

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB604

Project Name	Pakistan Housing Finance Project
Region	SOUTH ASIA
Sector	Housing finance and real estate markets (100%)
Project ID	P084949
Borrower(s)	GOVERNMENT OF PAKISTAN
Implementing Agency	
	Government of Pakistan Pakistan
	State Bank of Pakistan Pakistan
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input checked="" type="checkbox"/> TBD (to be determined)
Date PID Prepared	January 11, 2004
Estimated Date of Appraisal Authorization	March 31, 2004
Estimated Date of Board Approval	September 30, 2004

1. Key development issues and rationale for Bank involvement

Pakistan faces a critical housing shortage. Nationally, the average occupancy rate per dwelling is over six and estimates of unmet annual demand for housing units hover around 1.5 million. The housing shortage is especially burdensome in cities and towns where half the population live in slums or irregular settlements. In urban areas, over 600,000 new dwellings are needed to satisfy current demand, yet only about 300,000 are being built according to current estimates.

Affordable housing finance is scarce compared to housing demand. The supply of housing finance decreased from 1.5% of GDP in 1994 to approximately 0.5% in 2001. Yet the ratio of the price of a basic Pucca to the median individual income per year stands between 3.5 and 4 (based on 1996-1997 figures). This is a lower level than that in many emerging markets,¹ indicating that external finance with “usual” conditions of cost and maturity could be afforded by middle-income borrowers.

Recent studies indicated that the lack of finance is primarily a supply problem. Most housing finance comes from personal resources. The next source, the informal lending sector (10%), is poorly regulated, particularly in consumer protection (developers’ advances for instance). The

¹ The ratio of the typical market price of a housing unit to the median annual household income was 7 in Egypt and Morocco in 1992, 8 in India (New-Delhi) or Malaysia (Kuala-Lumpur) in 1998, and 7.5 in Algeria (Algiers) in 2002.

formal financial sector provides limited housing support essentially through three major sources: the government's House Building Finance Corporation, specialized Housing Finance Companies, and marginally, some commercial banks.

Several factors have limited the supply of housing finance. Until recently, the macroeconomic environment, particularly financial instability in the 1990s and high central bank interest rates, impeded the flow of affordable long term housing financing. Today, the housing sector is still plagued by a restrictive banking environment, inadequate long term funding resources, and a complex web of ineffective property titling and land registration systems which do not reliably guarantee or enforce property rights, or list charges and transfers on individual properties. Moreover, mortgage lending is still perceived as risky.

The GoP recognizes the housing sector is important and its potential to contribute to Pakistan's long term economic development. It has taken steps to address these weaknesses and encourage the development of a more stable and vibrant housing sector². Positive macro-economic reforms have also resulted in a more enabling environment for the sector. Yet, despite these developments, much remains to be done before a sustainable vibrant housing finance market emerges.

The GoP has requested World Bank assistance in undertaking a comprehensive assessment of the sector; designing appropriate reforms capitalizing on the Bank's relevant knowledge and experience³; and supporting implementation of these reforms using a blend of technical and capacity building assistance (also drawing on the IFC's private sector expertise). Importantly, the GoP is keen to use the Bank's financial support as a lever to promote the reform of provincial governments' land management systems.

The reforms are expected to correspond with Pakistan's economic development strategy outlined in the Country Assistance Strategy. A market-based system of housing finance provides key real economic benefits and positively impact savings, investment, output and employment. By increasing the number of middle income families with access to affordable housing finance, the project will help mobilize dormant or locked savings and generate new savings. In turn each dollar invested in the housing sector will catalyze economic activity in other sectors – providing a much needed economic boost to the economy, which has not yet responded to recent positive macroeconomic developments. Second, by increasing the number of middle income families able to access market resources for housing finance, the government can direct freed-up resources to social housing programs targeting the poorest urban dwellers. For example, if mortgages with maturities of 15 to 20 years and rates of 8% to 10% were available to households earning Rs.6000 a month -- the lower threshold of the middle-income category (1999-2000 figures) - such households could afford without subsidies, housing valued at Rs.250,000.

² Notably, it has (i) established a new (non-judicial) procedure for recovering secured claims, (ii) relaxed housing finance restrictions, (iii) introduced credit information services, and appointed an Advisory Group on Housing Finance.

³ Jordan: Housing Finance and Urban sector Reform (2002); Ghana: Urban II (2000); Morocco: Second Housing Finance Project (1996); India: Housing Development Finance Corporation Project (1992); Poland: Housing Project (2001); Korea: Housing Finance Project (1993)

2. Proposed objective(s)

Overall, the project intends to implement a comprehensive program to help revitalize the primary housing finance market through increased private sector participation. On completion, more middle income families should be able to purchase land or housing conveniently, efficiently and transparently using affordable financial products provided by private financial institutions. In turn, this should further invigorate the economy through increased investment in the housing sector and related industries.

3. Preliminary description

The final details of each project component will be determined in consultation with the State Bank of Pakistan, Ministry of Finance, Ministry of Housing and other government institutions during the course of the project identification mission planned for the first quarter of 2004. In addressing the current housing finance constraints, the project will consider the following:

i. Legislation and regulations: Legal and regulatory uncertainties undermine existing land administration systems. Although mandatory, property registration is often neglected because procedures are costly and lengthy. Consequently, record-keeping is incomplete and unreliable, and multiple sales of the same property with related ownership disputes are commonplace.

ii. Institutions and administrative procedures: The number of institutions and registration procedures required to execute property transactions remains high. Multiple institutions and procedural differences between, and within states, create market distortions and inefficiencies in the property development market. The distortions result in improper registrations and a culture favoring informal property transactions - an obstacle to effective liens and asset securitization.

iii. Land information systems: Better ways to collect and disseminate data are required to improve efficiency and minimize fraud and financial abuse. Computerized information and registration systems, property and ownership databases, effective title regularization processes and cadastral surveying, and an effective land information system can increase transparency and creditor rights enforcement.

v. Housing development industry: The property development industry suffers from low public confidence. A history of scams, financial weaknesses, and the absence of clear, uniform and fair business practices have tarnished its credibility. Financial institutions are reluctant to provide construction finance, and individuals are reluctant to apply for mortgages.

vi. Financial sector: The supply of housing finance in Pakistan remains severely limited. The impact of past directed housing credit through nationalized commercial banks has been minimal because their portfolio quota was used mostly by their own staff. Recently, commercial banks have been experimenting with new housing finance products for the last two years as part of a broader strategy of consumer finance based on cross-lending products targeted to higher income groups, especially car loans and credits cards. However, the maturity on these products is still inadequate due to long term funding constraints, weak mortgage collateral and limited assessable creditworthy demand.

4. Safeguard policies that might apply

The Project Team has examined the type, likely locations and scale of the proposed project as well as the nature and magnitude of its potential impacts. It has determined that no Safeguard policies will be applicable.

5. Tentative financing

Source:	(\$m.)
BORROWER	0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	125
Total	125

6. Contact point

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