in the 1970s, they did not show interest in housing until recently. The type of technical infrastructure and other support systems, which the bank will finance, is a conscious

choice likely to yield a high rate of local investment generation. A recommendation from the 1972 Stockholm Conference on the Human Environment called upon governments to establish an *International Fund or Financial Institution* (World Bank, 1981), but this was not followed by appropriate actions. The most effective way external funds have been used is as seed capital in housing finance institutions. The preconditions require governments to set up equivalent seed capital funds, establish relevant agencies and commit themselves to a definite long-term housing policy oriented towards social housing. These funding agencies recommend that the market price is charged to the beneficiaries and thus subsidies are eliminated. However, they are prepared to allow cross-subsidy within a scheme and suggest a fixed proportion of income as a maximum for debt servicing (Williams, 1984)

Since 1976, various international agencies have given monetary and consultative assistance to relevant organizations in Bangladesh in undertaking studies and preparing urban housing-related projects, master plans and formulating policies. Among these agencies are the World Bank, UNDP, UNCDF, UNCHS, ADB, ODA etc. Two sub-contracts were awarded in 1985 by UNCHS to upgrade and redevelop a section of the old part of Dhaka and improve a relatively modern section of the city. In the feasibility study, it was necessary to provide justification of an order acceptable to the lending agencies, given that housing has a low priority compared with agricultural and industrial development projects (Navaratnam, 1985). The projects were approved, but due to the lengthy process of project preparation and loan disbursement, these have been partially implemented only recently (in 1992). One squatter rehabilitation project in the northwest of the city funded by the UNCDF was declared non-replicable because of the project's failure in terms of affordability. *Taka* 6532 million is presently in the process of being spent on 63 studies related to urban planning and infrastructure development in Bangladesh. Examples of such projects include the Urban and Shelter Sector Review, Formulation of Land Development Control and Procedures, the Master Plan of Dhaka and Chittagong, the Integrated Urban Transportation Study of Dhaka and Chittagong, the Multi-Purpose Cyclone Shelter and the Training the Urban Environmental Impact Trainers project. Some of these projects are completed, however, the recommendations of these projects are yet to be completed (Rahman, 1994).

The private banks do not consider long-term lending for housing a priority because of the associated risk in non-integrated financial systems and predominance of government finance programs catering to the same professional middle class to which the financial sector might want to extend its services.

Second, many government programs use interest-rate subsidies on fixed rate long-term mortgages. Those subsidy programs have some negative characteristics: (1) their funding and cost to the economy is non transparent, i.e. it is not on the budget and increases with inflation; (2) they stimulate debt acquisition rather than savings; i.e. the more one borrows, the higher one's subsidy.

As a consequence, the formal housing system only provides mortgage loans for a small proportion of newly constructed houses and home purchases. A much larger proportion

of households than necessary have to finance housing from savings or build their homes incrementally and at a low standard because up front finance would allow them to purchase a higher quality home and pay for it over longer period is not affordable or inaccessible. Of course, formal finance is inaccessible for many households for other reasons. These include insecure and undocumented incomes, a lack of land and housing options that are acceptable as collateral to banks, and the high lending costs and related lack of interest by the banks to work with small clients, to name just a few.

Squatter resettlement programs were launched in Dhaka in 1975. In January 1975, the Government of Bangladesh took decisions to evict slum dwellers and squatters from the city center. A slum clearance operation was launched in Dhaka, and 0.2 million slum dwellers of the city were forced either to return to their villages or to settle in any of the three rehabilitation camps set up at Mirpur, Demra and Tongi. Approximately about seventy thousands of the evicted people were rehabilitated at these three places outside of Dhaka. Later, permanent settlements and rehabilitation programs were taken up for them. 2600 families have been rehabilitated at Mirpur, and 3444 families are rehabilitated at Dattapara, Tongi (GOB, 1989; Hasan, 1991). In both these projects, 100 acres of land have been allocated and the total cost was 430 million *Taka*, that is 71,000 *Taka* per family. In these projects, the houseless families are allotted a piece of land of about 400-600 square feet of built up space, one small core house, and some physical and socioeconomic facilities (GOB, 1989; Hasan, 1991). Money is allotted from the Government of Bangladesh and from international donor agencies. Dhaka City Corporation, with the financial assistance of the World Bank, has taken up a project of 1150 million *Taka* for physical upgrading of the slums of Shaheednagar, Rasulpur and Islambag (GOB, 1989; Hasan, 1991). The Local Government Engineering Department (LGED) of Bangladesh has started a slum improvement scheme for 60 mid-level towns of the country (Rahman, 1994). These *Slum Improvement Programs (SIP)* of Bangladesh have already benefited a large number of slum dwellers and poor people (Hasan, 1998). Bangladesh Krishi Bank (BKB) started low income housing program in 1997.

Critical Factors for Housing Finance of the Low and Lower-middle Income Groups

The housing problem in Bangladesh is more acute in its urban areas, as can be seen from different statistics. Claimants of institutional housing finance who should be given preferential treatment are those who cannot afford the cost of proper housing: the low and middle-income groups. The cost of a 42 square meter semi-permanent dwelling unit of moderate standard on a 63 square meter partially serviced peri-urban reclaimed plot (adopting all kinds of cost-reducing techniques available under the conventional wisdom of present prices) is Tk 1,92,800 (US\$ 3855); 89 per cent of the urban population cannot afford this amount if we assume that housing costs ought to be equivalent to 30 months' income (Rahman, 1991). Thus, some form of finance is required by the whole of society except, perhaps, for the top few per cent. Therefore, special measures are required to ensure the availability of special finances, particularly for the low and middle-income groups.

The policy environment is a vital factor for the growth of housing finance in the country. This can help resolve housing problems by being favorable to finance development, supportive to housing objectives, and by providing consistent and coherent shelter for the low-income people. Arbitrary controls over the interest rate structure and inappropriate monetary and fiscal policies can have a detrimental effect on resource mobilization. There are special regulations in the country for housing finance with several objectives and often special circuits to isolate the housing sector through preferential measures. The regulatory environment is however, often replaced with conflicting objectives such as housing is expected to be encouraged but resources should not be drawn out from other priority investments. Such dilemma and dichotomy in the policy environment should be removed (Huda and Kamal, 1998).

The low and middle-income groups failed to take advantage of any institutional finance for housing, which imply that there is no financial scheme tailored to their specific needs and corresponding affordability. Inability to provide suitable and acceptable collateral places all of them at a considerable disadvantage. Land is the main form of equity acceptable to the banks. The lower 80 per cent (by income) of Dhaka's population own only 10 per cent of its residential land (Islam, 1993); also, no finance is available for land purchase. Therefore, the low and middle-income groups are automatically rationed out from being able to take advantage of existing finances (Rahman, 1994).

A considerable amount of pre-investment or down payment is needed to secure credit or buy houses by installments. This requirement is usually expected to be met from domestic savings. The national average saving level for all income groups in Bangladesh is a very insignificant: 2.5 percent of income (BBS, 1994). Housing cooperatives, the most suitable organizations to absorb domestic savings are virtually non-operative in Bangladesh, a handful of them do exist, but they are engaged in the real state business. Thus, most of the needy households cannot in fact fulfill the preconditions, which would allow them access to any of the housing credit options. However, there is evidence that, offered the opportunity, the low and middle-income groups would save up to buy a house, even making considerable sacrifices in other priority sectors. The existence of a proper housing saving scheme would encourage this saving potential (Rahman, 1992).

Financial intermediaries are needed to increase the scale of housing projects and to facilitate the provision of infrastructure for housing development. As the financial needs for urban residential investment are large and rapidly growing, the evolution of specific financial intermediaries must take place in a way that will not promote further fragmentation of the capital markets. A housing finance system with a large number of institutions may be quite inconvenient, while a well-balanced system serving all its functions may require a small number of institutions. The three principles of financial regulation could be applied: e.g. to improve competition, increase efficiency and stimulate long-term finance (Huda and Kamal, 1998).

Several non-collateral loan schemes have shown outstanding performance in terms of utilization/coverage and recovery in Bangladesh. The 'Students Alternative Employment Project', offered by a nationalized bank, is one example which used to provide loans to

university graduates to support their entrepreneurial activities without requiring any collateral, and the Islami Bank has also opened a similar project to finance unemployed youths. Another scheme run by the Grameen Bank (GB-the rural bank) has already been accepted worldwide as a model to develop the rural-based economy by providing small loans towards income-generating activities. The bank also runs a very successful rural housing scheme, which has a recovery rate of 98 percent. Under the scheme, the bank sanctions Tk. 12000 (US\$ 304) to buy four concrete pillars, and CGI sheet to cover 21 square meter roof and a low-cost sanitary toilet. The prospective borrowers, most of whom do not have any agricultural land and who are often women, have to establish their credibility by participating in foundation courses on personal hygiene, child rearing, literacy etc. and show good performance in other loan programs. A simple five per cent per annum interest rate is charged, and repayments are made weekly (Rahman, 1994; Hasan, 1999).

The inherent qualities of the successful GB Rural Housing Scheme make it a role model even for urban areas. However, the credit offered should be limited and the terms very easy. It has been calculated that an interest rate of 13 percent per annum and a 25 year amortization period forms the most suitable terms for housing finance in Bangladesh. Even a lower interest rate may now be adopted since banks' rates of interest on both savings and deposit accounts have been reduced by two per cent over the last 12 months (the rate of inflation has also been reduced to 5.5 per cent) (Rahman, 1992). The low-income group has already proved its honesty and sincerity by repaying its loans, while the richer classes know and apply all the tricks of the trade to avoid paying back their loan money, not only in housing but in all sectors (Siddiqui *et al.*, 1990)

The strengthening of financial services for urban housing requires coordinated policies to release non-financial constraints on the supply of housing e.g. confused land titles, inappropriate building codes, rent controls, and lengthy financial procedures. This may include the development of mortgage insurance, new deposit methods, mortgage loans to self-employed, and a broad range of services at different phases of residential investment (e.g. land development advances, construction loans, interim finances, and mortgages). During periods of rapid urban growth, a substantial amount of investment takes the form of upgrading of existing units for rental purpose, accompanied by land use intensification. Often little efforts could be made to evaluate the kind of profitable financial services, which can be developed in the form of short-term loans for such operations (Huda and Kamal, 1998).

A housing bank could be developed in Bangladesh to finance social housing. Zero to low-interest loans from the international lending agencies could be channeled into this bank to set up a fund to extend short- to medium-term credit facilities for developers/housing societies and medium- to long-term credit for end users; this could in turn become a revolving seed fund. The bank should be able to match the above fund by mobilizing domestic savings at the grass-root level, since such a saving potential does exist. It may also have deposit facilities; regular savings would be put in the bank, which could be utilized only for housing purposes. The interest rate on such savings would be low to allow easy credit terms on the loans available. This bank could also finance urban

infrastructure, service facilities and the production of cheap housing resources such as land and materials (Rahman, 1994).

Conclusion

This paper emphasized mainly the demand side of housing finance. Regarding sustainability of housing finance program, both the supply and demand side have to be considered.. For a more effective financing for urban development, a strong and adaptable system of housing finance is important for meeting the needs of the low-income people. The government could encourage financial institutions to provide housing finance to households on judging their financial viability (this may include organizing financial institutions and generating financial services for a range of people with very poor income). The government can develop programs for the low-income households with a major focus on the urban infrastructure that individual households cannot provide but which is central to long-term urban development. Supply side weakness is also a constraint for expanding housing credit in Bangladesh.

The eradication of imperfections in the financial sector is also important in this connection. Reforms in the financial sector would increase the quantity and quality of financial intermediaries and reduce any bias against long-term credits in general and housing finance in particular. The housing sector could be favored either by special measures to divert more funds, or by cross subsidizing finance from the public sector, budget and from foreign aid. Specialized housing finance institutions can be promoted which would cater for those who could not otherwise afford to obtain the necessary finance. These institutions can have deposit facilities would induce savings from people for a credible prospect of home ownership, convincingly heightened by the existence of such institutions. The government may introduce legislation that requires various organizations to allocate a certain percentage of resources or profits for housing.

Since the establishment of new special-purpose institutions will require considerable time and administrative resources, efforts must be made to encourage existing general-purpose saving and financial institutions to increase their loans and investment in the housing sector. Finance from the nationalized banks could be made available at low and affordable interest rates if social and multiplying benefits associated with improved housing are considered. Attractive and easy saving instruments should be introduced to attract funds from untapped sources. Employers could be asked to complement the provident fund from their profits in exchange for certain tax advantages. Housing sponsored by the fund would be social housing for the economically weaker section of society. This would bring the best result from the limited resources available by reaching the maximum number of beneficiaries. Government-guaranteed bonds with deferred payment methods may be issued to prospective investors in upper-income housing, for example, to overseas workers in order to obtain the under-utilized and idle money which might be looking for safe and productive investment opportunities.

When housing finance institutions will expand with the growth of the economy, the primary objectives in raising the level of financial savings may not be so much to increase national saving. It may be to spread the benefits of financial intermediation by

reducing the degree of fragmentation of the economy where old and new technologies operate with sharply diverging rates of return. This can be done by facilitating large-scale investment and by removing the constraints imposed on self-financing by the adoption of more efficient, high return based production techniques. In case of housing there is evidence that increases in savings also occur with housing investment as home ownership is powerful incentives for households to reduce consumption and increase savings for home both before and access to ownership.

Interest supplements can be an approach that can produce a high return on housing investment, whereby the government makes up the difference between what borrowers can pay and the minimum yield demanded by investors. An important element in this operation is the stream of income necessary to provide the differential to cover the life of the investment provided through earmarked taxes, income from existing or planned projects, employers' contributions and international sources. This form of housing investment which is more acceptable to private investors is normally rental unit type housing permitting short-term adjustment of yields as general price levels and renters' affordability rise. Transfer of economic rents from the owners to the housing users could be an important part of the benefits of new housing investment.

An important point for expanding housing finance is to include the large group of self-employed households who have serious difficulties in gaining access to housing finance institutions. Too many housing finance programs have been geared exclusively to serve a minority of salary and wage earners. Systematic efforts should be made to include the majority of the households. The choice of strategy can vary with the income levels of the households.

Private lenders normally prefer to deal with debt instruments that are simple and familiar to them. A simple and clear document of land, title, certificates of ownership and mortgage is readily understood and acceptable for marketing. To further facilitate mortgage investment (as well as their free exchange in secondary markets) the government needs to establish a system of mortgage guarantee or insurance. The purpose of the secondary mortgage market is to supplement the government-allocated soft housing loan of shorter amortization periods. In developing the secondary mortgage market, all the profitable aspects of housing investment could be exploited and by re-channeling the funds to other profitable sectors, the negative effects of inflation can be reduced.

Plans for the development of a housing finance system or the rationalization of the existing institutional structure depends on national priorities for overall development of the financial sector including macroeconomic policies. It also depends upon priorities in the allocation and pricing of financial resources and national preference for alternative forms of institutional development. Since the actions of one policy can be unintentionally deter another policy guidelines, it is important that proposal for reforms and development of the housing systems be congruent with the overall financial development strategies of the country. The place of the housing sector in the national economy should be such that it can help achieve national development objectives fully.

All these above aspects can have short, medium, and long-term perspectives. The following strategies could be adopted in this connection.

Recommendations

Government interventions should be directed towards producing housing units and developing land at a minimum standard, within affordable limits of low and lower middle income people, and at market prices. For example, in Dhaka, RAJUK has developed lands at a much higher standard (by developing bigger plots), and sold them at a reduced price than the market. As a result, rent seeking tendencies increased, fewer number of housing plots were produced, market became distorted, and simultaneously, the previous owners of acquired lands, lost their property. Development authorities should concentrate on developing a large number of smaller plots, or flats, and sell them at market prices, rather at prices below the market.

- In the Western World, many people live in efficiency apartment houses (flats of very small size, e.g. 250 sft, 300 sft, 400 sft, and 500 sft) A government employee in Bangladesh live in a large flat throughout his life, and at retirement, he becomes homeless. If flats of smaller sizes are produced by the government, the public servants can own such a flat by paying a small down payment, and then paying monthly installments (the money which they now pay as house rent); which would raise home-ownership of the government servants.
- In urban fringe areas particularly near industrial locations, low and lower-middle income people can be rehabilitated through government interventions. Land sharing and land readjustment techniques can be adopted for ensuring supply of land in the fringe areas of towns and cities. Nucleus housing could be provided, keeping provision for individual toilet, kitchen and water connection. The households should be provided with facilities for playground, schools, and community center. Private developers should be encouraged to participate in these projects by incentives or tax rebates. Commuting range for these people can be increased through expressway, rapid transits, ring and radial roads.
- There could be a land development tax, and tax on vacant land in urban areas as exists in the United States and many European Countries. This will hold down land cost without eliminating the onerous profit and force more land into use, and give the Government more revenues. There should be some kind of tax holidays for low rent housing. Zoning laws could be enacted to stop haphazard growth of the city. Public authorities should be allowed to acquire land quickly without waiting for the award to be determined. Advance acquisition of land on special terms for the purpose of building a land bank to meet long term needs of urban poor and lower-middle income group can be persuade.
- Interventions of the public sector will be necessary to provide housing to the weaker segments of the community through cross subsidization. Reforms in land administration could be introduced in order increase the supply of land for development, and to reduce acquisition costs, and to recoup the unearned increment in land values. Government can impose statutory restrictions on the size of private residential buildings, and the use of precious, imported building materials. Administrative procedures for land registration and records, transfer and exchange should be modernized. There should be a ceiling on urban land ownership, gradually ownership mode may be changed, and more of cooperative ownership may be encouraged in the future.

- Reconstitution of the Bangladesh House Building Finance Corporation (BHBFC) can be undertaken so that it can extend its borrowing programs to the lower segments of people. Creation of a housing bank for the poor should be given due priority. This bank can lend money to the low-income groups for housing without any collateral, like the Grameen Bank. The low-income families cannot pay on going interest rates on a self-supporting basis. Therefore, the interest rates would have to be considerably lower than 10%. Pay back periods of loans should be longer (25/30 years). Loans to poor families with very low income will require special arrangements. For a low-income family, it is often difficult to make a down payment of a good sum of money. They should therefore be allowed to deposit money in monthly installments in the housing bank. After accumulation of a reasonable sum of money (in 2 or 3 years time, when the down payment amount is achieved), they should be given a loan for buying plots or dwelling units. These families would pay monthly installments of the loan for the next 25-30 years. Defaults in loan payments should be strictly prohibited. If the general feeling is established that such loans are dealt leniently, defaults may become general and the loans would be viewed as gifts. Again, if installment collection breaks down, capital would be unavailable for other housing schemes.
- Government directives could be aimed at making more finance available in the housing sector from financial institutions for the low and lower middle income groups. By enacting and implementing proper legislation, housing societies could be forced to orient some of their activities towards social housing. They could be provided with consultative service and finance, so that using valorization, land readjustment and other techniques they can provide land for mass housing through cross-subsidy.
- External funds could be procured at zero to very low interest rates and spending it on housing for lower income groups through the co-operatives and other housing finance agencies. A portion of the Government staff houses could be sold on hire-purchase basis to government employees and large organizations could be encouraged to adopt a similar policy. A contractual finance system can be introduced for deposit accounts to encourage domestic savings, which, after a certain period, would provide larger loans at below the market rate to housing societies, to absorb domestic savings and act as financial institutions by forwarding easy-term small loans. Compulsory provident fund contributions by employees could be increased in both the public and private sectors with employers being required to complement this in exchange for tax incentives to be utilized only for housing.

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Appendices

Table 1. Outstanding advances classified as building construction loans by the NCBs (million *Taka*)

Construction	On 31-03-1996	% of Total	On 31-12-1997	% of Total
Housing Societies/Companies	(296.5)	2.37	(339.2)	2.78
Housing to Individuals	1,0732.3	85.76	1,0242.5	83.97
Other than Housing	1484.8	11.87	1615.6	13.25
Total	1,2513.6	100	12197.3	100

Source: Scheduled Banks Statistics, Bangladesh Bank, 1997.

Table 2. Outstanding advances classified as building construction loans by scheduled banks (million *Taka*).

Construction	On 31-03-1996	% of Total	On 31-12-1997	% of Total
Housing Societies/Companies	966.8	4.57	945.3	4.42
Housing to Individuals	13182.9	62.28	13073.7	61.17
Other than Housing	7017.6	33.15	7354.7	34.41
Total	21167.3	100	21373.7	100

Source: Scheduled Banks Statistics, Bangladesh Bank, 1997.

Table 3. Outstanding advances classified as building construction loans of the specialised banks (million *Taka*).

Construction	On 31-03-1996	% of Total	On 31-12-1997	% of Total
Housing Societies/Companies	-	-	0.2	0.04
Housing to Individuals	269.4	78.11	383.0	77.64
Other than Housing	75.5	21.89	110.1	22.32
Total	344.9	100	493.3	100

Source: Scheduled Banks Statistics, Bangladesh Bank, 1997.

Table 4. Outstanding advances for building construction by foreign banks (million *Taka*).

Construction	On 31-03-1996	% of Total	On 31-12-1997	% of Total
Housing Societies/Companies	87.7	22.26	9.11	23.63
Housing Individuals	136.8	34.73	124.8	32.36
Other than Housing	169.4	43.01	169.7	44.01
Total	393.9	100	385.6	100

Source: Scheduled Banks Statistics, Bangladesh Bank, 1997.

Table 5. Outstanding advances classified for building construction by the private banks (million *Taka*).

Construction	On 31-03-1996	% of Total	On 31-12-1997	% of Total
Housing Societies/Companies	583.6	7.37	514.8	6.20
Housing to Individuals	2044.4	25.83	2323.4	28.00
Other than Housing	5287.9	66.80	5459.3	65.79
Total	7915.9	100	8297.5	100

Source: Scheduled Banks Statistics, Bangladesh Bank, 1997.

Table 6. Present mode of financing for housing and target group.

Sl No	Financing Agency	Clientele	Income Group	Source of Funds	Interest Rate (%)
1.	National Commercialized Banks	Public Servants, Bank Staff Private Individuals, Real Estate Companies.	HIG & MIG	Deposits	11-18
2.	Specialized Banks	Public Servants, Bank staff, peoples cooperatives.	MIG, LIG	“	10-16
3.	Private Banks, Foreign Banks	Individuals, Real Estate Companies	HIG, MIG	“	12-17
4.	HBFC	Individuals, Group of People.	(a) HIG, MIG	(a) Bangladesh Bank Loan Collection.	10-15
5.	Ministry of works and Housing (a) PWD & HSD (b) (c) Metropolitan Development Agencies.	Public Servants Housing by PWD Housing for Public & private, sites and services, Hire purchase, flats, resettlement of slums and squather. Land development and plots in Dhaka, Chittagong, Rajshahi.	(b) MIG LIG (c) HIG MIG	(b) MOF, Donors (c) ADP & interest of Funds from Deposits by prospective Buyers.	5-13
6.	MIGRD & C	Slum Upgrading, Staff Housing.	LIG	MOF	Free
7.	Ministry of Land	Resettlement of landless people in villages and periurban areas.	LIG	MOF	Free

Source: Shafi, 1998.

Table 7. Source of capital and treasury fund for BHBFC (million Taka)

Bangladesh Bank Paid to BHBFC (Year 1978-1998)	BHBFC Paid to Bangladesh Bank (Year 1978-1998)
11699.50	97

Table 8. Statistics of loan defaulters in BHBFC compared to loans sanctioned.

No. of loan A/C Operation Till May, 1998	No. of Cases of Defaulters
Total no. of Loan = 45,675	More than 12 installments = 15,127
	Between 13-24 installments = 5,215
	Between 25-36 installments = 4,813
	Between 37-48 installments = 1,852
	Between 49-60 installments = 310
	More than 60 installments = 2,937
	Total = 30,254

Source: HBFC August, 1998.

Table 9. Recovery of house building loan, from 1978 to June/1996 (million *Taka*).

Year	Loan sanctioned	Total amount disbursed	Total amount outstanding	Recovery	% of Recovery	Overdue
Upto 78	802.30	700.50	631.70	60.30	95.50	79.90
78-79	1056.20	558.80	1184.40	78.00	65.90	95.60
79-80	681.70	750.80	1940.20	103.90	53.50	114.60
80-81	548.40	660.10	1637.70	136.40	51.70	203.20
81-82	484.60	471.70	3163.20	178.60	56.50	282.40
82-83	789.50	578.70	3840.10	189.50	49.40	399.30
83-84	450.30	1428.90	5470.00	209.00	38.20	536.80
84-85	1200.30	1541.60	7294.80	275.20	37.70	597.70
85-86	1372.50	1255.80	8912.20	381.70	42.80	1203.30
86-87	1794.00	1397.0	70760.90	444.30	41.70	1500.00
87-88	822.90	878.80	11885.2	362.90	30.50	1700.00
88-89	680.60	720.80	13397.40	700.50	32.60	1780.00
89-90	NA	390.80	14070.10	900.80	64.50	2410.70
90-91	NA	60.80	14490.60	870.10	60.10	3110.40
91-92	NA	90.30	14380.00	1010.80	70.80	3110.20
92-93	1650.30	260.80	15120.80	870.40	57.80	1800.70
93-94	2730.80	1810.60	16910.00	1030.60	61.30	2070.80
94-95	2850.90	2130.80	19200.30	950.50	49.70	2040.50
95-96	1979.90	1426.70	19292.00	145.00	----	-----
Total	21523.20	17158.10	184594.90	7978.00	40.16%	

Source: The figures are taken from the annual reports of BHBFC and annual report of Bangladesh Bank.

Table 10. Comparative statement of loan disbursement by nationalized banks.

Year	Total deposit	Sonali Bank			Janata Bank			Agrani Bank			Rupali Bank	
		Loan disbursement	Percentage of disbursement	Total deposit	Loan disbursement	Percentage of disbursement	Total deposit	Loan disbursement	Percentage of disbursement	Total deposit	Loan disbursement	Percentage of disbursement
85-86	2450.07	11.61	0.47	2026.08	33.57	1.65	1966.6	---	---	1163.7	7.65	0.61
86-87	3835.3	38.38	1.01	2277.3	40.54	1.78	1966.8	---	---	1163.7	9.17	0.66
87-88	3983	35.27	0.88	2701.9	36.41	1.42	2381.1	---	---	1365.1	15.14	1.98
88-89	4579.5	33.5	0.73	3172.1	54.05	1.7	2625.6	95.2	2.6	1518.4	17.86	1.06
89-90	5221.4	21.3	0.4	2632.7	93.73	2.58	3187.5	122.1	3.83	1676.9	16.73	0.94
90-91	5735.4	31.2	0.54	3931.4	123.24	3.31	3667.1	155.7	5.27	1775.9	17.64	0.91
91-92	6876.6	55.8	0.81	4489.1	142.76	3.18	4779.9	190.1	4.55	1957.3	22.56	1.08
92-93	7667.8	64.6	0.84	5062	161.79	3.19	4512.4	209.5	4.63	2115.3	29.3	1.35
93-94	6466.5	101.5	1.19	5458.1	165.6	3.4	5212.4	262	5.02	2192.1	41.8	1.72
94-95	10140.9	145	1.42	6294.2	209.4	3.32	5250.1	239.8	4.56	242.5	44	1.81

Source: Annual Report of Bangladesh Bank, Resume of Financial Activities, Annual Report of NCBs.

Table 11. Comparative position of different financial institutions expending credit facilities for construction of housing during the period from 1972-73 to 1995-96 (million *Taka*).

Year	BHBFC	NCB	PCBs	FBs schedules in Bangladesh	Total housing credit
Upto 1977	12484.40	3289.50	1940.00	382.00	
1987-88	728.00	2004.00	792.00	60.00	
1989-90	398.00	3041.70	1491.90	250.00	
1990-91	68.00	4256.20	1630.30	68.50	
1991-92	93.00	4286.20	1846.10	113.80	
1992-93	268.00	5532.20	2516.80	69.10	
1993-94	1816.00	6317.00	2882.00	109.00	
1994-95	2138.00	9898.00	2573.00	194.00	
1995-96	1426.70	-			
Total	17420.10	38624.80	15672.10	1246.4	68408.2
Percentage	25.08%	50.24%	22.85%	1.83%	

Source: Huda and Kamal (1998).