Currently, more than a billion people around the globe live in inadequate housing. One in every four people on the planet lives in the South Asia region, and more than 14 percent of South Asians have no homes or live in such inadequate housing as urban slums and squatter settlements. South Asia’s housing and housing finance markets are dynamic, but limited in their outreach, catering to upper-income groups. The impressively high growth rates of these markets give hope that housing and housing finance services have the potential to be expanded to middle- and even lower-income families. In some countries, such as India, this shift is already afoot. The challenge is that South Asia is home to about half of the world’s poor people, and these people require more complex housing solutions because existing market terms are not directly affordable for them.

The contribution of the housing and real estate sector to overall economic growth, social uplift, and employment is considerable in the context of the rapidly expanding economies. Personal residences account for 75–90 percent of household wealth in emerging-market countries, which amounts to three to six times their annual income. Housing represents 15–40 percent of the monthly expenditure of households worldwide. Similarly, economic development investment in housing accounts for 15–35 percent of aggregate investment, whereas housing construction and housing-related sectors constitute approximately 9 percent of the labor force worldwide. In South Asia, 40–50 industries are considered to be directly linked with housing construction. A unit increase in expenditure in this sector has a multiplier effect and the capacity to generate income as great as five times the cost of the unit. If the economy grows at the rate of 10 percent, the housing sector has the capacity to grow at 14 percent and generate 3.2 million new jobs over a decade (World Bank 2008a). In India, for example, for every rupee invested in housing, Re 0.78 gets added to the national GDP. The National Housing Bank of India
estimates that the construction sector provides direct employment to 16 percent of India’s workforce; and the housing sector alone is the second-largest employment generator after agriculture, accounting for 58 percent of the workforce in the construction sector. Although the Pakistani construction sector has only a 2.3 percent share in GDP, its share of the employed labor force is disproportionately large (7 percent). Construction in Pakistan has been growing at an average annual rate of 10.2 percent over the last five years (data from Pakistan’s House Building Finance Corporation).

Housing finance plays a critical role in the development process by supporting strong housing markets, while strengthening the financial sector and contributing to overall economic growth. With strong housing and housing finance markets come many economic and social benefits, such as greater consumer savings, more social and labor mobility, and increased investment. In addition, strong housing markets support job creation in construction and manufacturing, and they improve living conditions and basic infrastructure. The availability of housing finance also has social implications. Where the rapid flow of population to cities puts pressure on the housing supply, and where either new construction is unable to keep up with escalating demand or the lack of financing makes housing unaffordable, slums proliferate. Conversely, when mortgage financing is available, the market for housing grows, and a larger share of the population can become homeowners.

Housing and housing finance build assets and livelihoods, and thus contribute toward poverty reduction. However, a housing finance system could provide benefits to the economy beyond development of a housing market and contributions to employment and growth. For example, instituting a sound property registration system would enable entrepreneurs to use their property as collateral for business loans. With transparent lending for housing, where risks can be measured and mitigated, financial institutions would be able to put capital that they might otherwise have held against residential mortgages to other productive uses, such as business lending. In addition, housing finance represents an important asset class in the financial sector—an asset class that could help develop a long-term finance market for other industries, including infrastructure development. And private sector lending for housing would free scarce government resources for other social and economic needs. Mortgage finance contributes to financial sector growth and accounts for a sizable part of a liberalized financial sector. In the context of the global financial crisis, it became clear that housing finance is critical to economic stability; and the sector requires careful focus and prudent development.

South Asian countries have low levels of mortgage debt outstanding (ranging from 0.1 percent to 7.0 percent), relative to all other regions globally (figure 1.1) (World Bank 2008a). The low penetration implies room for growth. A number of countries in the South Asia region are developing reform agendas that would strengthen their housing finance systems. As a result, additional data, more information on good practice in housing finance reforms, and country-specific examples are in high demand.
The world population is expected to reach 7.9–10.9 billion by 2050. Within the next two decades, 60 percent of the world’s people will reside in urban areas. Urban growth rates are highest in the developing world, which absorbs an average of 5 million new urban residents every month and is responsible for 95 percent of the world’s urban population growth (World Bank 2008a). Rapid economic growth in the South Asia region, coupled with significant population increases and growing urbanization trends (figures 1.2 and 1.3), make for a considerable potential for

**Growth Potential of Housing Finance Markets**

**Figure 1.1 Ratio of Housing Debt to GDP, Selected Areas and Countries**

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Ratio of Housing Debt to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia</td>
<td>3.4</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>0.1</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>3.0</td>
</tr>
<tr>
<td>India</td>
<td>7.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.0</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>6.0</td>
</tr>
<tr>
<td>China</td>
<td>15.0</td>
</tr>
<tr>
<td>European Union</td>
<td>42.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>26.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>17.0</td>
</tr>
</tbody>
</table>


**Figure 1.2 GDP Growth Rate, 2007 and 2008**

housing and housing finance growth. The factors contributing to urban migration are greater economic growth, rising income levels, new employment opportunities in the cities, occupational shift from agriculture to manufacturing and services, and changing attitudes toward consumption and lifestyle. Household size is shrinking, and a significant middle class will be forming in the coming decades, mostly composed of young people who are eager to have their own, albeit modest, homes. This increased demand will add to already existing urban housing shortages. The attitudes to debt are changing, and a decreasing aversion to borrowing is observed, particularly for home ownership. High economic growth and remittances have created a plentiful middle class, willing and able to pay for a home; but these factors also have pushed up urban property prices. These developments are propitious to a scaled-up outreach of housing and housing finance markets.

It is difficult to make precise estimates of the growth potential of the housing and housing finance sectors in South Asia; however, it is possible to make some tentative projections. Afghanistan's potential financing needs amount to $276 million a year for home improvement and new construction in Kabul’s informal housing sector alone, involving total fixed private capital investment of $2.5 billion (excluding land value). Microfinance clients in Afghanistan have demonstrated a large demand for housing loans, often under the guise of business microloans. It is estimated that 20–25 percent of business loans there may have been used for home construction and improvement (data from Da Afghanistan Bank). In Bangladesh, fully 3.5 million people in rural areas are without shelter. In urban areas, about 21 million people belong to the lower-income groups, residing in 1.9–3.0 million (mostly temporary) dwellings that require incremental construction and repair (data from Bangladesh House Building Finance Corporation). Thus, the potential housing finance demand is considerable. In India, the National Housing Bank estimates investment for meeting housing needs to 2012 at $108 billion. In urban Pakistan, for 2009 alone, projected effective demand amounts to 470,000 housing units, at a total construction
cost of $5.6 billion, or a requirement of $2.0 billion (1.26 percent of Pakistan’s GDP) in financing. Mortgage financing requirements in Sri Lanka are projected at up to $8.8 billion by 2020 (data from the Central Bank of Sri Lanka).

**Summary of Key Challenges**

In South Asia, housing finance reaches the upper-income population groups; and the main challenge is to expand access to the middle- and lower-income groups, developing housing and housing finance markets that are both sound and accessible. The markets need balanced funding models and a diversified toolbox of instruments for different lenders. Complicating factors include the rapid increase of land prices in most countries over the past decade; poor legal infrastructure; deficient financial systems; a dearth of long-term funding at fixed rates; limited developer finance; and problematic access to housing finance for low-income, rural, and informal population groups (box 1.1). Sound and prudential regulations for housing finance, innovative housing finance products, and increased mortgage affordability will contribute to an expanded market for housing and to vibrant and fast-growing housing finance systems and products. Islamic finance is an area that could match demand in underserved market segments, and it needs to be developed. A sharper focus on secondary market finance is appropriate; mortgage refinancing companies are key to the provision of long-term funding, standardization, and stabilization of mortgage markets.

One of the most difficult obstacles that the housing and housing finance sectors are facing at the moment is the inefficiency of the overall regulatory regime, including foreclosure and land administration frameworks. Land and titling procedures, registration procedures and costs, and a poor regulatory framework for housing and real estate stifle housing markets, as does the lack of an organized database and key information on the housing and housing finance sectors. Other challenges include insufficient developed land and inappropriate land planning and urban development.

**Box 1.1**  **Twin Challenges: High Property Prices and Expensive Mortgages**

In Bangladesh, improving the loan terms from 10- or 15-year maturity and 14–15 percent interest rates to 20-year maturity at 8 percent interest would double the population that can afford mortgage finance from 0.28 million to 0.56 million households. Lowering the average property price from a typical Tk 2.0 million ($29,000) to Tk 0.7 million ($10,000) quadruples the market to 2.24 million households, or 40 percent of the urban population.

*Source: Author’s calculations.*
policies driving up real estate prices, sluggish building supply, poor government success in addressing low-income housing needs, and lack of commercially viable housing microfinance lending. Public-private partnerships and creative cooperative solutions for low-cost housing are especially promising.

Objectives of the Report

The report reviews key issues affecting the state of development of the housing and housing finance systems in the South Asia region, including Afghanistan, Bangladesh, India, Pakistan, and Sri Lanka. Four key dimensions of housing finance that affect the market include housing availability, financial instruments and institutions, low-income housing, and mortgage market infrastructure. Policy and reform options to improve the framework for housing finance are discussed in the context of the South Asia region. The report specifically focuses on taking stock of the current state of housing finance in South Asian countries, identifying critical areas for long- and short-term reform and sharing lessons from reformers both within and outside the region.

When discussing housing finance in South Asia, one is faced with a segmented market. The market caters to upper-income groups, where supply is ample from both developers and financial outfits. Prices in this market are not affordable to the middle- and lower-income groups. The housing finance market has exhibited fast growth, very healthy development, and considerable success and sophistication, driven by steady property price escalation in the past decades. The upper-income market has remained unaffordable even to middle-class families, however. This report necessarily focuses on the market shortcomings as they concern these middle- and lower-income housing and housing finance markets; and frequently it does not discuss in thorough detail the upper-income, smoothly functioning housing and housing finance markets in the region.

Scope of the Report

This report is based on five country-specific studies conducted by the World Bank Group, which were rewritten and updated as needed, and supplemented by further research on location.1 Looking forward, this regional effort hopes to extend its scope to all countries in South Asia, based on further housing and housing finance work carried out in the region, notably extending the work to Bhutan, Maldives, and Nepal.

Note

References


