

**TECHNICAL ASSISTANCE PERFORMANCE AUDIT REPORT**

**ON THE**

**HOUSING SECTOR INSTITUTIONAL STRENGTHENING  
(TA No. 1670-BAN)**

**IN**

**BANGLADESH**

**November 1995**

## CURRENCY EQUIVALENTS

Currency Unit - Bangladesh Taka (Tk)

		At Project Completion	At Postevaluation
Tk1.00	=	\$0.0248	\$0.0250
\$1.00	=	Tk40.25	Tk40.00

## ABBREVIATIONS

BHBFC	-	Bangladesh House Building Finance Corporation
DMC	-	Developing Member Countries
NGO	-	Nongovernment Organization
NHA	-	National Housing Authority
NHLP	-	National Home Lending Program
TA	-	Technical Assistance
TCR	-	Technical Assistance Completion Report
TPAR	-	Technical Assistance Performance Audit Report
UDD	-	Urban Development Directorate

## NOTES

- (i) The fiscal year of the Government ends on 30 JunE
- (ii) In this Report, "\$" refers to US dollars.

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## I. BACKGROUND

### A. Introduction

1. Bangladesh faces a major housing problem. With a very low GNP per capita (\$250); very high population densities (over 750 persons per square kilometer in urban areas); and a high population growth rate in urban areas (4.5 percent per year), the standard of shelter is correspondingly low. Approximately 77 percent of urban dwellings and over 98 percent of rural dwellings are not permanent. Overcrowding and minimal or no infrastructure support services are further problems. Latest data suggest that the situation has not improved significantly over the past decade. According to numerous Bangladesh agencies, the plight of low-income households has worsened in recent years, particularly in relation to the provision of basic housing.

2. The residential housing sector of Bangladesh, as in most Bank developing member countries (DMCs) is characterized by a three-tier market. First are those households with the highest disposable income, able to afford high-quality housing in fully serviced neighborhoods, and able to utilize bank financing or specialized housing finance institutions. This group represents less than 3 percent of the housing market. The second tier is the relatively narrow stratum of middle-income households that are the main users of

specialized housing financial institutions such as the Bangladesh House Building Finance Corporation (BHBFC). This group is the major beneficiary of available public subsidies and is composed predominantly of public servants and wage/salary earners of large private companies and public sector corporations; it represents 12-15 percent of the housing market. The third and largest of the tiers is the low-income households, for which housing is provided largely by the private sector, often under illegal and unsatisfactory site conditions. Access to and servicing of loans, regardless of debt servicing, is not possible. Urban development laws are largely ignored or disregarded for this large and growing market segment.

3. Following a request from the Government in 1989, the Bank fielded a Sector Mission in early 1990 to review the problems and issues facing the housing sector. The Mission identified the need to strengthen the institutional and technical capabilities of the various housing sector agencies. Lending to the sector was considered precarious unless the various agencies had a more unified approach to its development. Subsequently, the Government requested assistance for institutional strengthening of the housing sector. A Factfinding Mission visited Bangladesh in November 1990 and a Follow-up Mission was fielded in March 1991. An advisory and operational technical assistance (TA No. 1670-BAN), in the amount of \$600,000, was approved on 4 February 1992.

## **B. Rationale, Objectives, and Scope**

4. The long-term strategic objective of the TA was to assist the Government in rationalizing the organizational and operational performance of the many and various housing sector institutions, and/or those with public housing interests, including those involved with housing finance (see Appendix 1). This was to be achieved through a detailed study (the Study) of the sector institutions that could result in change. Such change should involve (i) restructuring the existing housing finance institutions, (ii) mobilizing and channelling the resources of the private sector, and (iii) designing and implementing effective low-income housing programs.

5. The Study's scope included (i) an initial sector assessment, including the estimation of shelter requirements and housing demand/supply characteristics, identifying existing housing constraints; (ii) assessment of the various sectoral institutions, identifying ways to improve performance; (iii) financial assessment of the institutions involved with housing finance; (iv) a detailed review of land tenure, land use planning and building laws, standards and service planning (to increase densities), and proposals for urban land management; and (v) sector strategy and program proposals, including new measures to mobilize resources.

## **II. ASSESSMENT OF IMPLEMENTATION**

### **A. Design of the Technical Assistance**

#### **1. Appropriateness of Concept and Approach**

6. As identified in early 1989 by the Bank, public sector housing problems in Bangladesh are compounded by the following issues: (i) there were a multitude of authorities involved in both land and housing, leading to uncoordinated and disjointed approaches; (ii) the purchase of land for housing by individuals and the private sector was expensive, and the title was often uncertain; (iii) access to housing finance from formal lending institutions was restricted; (iv) the rate of loan recovery in the public sector was very low; and (v) maintenance of infrastructure to service the housing stock was also constrained.

7. The TA was designed to assist the Government to rationalize and organize the operation of the various housing sector institutions, particularly those dealing with housing finance, to more effectively service the housing needs of low-income households. To identify the range of issues to be addressed, the TA was concerned with a detailed summary of the problems facing the housing sector. Both households and financial institutions were interviewed to identify the size of the unmet housing demand, the problems facing institutions in providing both land and finance, and the extent to which improvements in agency administration could improve housing stock delivery.

8. To assess the design and impact, formal interviews were held with the Urban Development Directorate (UDD) initially, and subsequently with other relevant agencies. Detailed responses were forthcoming, and most agencies responded openly. Their responses formed a significant part of the TA's assessment.

9. The terms of reference that were developed for the consultants' study were found by the Government to be both relevant and comprehensive. Their development followed close liaison with a number of the agencies. No serious omissions from the terms of reference were found to have occurred, although there could have been greater emphasis on the role of the private sector as a catalyst for change. All major items were subsequently addressed by the consultants as reflected in the Study report.

10. At issue is the emphasis that was placed on the role of the public sector rather than the private sector. While the need for private sector finance was recognized as necessary, the preconditions for greater private sector involvement in the sector were downplayed. The terms of reference covered the role of the private sector very briefly. Discussions with private sector housing developers indicated that affordability of housing by the middle and lower income groups was dependent not only on availability of finance but also on the cost of land for house building and on the costs of servicing which were largely influenced by the Government. These issues could have been considered in more detail.

11. The time period for implementation was set at eight months. This was appropriate, given the scope of work and the composition of the consultant team. The specialist inputs of several of the domestic consultants were delayed because of their other work commitments. In hindsight, these consultants should have reorganized their work schedules, prior to commencement of the study. The TA could have been more effective if the Bank had provided additional specific review meetings and discussions with Steering Committee agencies and with the consultants. The findings of such meetings could have been disseminated prior to the finalization of the Interim Report.

## **2. Recipient Agency Involvement and Support**

12. The Executing Agency was the UDD under the Ministry of Works. The Director of UDD was designated as the Project Manager. UDD was fully committed to the study at all times and provided a secretariat role for the other agencies involved to review the findings of the consultants. A Steering Committee consisting of senior personnel from 12 agencies and a private housing developer was established at the commencement of the Study. It functioned effectively in terms of providing both direction and support to the consultants. In addition, 12 additional personnel from a range of selected agencies, banks, and firms were invited as observers to attend Steering Committee meetings. The Bank was also represented by a Bangladesh Resident Mission official.

13. A useful role that the Steering Committee played was in providing the consultants with access to specific subproject details, statistics relating to industry developments, and English translations of legislation affecting specific issues. The advice received by the consultants from the concerned agencies was found to be helpful and forthright.

## **B. Engagement of Consultants**

### **1. Engagement**

14. The Consultant selected by the Bank in August 1992 was a joint venture between two British firms and a domestic firm. Following formal negotiations between the Bank and the consultants, which were also attended by a representative of the Government, a contract was signed on 12 November 1992. The Bank issued a notice to proceed on 20 November, and the consultants commenced work in Bangladesh on 13 January 1993.

### **2. Inputs Provided**

15. The consultant team included five international consultants, who provided a total of 19.2 person-months, and seven domestic consultants who provided a total of 35.0 person-months. The team leader, a housing policy expert, provided eight person-months. Other important areas of expertise provided included housing finance, urban planning, land tenure, and sociology and community development.

16. Two personal computers and one printer were also provided for TA implementation. In hindsight, this equipment was insufficient, given the volume of work and number of reports to be processed.

### **3. Terms of Reference**

17. The problems of developing and financing low-income housing were recognized in the formulation of the TA terms of reference. These were (i) to improve substantially the conditions affecting the development of public and private sector housing for low-income households, (ii) to provide affordable standards of construction and services, (iii) to ensure the financial viability of banks and financial agencies involved in housing finance, (iv) to improve the levels of cost recovery in order to reduce the need for financial intermediaries to depend on interest subsidies, (v) to maximize the contribution of urban real estate investments to the local and national economy, and (vi) to improve the domestic mobilization of resources for the housing sector.

18. Both the Executing Agency and the consultants believe that the terms of reference were appropriate to the Government's requirements and to the housing issues as identified. There was sufficient room for flexibility during the Study's implementation, particularly in relation to the development of a sector strategy. No major technical areas of interest were overlooked by the terms of reference. This has been recognized by a number of the Steering Committee members as being important. As a result, the Study report stands as a relevant and comprehensive technical reference document.

## **C. Organization and Management**

19. The overall management of the TA was well executed. The Executing Agency was reported by the consultants to have been well run, and the Director and staff were helpful and cordial at all times. As a result, the Project office was also well organized, and good logistical support was available throughout implementation. Translation services for documents were adequate and timely. The organization and execution of the field surveys relating to the adequacy of the financial institutions and of housing needs were

efficient. This was despite language translation and technical difficulties associated with sampling of the household population.

#### **D. Implementation Schedule and Financing Arrangements**

20. The TA was implemented over a period of nine months, slightly longer than envisaged at appraisal. A delay of two months was encountered in recruiting the consultants because of the longer than expected time taken by the Government to finalize and sign the TA Agreement. The actual cost of the TA is estimated at \$548,150, which includes Bank funding of \$512,150 and a Government contribution as valued in kind (covering office supplies, and remuneration and local transport of counterpart staff) of about \$36,000 equivalent.

#### **E. Supervision**

21. During implementation, the Bank fielded only one Review Mission. This was prior to the presentation of the Interim Report by the consultants. No inception or midterm review was carried out. In hindsight, closer coordination on the part of the Bank would have benefited the TA. In particular, implementation would have benefited if the Bank had held technical discussions with the various agencies and the consultants at the commencement of the Study, and more frequently during later stages. In particular, the institutional constraints facing the financing of low-cost housing could have been identified more clearly, and BHBFC could have been assisted more directly. BHBFC was required to redirect its efforts at the lower end of the housing market largely without the benefit of recommendations from the Bank and the consultants.

22. During 1993, Bank-financed consultants were carrying out a study on land development and management in Dhaka that covered some of the issues also being covered by the consultants. The two teams of consultants mutually agreed to a division of responsibilities so that overlap would be avoided. Coordination would have been facilitated if the same Bank staff had been responsible for supervision of both studies.

23. The Technical Assistance Completion Report (TCR) prepared by the Bank's project division is a brief document (four pages) that provides a summary of the implementation performance of the TA but lacks depth concerning the achievements of the Project's objectives. The outputs of the TA are not addressed in any detail. There is no in-depth examination of how various agencies have benefited. It would appear from the TCR that it is necessary for the Bank to follow up the Government's implementation of recommendations made.

24. A number of agencies involved and the consultants have the perception that, with the limited direct involvement by the Bank in the implementation of the TA, there was an overemphasis by the Bank on report preparation. This preoccupation was seen as being at the expense of trying to come to terms with the details of the issues and of the preparation of a more unified housing development program for the future.

### **III. EVALUATION OF OUTPUTS AND IMPACT**

#### **A. Adequacy and Quality of Reports**

25. The primary output of the TA was a three-volume report, prepared by the consultants following discussions with the Steering Committee, representatives from the private sector, nongovernment organizations (NGOs), and the Bank. Volume I of the report focuses on a comprehensive review of the

housing sector, including details of housing stock; estimated urban and rural demands; the nature and capabilities of the key housing institutions; the role of land supply, servicing, and development options; the nature of the provision of housing finance; constraints on and opportunities to improve house financing; and a housing sector action plan with recommendations relating to the institutions and the future supply of land and housing finance.

26. A detailed data base (Volume II) was prepared relating to the performance of the sector, including details of Government policies, Government housing provisions, responses to field surveys, agency organization charts, land administration arrangements, housing finance details, and a range of financial statements relating to the performance of key financial institutions.

27. Volume III contains a well-structured summary report of the Study. It provides an overview of the roles and functions of the various sector interest groups and contains a useful synthesis of key issues outstanding in terms of recommended Government, private sector, and NGO actions.

28. Interviews with Steering Committee members and Executing Agency personnel revealed that the report was perceived to have been relevant and timely reference material. Most interviewees reported regular reference to the report.

## **B. Institution Building**

29. Institutional strengthening of the various agencies was achieved primarily from (i) direct involvement of agencies with the consultants during the Study, (ii) reviews and discussions of research findings prior to report preparation, and (iii) discussion and final implementation of key findings and recommendations as presented in the consultants' report.

30. A range of specific institutional recommendations were presented by the consultants. These were designed to improve the performance of the various housing agencies and to rationalize the institutional arrangements for housing, both in the immediate and long term. Most of the immediate recommendations have been adopted. These include (i) reviewing and updating the various sanctioned agency staff levels; (ii) preparing annual performance reports; (iii) upgrading existing management information systems (particularly for those with limited available resources for computing); (iv) implementing regular three-year assignments for senior civil servants; and (v) improving the utilization of UDD.

31. It was found that limited progress had been made with implementing some of the major longer term institutional recommendations. A key institutional change was the recommendation for the establishment of a National Housing Authority (NHA). NHA was to coordinate all policy, programming, and implementation functions of the various agencies currently involved with housing. Draft legislation for the establishment of NHA has been developed. Enactment of the legislation is expected by December 1995, following minor revisions by the Law Department. Important longer term institutional changes that have been introduced include (i) redirection of BHBFC to service further the needs of low-income households, (ii) redefinition of the key functions of most housing sector institutions, and (iii) development of a business plan for the Grameen Bank.

32. The introduction of new forms of low-cost housing and the decentralization of housing and planning functions to local government have yet to be achieved. The provision of new approaches for the financing of low-cost housing remains a major area of concern. Apart from the more flexible approach to lending to lower income groups introduced by BHBFC, the various Government agencies have been constrained by a lack of resources in their ability to introduce significant initiatives to help the lower income housing market.

33. Despite the involvement of several key private sector developers in the Study, the future role of the private sector was downgraded by the consultants. The primary emphasis for the provision of low-cost

housing was perceived to belong to the public sector. Several private sector developers indicated that the private sector could become more active in the provision of sites and servicing, in providing basic shelter at the community level, and in tailoring housing types to the affordability of households. This would be possible if they were able to operate more freely in the market, and if they were able to gain access to parcels of Government land that remain underdeveloped in the cities of Dhaka and Chittagong, and, to a lesser extent, in most of the district towns. Many Government agencies, with unutilized land surrounding their buildings, had been approached at various times by the private sector. However, the sale and subsequent transfer of titles for the land was legally difficult, and the bureaucratic process of transfer was frequently perceived by the private sector as being too time consuming. No central register of unused Government land exists in any of the cities that could form the basis for future additional residential housing.

### **C. Performance of Consultants**

34. Given the wide range of technical, institutional, and financial tasks stipulated in the terms of reference, the performance of the consultants was found to be satisfactory. The international consultants were well qualified for the range of tasks required. Their individual and collective experiences of strengthening housing institutions in other DMCs were found to be of direct benefit to a number of agencies, in terms of identification of the most appropriate means of introducing institutional changes to the sector. An important aspect of the international consultants' performance was the close interaction achieved with key Steering Committee members. This led to a useful transfer of ideas and concepts for the restructuring of the sector. It also aided the production of the report and the acceptance of most of the recommendations presented. The domestic consultants provided excellent support and valuable insights into the applicability of the various technical recommendations. The performance of the consultants could have been further enhanced if the Bank had played a more proactive role in discussions with the various agencies during the Project's implementation.

## **IV. CONCLUSIONS**

### **A. Key Issues**

#### **1. Provision of Finance for Low-cost Housing**

35. From a policy perspective, the Government has two distinct housing responsibilities: (i) the regulatory responsibility of encouraging the development of viable housing institutions and of monitoring the credibility of the banking system; and (ii) to address the housing needs of low-income households, primarily through providing finance. For Bangladesh, like many DMCs, the problem is how to reconcile several conflicting objectives, namely (i) affordability for the households, (ii) viability for the financial institutions, and (iii) resource mobilization for the expansion of the sector and the economy. The consultants' Report provided an eight-point financing strategy involving (i) introducing a National Home Lending program (NHLP); (ii) redirecting housing subsidies; (iii) increasing lending recovery rates by BHBFC; (iv) expanding the primary mortgage market; (v) rehabilitating BHBFC; (iv) adopting a legal and regulatory reform program to safeguard lenders; (vii) enhancing lending in rural areas through village microcredit schemes; and (viii) improving the climate for attracting finance to the housing sector.

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

## **2. Availability of Residential Land**

37. A circular causation exists in Bangladesh between the provision of secure, serviced land and increased savings by households. At present, middle class and lower income households are forced by inadequate regulations and a lack of access to housing finance to develop their housing in inefficient piecemeal ways. They can build structures of fairly good quality, but they still have major problems with the provision of clear and secure tenure, water supply and sanitation, and other communal services. The shortage of serviced land for housing in Dhaka and in most of the district towns would be lessened if residential construction by private agencies, as well as public agencies such as the Dhaka Development Authority, could be supported by large-scale, flexible institutional financing that covers all phases of housing development: (i) initial land and services development, (ii) construction, (iii) interim financing, and (iv) household mortgage financing. Throughout Dhaka there are large areas of Government land that remain unutilized and unserviced. There is no central Government land register to assist in the planning of future land development. Unless this resource is more efficiently utilized, efforts to improve the performance of financial intermediaries in delivering finance for housing, and thereby increasing the level of housing stock, will be constrained by the shortage of sites for housing.

38. The TA was concerned largely with the imbalance between the growth in the number of households and the number and types of housing units produced. Discussion of financial constraints focused on affordability and the absence of financial intermediaries to assist households in achieving house ownership. Recommendations for land and development were focused on streamlining of the registration and transfer of titles. No specific attention was given to the increased delivery of sites for residential development by both the public and private sectors.

## **3. Developing More Efficient Housing Markets**

39. If Bangladesh's housing problems are to be more effectively addressed, housing policies must consider the causes rather than the symptoms of policy failures. Stronger, more effective enabling strategies must be developed by the public sector to allow housing markets for the various tiers to leverage the activities of the private sector. Left to themselves, Bangladesh markets for housing may be able to meet a considerable part of housing needs. However, because of a range of market failures, both housing demand and supply remain constrained. Market failures include (i) ineffective private property rights and expensive rights transfers, (ii) ineffective systems of recording ownership, (iii) underinvestment in key service infrastructure, (iv) Government monopolies in the availability of land and building materials, and (v) inability of public agencies to provide local services such as waste disposal and security. For the private housing sector to function more efficiently, the Government must provide a policy framework sensitive to each of the major submarkets and along the entire cycle of housing development, transaction, use, maintenance, and replacement. The building industry remains constrained by monopolistic practices, limited entry of small firms because of regulatory restrictions, restrictions on the import of building materials, and limited access to latest building technology and appropriate techniques for low-cost construction. The Government can enable the housing sector to function more efficiently if the functions of the private sector and the housing markets are allowed to operate more freely. The TA reform process as recommended by the consultants must be encouraged by the Bank to continue.

## **B. Overall Assessment**

40. The TA has provided a comprehensive basis for developing strategies for the residential housing sector of Bangladesh. At issue is the timing and extent of the legislation to be enacted in order to fully implement the range of technical, financial, and institutional recommendations made to strengthen the housing sector. NHA has yet to be established. Its future will in turn determine the extent to which new and alternative forms of housing finance become available. BHBFC has made various efforts to extend its lending mandate to a broader range of borrowers. However, BHBFC cannot be expected to be the sole provider of low income housing finance. A range of public sector financial intermediaries is required with implicit interest subsidy components built into the lending rates for the level of house ownership throughout Bangladesh to increase. This is recognized as necessary by most Government agencies.

41. The primary objective of the TA—namely to assist the Government to rationalize the organization and operation of the various housing sector institutions—has been met. The TA has produced a comprehensive three-volume Consultancy Report that has been widely recognized as timely in its development and well endowed with recommendations for the restructuring of the housing sector. On this basis, the TA is classified as generally successful. What is required is the political will to enact key legislative components, centering on the establishment of NHA. The TA has provided the Government with a comprehensive program for the development of NHA, including how to rationalize the functions of existing overlapping agencies. The enactment of the proposed legislation for NHA is now expected by the end of December 1995. NHA's overall structure and what its primary corporate functions should be have already been developed. Its own business plan has been prepared.

42. The outputs of the TA have been well received by the various agencies involved in the Project. However, the effectiveness of the TA could have been further strengthened and the sustainability of the benefits associated with technology transfers improved if the Bank had taken a more effective participatory role in the Project process.

## **C. Lessons Learned**

43. The lessons that have been learned from preparing this TPAR include the following:

- (i) The likelihood of success of TA projects involving a wide range of interlocking agencies such as for the Bangladesh housing sector may be maximized when agencies fully support the objectives and adopt a position of mutual ownership of the outputs. This can be achieved when the terms of reference are mutually developed and refined, involving the Bank, the agencies, and the consultants.
- (ii) There are a number of differing viewpoints to consider in defining housing financing, and different problems emerge with respect to the individual stakeholders involved. For households, the problem is access to affordable loans; for the primary Government housing agencies, the problem is affordability; for the housing banks, the issue is how to expand the scope of financial services while maintaining a viable institution; for the Bank and the DMCs' monetary authorities, the issue is to prevent financial instability and to maintain confidence in the financial system. Hence, any overview of housing finance in developing countries such as Bangladesh cannot be limited to a discussion of the availability of low-income housing finance. It must also consider the complex problems of developing effective financial intermediaries. To this extent, the TA was constrained in its scope from the outset, and thus the limited results achieved in relation to improved housing finance are not unexpected.

## **D. Follow-up Actions and Recommendations**

44. Follow-up actions include the following:

- (i) The Bank needs to continue a dialogue with the Government in relation to the enactment of legislation to establish NHA and to continue the institutional reforms that were recommended by the TA.
- (ii) There is a clear need for the Government to establish a central computerized register of unused Government lands, held in trust by all Government agencies. This is seen as an important potential residential housing resource that has yet to be fully utilized.
- (iii) UDD of the Ministry of Works needs to continue to coordinate multilateral and bilateral housing programs to maximize sector efficiency. In particular, it needs to broaden its focus to include all major district towns within Bangladesh.