



LOW INCOME HOUSING THROUGH MARKETS

Prospects, Policy and Strategy

Shahid Mehmood

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**Low Income Housing through markets:
Prospects, Policy and Strategy**

PRIME is an economic policy think tank working for an open, free and prosperous Pakistan by creating and expanding a constituency for protective function of the state and freedom of the market.

The study titled “Low Income Housing through markets: Prospects, Policy and Strategy” by Shahid Mehmood looks at an important, but often neglected, aspect of socioeconomic activity. The need to have a shelter of one’s own is a fundamental right, and this study analyzes the important issues surrounding it.

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Table of Content

Acknowledgment	V
Foreword	VI
Preface	VIII
Summary	X
The Housing Puzzle	1
Formidable Obstacles	3
Incomplete Markets	4
Lack of Institutional Imperative	4
High Opportunity Cost	4
Incentives for Private Sector	5
Cost of Ignoring Housing	5
Slums and Informal Settlements	6
The Way Forward	6
Proposed Solutions	7
Affordability, Profitability, & Economies of Scale	7
Methods of Financing	8
Development of Primary & Secondary Market	11
Sustainable Housing	12
Subsidizing Credit	12
Subsidizing Land	12
Lowering Transaction Costs	13
Unclear modalities	13
Vertical Expansion	14
Curbing Speculation	14
Making Residential Schemes Work	14

Evidence from Global Experience	15
Kinship as Substitute	15
The ‘Spillover Effects’	15
Mitigating Risk	16
Building GDP	16
Housing as Preferred Investment	17
Availability of Options	17
Ameliorating Poverty	18
Tangible Outcomes	18
Organized Housing; Organized Communities	18
USA’s Successful Experience	19
The ‘Revolving Fund’ Method	19
Community Participation for Cost Recovery	19
Pakistan’s Experience	20
Proposed Roadmap	21
Legislating the Role of Government	21
Houses; Not Plots	22
Government as a Regulator & Facilitator	22
Setting a Time-frame	22
Coordinated Decision Making	22
Long Term Policy	23
Redefining Urbanity	23
Optimizing Positive Spillovers	24
Enhancing Wealth Accumulation Prospects	24
Importance of Location	24
Revising Zoning Laws	25
Bibliography	26



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Foreword

It was a pleasure to read Mr. Shahid Mahmood's book "Low Income Housing through markets: Prospects, Policy and Strategy". This is a systematic study of not only the current housing landscape for the low-income communities in Pakistan but he also provides the sound recommendations to address this extremely relevant and crucial issue.

We are all fairly aware of the three basic social needs in life; food, clothing and shelter. Unfortunately, food and clothing are often those needs which the poor and economically weaker segments of society will either find some means of procuring or in some extreme cases, foregoing. However when it comes to shelter; the impoverished not only seek assistance from but also rely heavily on the state. Thus, shelter can then become that one basic social need, where the state and any stakeholders from the area of housing-needs can step up and play a role in making housing costs "affordable" and housing finance "available" to most underprivileged members of society. Mr. Mahmood has succeeded in addressing this matter brilliantly while offering recommendations and possible solutions for stakeholders to play an effective role in resolving this crucial issue.

When trying to understand specific concerns around current housing needs in Pakistan, especially as they pertain to those from a lower socio-economic status; the lack of reliable and sound data remains to be one of the biggest challenges. Year after year, comparable guestimates and anecdotal evidence are used as attempts to paint a fairly accurate picture of housing supply and explain a backlog of roughly 9-10 million housing units. Still, two things remain evident as an undeniable reality; this very backlog remains entirely in the low-income strata of the population, and they are often denied any "affordability" for housing as time passes. In his book, Mr. Mahmood has also done an excellent job of bringing to light certain issues which may explain this huge disparity of housing backlog and why a gap where supply remains short of yearly demand continues to widen every year.

In Pakistan's past, two political governments had announced low-income housing programs. The PPP regime promised one million low-cost housing units while the PML (N) Govt announced half million low-cost

housing units. While the PPP Government did not move beyond making the announcement, the PML (N) Government has so far taken some practical and tangible steps toward achieving this goal. The five Working Groups, set up under overall leadership of Finance Minister, had prepared reports detailing situation analysis, policy guidelines and the road map to move forward. The book also discusses the role of the company “Apna Ghar”, set up in the Public sector to deliver Low-Income Housing. Although it is functional, however, any delivery on ground is yet to be seen. The irony lies in the bitter truth that Pakistan is quite possibly the only country in this world, where housing finance is gradually on the decline. This is evident from the fact that the Outstanding Mortgage Debt to GDP ratio in Pakistan has declined from 1.0 % a few years ago to around 0.5% presently. This book offers an ample review of current efforts around housing finance and financial inclusion in other countries, and what needs to be accomplished in Pakistan by the relevant stakeholders like State Bank, Ministry of Finance, Federal Board of Revenue and the banking sector to achieve the same level.

Mr. Mahmood’s book also offers an insightful discussion around “political sloganism” and how there is very little focus on efforts to move beyond just hyperbolic promises to accountable delivery. Without any formal structure and a centralized road-map, there is a drought of effective implementation strategies and effective monitoring by the State to ensure delivery of this basic social need to those members of society who need it the most.

I sincerely hope that this book will ignite further dialogue among stakeholders involved in the field of housing and housing finance to address the issue of delivering successful, viable and sustainable business models for low-income housing supply and finance.

Zaigham M. Rizvi

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April 19, 2015

Preface

Writing in 1971, Dr. Anwar Iqbal Qureshi - one of Pakistan's prolific economists, had this to say about urban housing situation in the country: "The housing backlog in urban areas has increased progressively; from a shortage of 600,000 dwelling units in 1960 to a shortage of approximately 1-1.5 million units by 1970." It meant that each year, there was a shortfall of around 50,000 housing units. In 2014, writes our scholar Shahid Mehmood in this paper, the gap between demand and supply has resulted in a backlog of around 9 million housing units. Of this the urban shortfall is 3 to 3.5 million units, almost all of which is in the segment of low-income households. The annual backlog is an estimated 300,000 houses.

The supply and demand situation in housing market is highly skewed, indicating there is huge "cash on the table". According to estimates by a private low income housing expert, Jawad Aslam, 68% of Pakistan's population has only 1% of total housing stocks whereas 56% of housing stock is meant for 12% of upper income segments. There appears to a huge untapped market and unmet demand for housing units in the urban areas particularly for the low and lower-middle income segment.

From 1970s to 2013, every government has invested in supply of low cost housing units for the low income segment. The government established a specialist housing finance company, House Building Finance Corporation (HBFC) to facilitate housing mortgage. The State Bank of Pakistan (SBP) keeps reminding the commercial banks to extend housing mortgage. All these steps have failed to alter the fundamentally skewed nature of housing supply and demand. The private sector seems convinced of building more houses for those whose marginal utility is already on a decline, and has not done anything for those who are ready to sacrifice their current consumption to own a house. The mortgage to GDP ratio remains less than 1%.

As far as provisions for low income segments are concerned, the Housing Policy 2001 looks good on paper. However, it is not for the first time that such policy measures have been announced. An analysis by Muhammad Ali Tirmizi suggests that all these policies have failed to serve their purpose precisely because the "procedures adopted for their implementation are incompatible with the sociology and economics of lower income groups."

The current government has also announced its plans to provide and finance 500,000 houses for the low income segment. In 2014-15 budget, the government provided Rs. 6 billion to be spent on low income houses through a

newly formed company, Apna Ghar Limited. As yet there is no evidence of any tangible progress by this company. There are corresponding schemes run by provincial governments (since housing is a provincial subject after the 18th Constitutional Amendment), where Punjab's Ashyana scheme seems doing well.

In addition, the federal government also earmarked Rs. 20 billion/- in budget FY15 as guarantee for housing loans to be issued for low income segments. The guarantee scheme is quite ambitious when we consider a very low off take of such loans due to hesitation of banks on account of defaults. Indeed, the outstanding housing credit constitutes hardly 1% of total outstanding loans of commercial banks in the country. However, it is hoped that the current budgetary initiative of a low cost guarantee scheme will, at least partially, compensate for low off-take of financing facilities as it will provide banks with a hedge against defaults.

The current policy environment is marked by horizontal expansion of cities, rigid zoning laws in urban areas, restrictions on building heights and high mortgage costs. As a result real estate costs have escalated manifolds to the point of becoming comparable to real estate prices in major capitals of the world. On the flipside, however, the infrastructure has become one of the worst in the region. The situation presents major policy challenges for urban development in general, and for low income housing segment in particular, for which wide-ranging reforms are needed. The market will respond positively to these reforms. However, the onus lies on the government. More than just provisioning of houses, a task in which a government is more likely to fail, it will do very well by just getting the policy right and letting the market manage the problem.

Here is a quick fix: ban on developing empty plots either by the government or by the private sector. Heavily penalize ownership of more than one house. Relax building height limits. These three steps will at once eliminate speculation and deflate property prices - thus developing housing market for the two-third of Pakistan's population.

In this paper, Shahid Mehmood has offered both short-term and long-term solutions to expand home ownership to those who have been deprived of it over time. He has ably brought together evidence from around the world to educate the readers about how the world has solved this problem by intelligent policy making. I hope this paper by PRIME will positively contribute in the discussions around low income housing segment in Pakistan.

Ali Salman

Summary

- There exists a wide gap between demand and supply of housing. The gap stands at approximately 9 million units, continuously increasing by an estimated 0.7 million units per year.
- The current situation reflects severe inequality in terms of house ownership. Twelve percent of the population has access to 56 percent of the housing stock, while the remaining 88 percent has access to only 44 percent.
- The severity of this problem is most apparent in urban areas or cities. As more and more people migrate towards cities, the pressure on existing residential facilities increases further. In the absence of any formal housing, informal housing schemes, squatter settlements and slums have become the norm.
- The huge gap between demand and supply is big enough to attract investors to this sector. Yet, except for a few private sector conglomerates that cater to the requirements of the wealthy and upper middle income families, the private sector has shied away from housing. The reasons are diverse, ranging from government's influence to high transaction costs.
- There is now an implicit recognition that government alone cannot solve this pressing problem, and that private sector is a part of the solution. As far as private sector is concerned, the most promising segment is the lower middle income families.
- The two segments that are most deprived in terms of housing are lower middle income and poor household segment. They don't have financial muscle; they lack assets that can be used for taking out loans; they are non-participants in formal property and housing markets; and they are outside the ambit of interest of formal financial institutions. All these make it extremely difficult (if not impossible) for them to pursue construction of their shelter.
- There is a need to change the official criteria of what exactly constitutes an 'urban' centre. Official definitions still rely

largely on geographical demarcations rather than population density. Moreover, there is an urgent need to re-orient the zoning and building laws in favor of vertical expansion rather than horizontal sprawls.

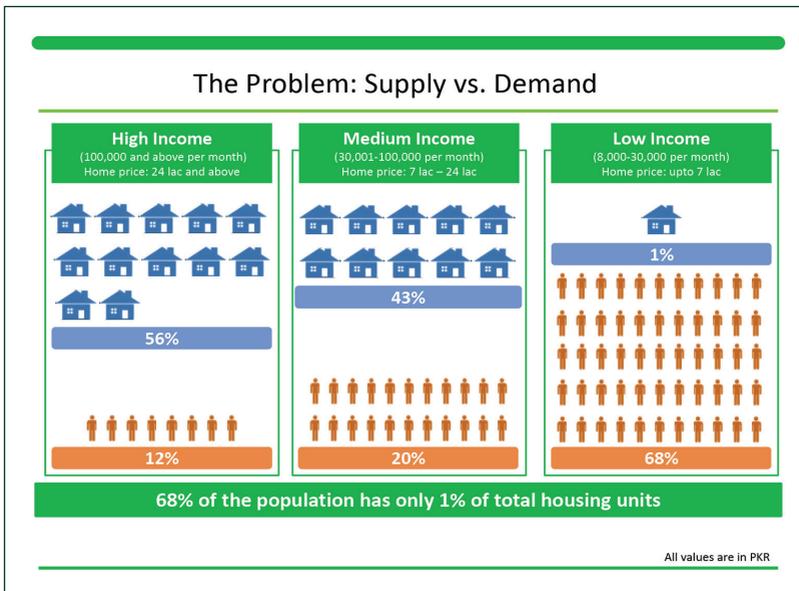
- The market for mortgage in Pakistan is trivial in terms of GDP, and is not well developed. There is a need to develop the primary and secondary markets for mortgage, and look towards newer, innovative financing methods like Social Impact Bonds (SIBs).
- Rather than acting as plot supplier and developer, the government's role should ideally be that of bank that supplies land to developers. The government's direct intervention has only tended to invite excessive speculation, rent seeking, inequality of land holdings and a culture of back door dealings for gaining access to prime land.
- Experience from around the world suggests that construction and housing can be GDP enhancing activities that create opportunities for both short term and long term employment.
- Location of housing plays a very important role as far as low income housing is concerned. Experience suggests that locating new low income housing near well-off neighborhoods are associated with 'spillover effects' or 'positive externalities' in the form of better education, better health, better consumption, etc.
- Well organized housing schemes, over the long term, have the potential to lead towards organized communities. Organized communities, in turn, exhibit higher social and human capital over the course of time.
- Countries around the globe have experimented with various low-income housing schemes. In Pakistan, for example, khuda ki basti, a project based on incremental development, has proven to be relatively successful.
- For any future scheme for low income housing, it is imperative that the government restricts its role to supplier of land to private sector for developing housing schemes rather than directly getting involved. Moreover, unless the government takes step to reduce the considerable transaction costs in the construction

sector, the status quo will likely prevail. Private sector is highly unlikely to be an active participant in the presence of these costs.

- There is intense lobbying for possession of empty plots in government run schemes/sectors, popularly known as the 'plot and perks' culture. The provision of plots and the plot culture should be abandoned in favor of constructed houses, as is the norm in developed nations. This will help ameliorate the problems associated with the prevalent plot culture, like speculation that makes a piece of land sell for exorbitant prices.
- There is a need to bring all stakeholders in line with the goals of low income housing policies. In terms of asset provision and asset building, it will be more helpful if the government shifts from providing short term financial assistance to provision of long term wealth generating assets like houses. Compared to small cash stipends per month, the benefits of having an asset like a house are real and far reaching.

The Housing Puzzle

There are three major segments of population in Pakistan in terms of demand for housing. The first is the wealthy and the upper middle income, which can not only access loans to finance house construction but can also afford to buy land and build a house on it. It is the remaining two segments, the lower middle income and the poor strata, that find it most difficult to address their demand for a place of shelter of their own. Their difficulty is reflected in the housing numbers, as depicted in the following graph.¹



¹ Source: Ansaar Management Company

As is clear from the graph, 88 percent of the population has access to only 44 percent of the total houses, while the 12 percent have 56 percent houses in their possession. This is a clear reflection of the prevalent housing inequality of severe proportions. On top of it, there is an estimated shortage of approximately 9 million houses, which is simply a reflection of the gap between demand and supply. This shortage was estimated to be 8.25 million in 1998,² an indication of the fact that little has changed over the years despite the severity of the problem. Further, there is an estimated demand for housing of around 0.7 million units per year for new households.³

In hindsight, this glaring deficiency of housing facilities should not have been prevalent in the first place. The reason for this assertion is the pace of urbanization and the opportunities for profit making that it brings with it. The level of urbanization in Pakistan is the highest in South Asia, with the urban population projected to equal rural population by 2030.⁴ Between 1975 and 1995, the proportion of urban population (of the total) increased from ten to thirty five percent. There is little to suggest that this trend will be reversed. The estimated rural to urban migration is about three percent of the total population per year. In other words about 5 million people enter the cities per year, seeking work and permanent settlement. Moreover, if we define urbanity by using the criterion of population density (as is the norm around the world), then approximately sixty five percent of Pakistan is already urban. This implies that around 140 million Pakistanis already reside in urban areas,⁵ of which the largest proportion comprises of lower middle and lower income group. A snapshot of the pace of urbanization in Pakistan is given by the following World Bank table:

World Bank Indicators - Pakistan - Density & Urbanization

	1990	2000	2010
Population density (people per sq. km) in Pakistan	140.1	187.5	225.2
Population in largest city in Pakistan	7.14 mn	10.02 mn	13.12 mn

² *'Low Income Housing Strategies in Pakistan'*, M. Ali Tirimzi.

³ Taken from official presentation on *National Housing Policy 2013-18*.

⁴ *'Life in the City: Pakistan in Focus'* United Nation Population Fund. Other estimates, like that of Michael Kugelman, suggest that this stage will be reached by 2025. See Michel Kugelman, "Urbanization in Pakistan: Causes and Consequences", Noref Expert Analysis.

⁵ *'Do's and Dont's of urban policies in Pakistan'*, by Mohammad A. Qadeer.

Population in the largest city (% of urban population) in Pakistan	21.6	20.9	20.4
Population in urban agglomerations of more than 1 million in Pakistan	17.2 mn	23.9 mn	31.4 mn
Population in urban agglomerations of more than 1 million (% of total population) in Pakistan	16.0	16.5	18.1
Rural population in Pakistan	74.9 mn	96.5 mn	109.3 mn
Rural population growth (annual %) in Pakistan	2.2	1.9	1.1
Rural population (% of total population) in Pakistan	69.4	66.8	63.0
Urban population growth (annual %) in Pakistan	3.4	3.1	2.9
Urban population in Pakistan	33.3 mn	47.9 mn	64.2 mn
Urban population (% of total) in Pakistan	30.6	33.2	37.0

Unfortunately, this opportunity to take advantage of fast paced urbanization has not been realized by the policymakers.

Formidable Obstacles

The housing deficient income groups in Pakistan - lower middle income and lower income - face formidable obstacles in the form of acquisition of a residential facility. Formal financial institutions are reluctant to serve them owing to various reasons. One of the biggest reasons is that these income groups do not possess any asset as security (or collateral) that could help them secure a loan. Their deposit account tend to be of limited amount, thus lowering their worth in the eyes of a financial institution, whereas given their low level of income, their monthly repayment capacity is also low. Moreover, financial service penetration (or financial deepening) in areas comprising the low income strata is usually negligible. In Pakistan, the formal financial sector serves hardly 2 percent of the population in terms of house finance.⁶ The loan portfolio of House Building Finance Corporation (HBFC), the government's main financing institution for home construction, saw a fall from 55 percent in 2004 to 21 percent in 2009, partly due to increasing incidence of non-performing loans.

⁶ State Bank of Pakistan, "State of the Economy", Third Quarter Report (2010), p. 108.

Incomplete Markets

The kinds of settlements normally inhabited by these two groups come with a disadvantage: they are not tradable on the formal property market. This is due to the fact that people residing in these localities lack ownership. Trading property on formal markets tends to enhance the value of the property, especially if it's in demand. Thus, by not having their place of shelter entitled to them, they miss out on the opportunity for profitable exchange. They are sitting on what economist Hernando De Soto called 'dead capital'. This aspect assumes even more importance in terms of developing countries since there is a huge demand for housing, as is in Pakistan. But not having the entitlement to an asset impedes the process of exchange and value addition.

Lack of Institutional Imperative

The problems of lack of ownership and alike are further exacerbated by institutional mechanisms that, if designed and working properly, could help a great deal in reducing housing shortage in the country. Private property rights are not well protected, legal squabbles are usually long and cumbersome, the mechanism for acquiring property and getting its title is tedious, lengthy, complex and corrupt, and there is no protection against arbitrary decisions like demolition of slums (that are normally carried out on the whims and fancies of the decision makers rather than in any methodical way). This creates an additional problem in terms of housing related uncertainty for low middle and low income groups that prevents them from investing in this resource, even if they have the finances.

High Opportunity Cost

There is a realization in the economics community that not having a shelter of their own costs a fortune to the dwellers of rented houses, and these costs are a substantial portion of the household income, especially that of the poor people. Over their lifetimes, the expenditure on house rent assumes an even more important aspect since it reflects a huge opportunity cost in terms of forgone expenditure on health and education, which are two of the most important components of accumulating human and financial capital, and thus a way out of poverty. Thus, by providing shelter (or the means and ways to have one's own shelter), the amount paid on rents can be diverted to health, education,

income generating opportunities, sanitation, leisure, etc. By default, this would complement the government's (and the private sector's) efforts at improving overall human capital of the population, and general living conditions. Free of the obligation to pay monthly debt, a family will have the option of putting the saved money to more productive uses.

Incentives for Private Sector

Pakistan's population, slated to cross 256 million by 2030, will give rise to the increasing likelihood that the majority will reside in the urban areas. With the increase in population, there will be an ever increasing pressure on the land and housing facilities. The already stressed urban areas - in terms of properly sheltering the present population - will likely see a rise in the price of residential facilities, something that will be beyond the affordability of the middle and lower income strata. Meeting this huge challenge alone has proven to be beyond the capabilities of the government. Therefore, there is an increasing awareness that the private sector needs to come into the equation to address this critical issue. The incentive of profits is fair enough to attract them to the housing market of low middle and low income segments. This is especially true of the lower middle income strata that have just enough financial wherewithal to pursue their own housing, complemented ably by the government and the private sector's efforts.

Cost of Ignoring Housing

Ignoring or failing to prioritize housing as an important sector has consequences. One of the major outcomes of ignoring the potential of urbanized areas is loss of overall economic growth potential. There is considerable evidence to suggest that high population density areas are marked by increased economic exchange, improved and plentiful overall opportunities due to frequent exchange of ideas leading to higher total output. There is wide recognition that cities, dense in terms of population per square kilometer, are the engines of growth across the world. The relation between population density and economic growth is well documented in Pakistan's case too.⁷ One needs look no further than Karachi,

⁷The proponents of this line of thought, though, are still few in Pakistan. Among these, Dr. Nadeem-ul-Haq is the most prominent voice. He has continuously argued for putting an end to the traditional horizontal expansion, embrace vertical expansion, change zoning policies to a commercial and residential mix, and to recognize the potential of population density. See, for example, '*Frustrated urbanization and failed development in Pakistan*', or Planning Commission's '*Vision 2030: Framework for Economic Growth*', published when Dr. Haq was the Deputy Chairman of Planning Commission.

Pakistan's most populous and dense metropolis, and its economic life-line. The level of economic activity and opportunities created in Karachi remains unmatched in other parts of Pakistan, and swings in Pakistan's economic fortunes are closely reflected in swings in Karachi's overall condition. If the supply of housing had matched the demand, then Pakistan's cities would have realized even more in terms of overall growth.

Slums and Informal Settlements

The failure to provide housing gives rise to social and economic problems that go beyond the mere question of housing people, especially related to socioeconomic consequences for the poor. For example, the non-affordability and non-availability of housing forces people to live in illegal/informal housing communities or slums. In 2005, the number of people living in slums around the world was estimated to be 900 million⁸. There has been little improvement since then despite increasing calls to address this issue, and efforts around the globe by government as well as the private sector. At present, more than a billion people reside in slums worldwide, and this number is slated to cross 2 billion by 2030⁹. There is no reliable estimate of the number of people living in slums in Pakistan, but what is known is that Orangi town in Karachi is the largest slum in Asia.

The Way Forward

The inability to provide shelter to the people has led to a stark difference in demand and supply. Flawed policies, building and housing codes not being in consonance with modern day realities, nepotism and corruption, etc, are all part of the explanation of the failure to find a solution to the problem of adequately housing the poor people. Efforts by the private sector, or individual led initiatives (like *Orangi Pilot Project* or *Khuda Ki Basti* in Hyderabad and Lahore, plus *Khayabane Ameen* by Sahir associates in Lahore) are laudable, but few. The moral of the story is that the governments at various tiers have failed to provide an answer to the ever growing housing shortage, whereas the private sector's efforts are not enough to fill the housing gap. Therefore, if Pakistan is to meet the challenge of housing an ever growing population, both the government and the private sector will have to come together to provide a viable and sustainable solution.

⁸ "*Innovative Financing for Low Income Housing Improvement*", Alfredo Stein and Luis Castillo, *Environment&Urbanization*, Vol. 17, No.1, April 2005.

⁹ Anna Tibaijuka, '*Cities without Slums*'.

Proposed Solutions

The previous chapter shed light on the nature and extent of the problems in Pakistan's housing market, where it became evident that the situation calls for multifaceted solutions to address this critical need. These involve the questions centered on such aspects as financing options, economies of scale, etc. This chapter focuses on some of the proposed solutions along with a description of important questions.

Affordability, Profitability, & Economies of Scale

There is little doubt that in order to make housing affordable, the government has an important role to play. Normally, the government has directly intervened in the form of various housing schemes announced over the years. History, however, suggests that direct government intervention at various tiers in building houses have not garnered fruitful results. The latest (at the federal level) is the 'Apna Ghar' scheme, announced by the current government in 2013. It envisions the building of 0.5 million low cost houses, for which a substantial budget has been earmarked in the fiscal year FY15. However, two years into the announcement of the present scheme by the government, and we are yet to see a house being built. Before the 'Apna Ghar scheme', the previous government had announced a similar scheme of building 1 million housing units, but there was not a single unit built. . These examples lead one to believe that if government efforts were successful, there would not have been such a substantial deficiency of houses. This strengthens the notion that the private sector has to be brought in.

The question of profitability is as clear as daylight. Given the scale of housing shortage and the huge demand for having one's own place of shelter, plenty of profit opportunities are there to be taken by prospec-

tive investors. However, they have largely shied away from this sector. Some of these reasons were discussed in the introduction. It is imperative upon the government that it takes steps to address the apprehensions of the prospective investors so that the path to substantial investment is free of roadblocks.

Like profitability, economies of scale, can also be gauged by the fact that housing shortage is estimated to be around 9 million, a shortage that has persisted for some time. This implies that even among many bidders or competitors, the government can easily distribute the housing units to be built so that achieving economies of scale becomes easier. Having a large number of units granted to private builders will ensure the retrieval of profits over initial costs in the long run. It must be understood, though, that substantial economies of scale relative to housing can only be realized in the form of long term programs for house building. In the short run, it is difficult (if not impossible) for the builders to recoup the cost of pursuing house building.

Methods of Financing

Historically, there have been four major methods by which housing has been financed throughout the world. These are (a) pooled savings within a community; (b) long term private debt (c) deposits of financial institutions; and (d) government credit or government directed credit. There are other financing methods aside from these, but those either fall broadly into one of these categories, or a combination of the two. The following section surveys the basics of each financing options, before we can propose the most suitable one to help address Pakistan's problem of housing shortage.

Pooled savings at community level

Pooled savings can also be termed as private equity in the form of mutual organizations. It is the earliest known financing method for house building. In this kind of financing, a community pools its savings, which are then lent a borrower or house builder. There is an element of shared risk involved in this type of financing. But that risk is mitigated by the fact that people in a particular community know each other well, and hence social capital is strong, which helps reduce credit risks. The conventional method of lender and borrower not knowing each other (as in modern financial channels) is absent. This type of financing worked fine in small and well-knit communities. But outside of community, it did

not prove to be ideal. Moreover, the opportunity cost of building a house with pooled community savings is directly proportional to the size of the community since house construction could be a time consuming, incremental process.

Financing from deposits

The limitations in pooled community savings led to financing from deposits of formal financial institutions (like banks), where the borrowers and depositors/savers did not need to know each other, and credit was readily available (thus decreasing the opportunity cost of building a house). This aspect is closely linked with financing through private equity and deposits of financial institutions. As stated, there are inherent advantages of relatively easier credit availability and lesser transactions costs for the lenders (since there is no need to get familiar with the borrower and keep in touch with her). Plus, the outcome is efficient due to prevalence of market mechanism that tends to clearly reflect the cost of capital. In other words, capital is priced efficiently.

However, for this mode of financing to work properly, market mechanism has to be free of interventions that create distortions. In the case of distortions (like price controls), the availability and revolving of credit is affected. In extreme cases, financial institutions may resort to credit rationing (despite extensive supply of credit) in case the dictated price of capital is substantially below the market level. Consequently, capital tends to flow towards other avenues or the black market (where the quoted price of capital tends to be higher than even the market price). Financing for house construction, in turn, are severely affected and overall construction activity in the economy remains depressed.

Direct credit provision by state

Directing or provisioning credit for housing has also been taken out on a large scale by the governments over time. In certain countries (like the former USSR, East Germany and Cuba), the state assumed full responsibility in this regard and there was little or no presence of private sector in this aspect of economic life. Even in countries where economies are not dictated from commanding heights, there is the substantial presence of the state when it comes to financing residential construction. For example, in Pakistan, government undertakes the provision of credit through official channels like the National Bank and the House Building Finance Corporation (HBFC). Therefore, private and public sector co-exist in this type of situation.

The main advantage of a government's direct involvement appears to be lower cost of financing, reflected in lower profit rate charged to the borrower. Other than this aspect, government-run operations have historically been plagued by negative externalities that negate any advantage offered by lower rates of borrowing. Even this visible advantage proves mostly true in theory.

Credit, although apparently in abundance in government books, tends to be in short supply. Rent seeking is common, and interest groups have a powerful say in the decision of provisioning of credit. Government-run institutions, responsible for provision of such capital, are rife with corruption, low productivity, bad management and are often in losses. Recovery rate is abysmally low, meaning that there is little or no chance of realizing a profit upon the provision of credit. Credit is rationed and often finds its way to the black market (in collusion with officials). The system lacks checks and balances, and credit often finds its way to non-deserving candidates. All this has significant implications. One of them, very much visible in the slums and squatter settlements around the world, relates to poor people resorting to unofficial, informal channels of borrowing. Another major setback of government's hold upon provision of credit is the failure to realize the true potential of this sector leading to low investment and probable job losses.

Other financing modes

What we typically find nowadays is that governments over the world have largely abandoned the do-it-alone approach, and work in conjunction with the private sector to address issues surrounding low income housing. For example, in USA, one of the most successful programs aimed at low income affordable housing has been the Low Income Housing Tax Credit (LIHTC), which has been highly successful in not only attracting private equity, but has also led to the building of over a million apartments in the last decade. The government puts out subsidized equity in order to attract private equity and builders. The parties who are successful in meeting the criterion set by the government are rewarded with tax credits, which they can sell in the market on market rates. Banks and financial institutions are the main buyers of these kinds of credits. Similarly, Social Impact Bonds (SIBs) are one of the most preferred financing ways. It is community based and pays for success once the goals are met. Pay for Success (PFS) is a kind of SIB which has been used for about quarter of a century now.

Long term debt financing

Raising long term debt to finance home building through long term institutional investors (like pension funds) has been another preferred method over the years. The costs of raising debt are generally low, and the overall management of the whole system is considered efficient due to low transaction costs. However, in order to make this kind of equity or debt financing successful, there needs to be a large pool of long term institutional investors. Plus, the securitization of long term debt is also allowed for the purpose of diversifying risk and making a profit on the security. This method, however, largely prevails in the developed world. But the financial crisis of 2007-2008 and its aftermath has dampened the demand for these kinds of investments.

Of the above stated alternatives, some like SIB's have never been tried in Pakistan although they have pretty successful in other countries. In a basic SIB sort of agreement, the private investor enters into an agreement with the government (federal, provincial or local) over certain measurable performance indicators. As the indicators are met, investors are rewarded in the form of premiums set by the government. But in failing to meet set criteria, investors or land developers may lose that premium. Thus, it tends to act as a powerful incentive for the completion of goals. Since the government intends to provide a subsidy worth billions of rupees, the provision could be more effectively followed along the lines of SIB and PFS types of initiatives. The government, in consonance with private developers, could set up a time frame and criterion for success. Also, different cities and areas may be more suited to different financing options based on financial services offered, demand and spatial dimensions. In short, a profile of the target area and population is necessary before proceeding with financing options.

Other proposed solutions are as follows:

Development of Primary & Secondary Market

The government, especially at the federal level, should look to develop the primary and secondary market for house finance. The mortgage portfolio is small¹⁰ and the secondary market is almost non-existent. The State Bank of Pakistan (SBP) should lead this effort in developing this market, and HBFC should not merely rely upon SBP loans but also look

¹⁰ The mortgage-to-GDP ratio fell to 0.5 percent of GDP in 1st quarter of current Fiscal Year, according to SBP's quarterly report. In 2010, this same ratio was 1 percent of GDP.

towards ways of raising capital through the market. An attempt of this nature was made when, in 2007, HBFC floated Mortgage Bonds (MBs) worth Rs1.5 billion/- for a term of seven years at the rate of Kibor+1 variable rate. No further issue of MBs took place again. In short, the financial regulators and institutions will have to be innovative in developing new ways and means for developing the mortgage markets.

Sustainable Housing

Building affordable houses is not just about building a structure. There are other aspects related to it that need to be addressed. For example, environmental issues and sustainability of basic service quality are paramount concerns. In this regard, bringing in other specialized agencies, institutions and forming alliances with them for development and sustainability of affordable housing should be favoured. Quantity should be complemented by quality.

Subsidizing Credit

One way to address the high cost of borrowing is by subsidizing the borrowing costs. This has been experimented throughout the world, where the chief subsidizer is the government. Given the high borrowing costs, Pakistan's case seems to call for subsidizing credit. However, these kinds of programs require a constant injection of capital and long term commitment by the sponsor (governments or donors). This is especially true in the case of escalating costs over time. Normally, these are not covered by the subsidy. Therefore, there should be a set time frame centered on various measures and indicators (as in the case of SIB's) if such a subsidized credit scheme is to be implemented in the future.

Subsidizing Land

Besides credit, the government can also subsidize land since it has relatively easy access to land in terms of acquisition. Unlike the private sector that has to buy the land on market rates, the government can buy the land on book value. The book value is cheaper than the market rate. Since government intends to subsidize housing one way or the other, the acquisition of lands at book value for onward provision to the private sector will constitute a substantial subsidy in itself. Given that acquisition and registration of land represent significant transaction costs to private acquirers, this will prove to be a boon for attracting private

investment in this market. In essence, the government can act as a 'land bank', whereby land is loaned out to private developers for developing residential facilities. This will constitute subsidy in terms of the producer.

Lowering Transaction Costs

It is absolutely critical for policymakers to address the issue of transaction costs in the market for residential construction. Some of the substantial ones have been described in the introduction. These mostly pertain to cumbersome legal and administrative procedures. Unless these are addressed, no amount of subsidy or other incentives are likely to be effective. Regarding the issue of transaction costs, it is vital that entitlements should be tied up with an efficient land registration and use system. Efficient land registration will make it much easier for prospective buyers of property, while regulations concerning the use of land will take care of such aspects as speculation that exacerbates the house prices. This will take care of the formidable transaction costs that people have to go through in Pakistan related to these two criterions.

Unclear modalities

It is important to determine who would bear costs of affordable housing schemes. Therefore a clear demarcation is required, especially in terms of additional costs that may arise out of any unforeseen circumstance. It has happened before, and became a source of contention between the government and the private developers. Given Pakistan's history, whereby projects rarely get completed on time, this aspect assumes even more importance.

It should also be ensured that the provision of subsidized loans from the government (if approved) should be continuous. This assumes importance in the context of countries like Pakistan since the change of spending priorities often results in the decrease in allocation of development programs.

Moreover, government departments like Finance and Revenue divisions should analyze the substantial transaction cost issue in this sector, in consonance with the SBP. These should then come up with concrete, long term proposals to address these costs.

Vertical Expansion

The zoning laws and regulations need to be changed completely in favor of vertical expansion. Till now, horizontal expansion in the form of large and small plots has been the favorable mode as far as residential facilities are concerned. This has only given rise to an urban sprawl that adds to travelling costs and congestion for commuters. In this regard, the government can take various steps to discourage horizontal expansion, like the imposition of a substantial tax on plots above 10 marlas. Moreover, housing societies should be regulated in a way that a minimum density criterion is met and vertical expansion is preferred. This will prove attractive for the private sector and financial intermediaries.

Curbing Speculation

Speculation has been a significant problem as far as construction of residential facilities and provision of land is concerned. It tends to artificially jack up the prices of land, thus making it unaffordable to a large section of the society. One way to discourage this is to announce such significant number of houses to be built that speculation becomes unrewarding. There should be well defined and well managed lock up period, meaning that there should be a time frame for starting construction work rather than just buying land and keeping it in expectation of higher prices through speculation. This should not be difficult to do considering that the demand is substantial. Entitlements of those who fail to do so shall be withdrawn.

Making Residential Schemes Work

A portion of the land allotted for the purpose of construction of residential facilities should be earmarked for commercial purposes. This will prove to be a significant incentive for attracting private sector. Investment in residential construction is a long term investment, and recovery of costs (fixed plus variable) can take a long time. But the setting aside of land for commercial purposes ensures a steady stream of rental income for the investor who can then realize earnings aside from the purely residential investment.

Evidence from Global Experience

Pakistan is not the only country where a dearth of residential facilities has surfaced over time. Other countries have also witnessed the same. They have come up with different schemes and different solutions to the said problem. A cursory look at these could provide us a lesson or two in pursuing such ventures.

Kinship as Substitute

Evidence gathered over time suggests that in developing countries, the development of shelter or houses by the poor and lower middle class is an incremental exercise. It takes time, and in large part involves interest free¹¹ financial help from the kin. This aspect is not surprising since almost 80 to 90 percent people in developing countries do not qualify for loans from formal financial institution, even for the least expensive housing units. Therefore, as suggested above, one of the ways that the government could help in this regard is to subsidize the cost of mortgage so that it is atleast in the reach of lower middle income families. Many countries have taken this route. Some have subsidized credit directly or through the private sector.

The 'Spillover Effects'

The difficulty in having access to mortgage finance is complemented by the lack of technical and human capital skills that enhance the prospects of higher earnings in the future (especially of the poor). An implication is that they tend to get trapped in the cycle of inter-generational poverty and low income jobs. There is thus little chance or probability of

¹¹ UNHABITAT (2008), p.4.

income enhancement, and hence meager prospects of affordability of a house in the future. Planners have tried to ameliorate this problem by either building residential facilities in dense neighborhoods or near the wealthy ones. The advantages come in the form of what are known as '*spillover effects*' or '*positive externalities*'. For example, denser localities tend to have a higher rate of market exchange, thereby creating earning opportunities. Moreover, one observed positive effect (over generations) of wealthier neighborhoods is the enhanced quality of education of the children of the relatively less affluent. This goes a long way in terms of building human capital.

Mitigating Risk

There has been an implicit recognition that households that fall into the lower middle and lower income bracket represent a huge potential market for houses despite the risks associated with them due to their lower earning profile. Indirectly, they are a prime target population for potential investors since they form a substantial portion of the total population. For example, in Pakistan, the combined percentage of these two classes is above 70 percent, most (if not all) without their own shelter. This in itself represents a huge market. The problems associated with risks (due to their low income and small asset possession) have been mitigated by pricing the risk properly (through market mechanism), or through sharing the risk (through government interventions, like credit subsidies). Our policymakers should also look towards this issue in the same manner rather than treating it as a liability.

Building GDP

Construction and housing investment, atleast in the developed nations, constitutes a substantial portion of GDP. For example, total mortgage debt as a percentage of US GDP was about 90 percent in 2010, while the percentage of mortgage debt to housing wealth was around 68 percent of GDP in the same year. Therefore, governments all around the world have treated investment in this sector as an output enhancing activity rather than a mere exercise in building shelters. Lower middle classes and poor ones constitute a substantial portion of the population all over the world. Even if the demand for half of this target population can be catered, this would imply substantial amount of public and private investment. That has been the thinking behind investment in this sector. As a complement, thousands of jobs have been created in the process

plus more opportunities for the future. In aggregate, there is good probability to suggest that any such exercise will enhance overall economic activity, thus increasing GDP.

Housing as Preferred Investment

In terms of the limited number of investment choices, investment in property were the preferred portfolio of a large number of low income households surveyed in India, Bangladesh and South Africa. Places of shelter served as production sites, warehouses and point of sales for them.¹² Moreover, it tends to act as a long term security, thus freeing up resources that otherwise would be used in acquiring them. Once in possession of a property or residential facility, the economic mobility and participation tends to see an increase. There is no reason to doubt that the same will be true in the case of Pakistan.

Availability of Options

Enhanced consumption and the availability of options are the two other advantages that have been observed in case of savings coming from having a house of one's own. Consumption is the driving force behind the economic growth of today's economies, while the availability of choices (not just for consumption, but wealth accumulation too) is one of the basis of human development. Both of these are severely stranded and stifled in the case of families that do not have the ability to afford a house. This aspect is even more pronounced as far as poor households are concerned. They find it hard to even meet the basic food consumption requirements, let alone exercising their choice in terms of leisure or capital accumulation. Malnutrition and stunted growth of children are two outcomes of this state of affairs. Experts are of the opinion that these kinds of shortcomings can easily be addressed if these households have access to assets. And what better asset, both in short and the long term, other than a place of shelter with entitlement which can ably serve this purpose. Over time, the ability to have one's own shelter has proven to be linked with an overall increase in quality of life.¹³

¹² *'Portfolio's of the Poor'*, Collins and others.

¹³ For example, see Lindbald and Rohe (2013), "*Reexamining the Social Benefits of Home Ownership after the Housing Crisis*". The study quotes research that suggests that a fall in house prices has wiped out an astonishing \$8 trillion of home owners' equity. It follows then that the increasing prices of land and housing, a common occurrence in Pakistan, are increasing the per year equity of homeowners substantially. But a large part of population remains bereft of this development since they don't own their houses.

Ameliorating Poverty

South American experience suggests that the spread of informal slums and squatter settlements have a very close relationship with increased urbanization. More tellingly, and from an economic point of view, the failure to address this issue leads to marked income inequalities and increase in poverty, especially over the longer period of time.¹⁴ Housing and poverty are correlated, especially when it comes to urban poverty. This aspect is also true in Pakistan's case. Informal settlements can become purveyors of intergenerational poverty, inequality, and limited options in terms of accumulating human and financial capital. Therefore, formal housing of families is an important policy issue in majority of the countries in the world.

Tangible Outcomes

Then there are tangible outcomes of smaller magnitude that tend to highlight the importance of having a shelter of one's own. One of them is the improvement in health conditions that results from not defecating in the open or the poor sanitary conditions. Given that a substantial amount of poor households in Pakistan resort to defecating in the open,¹⁵ the availability of latrines within a household takes care of the open defecation problems. Open defecation results in spreading of various sorts of tangible, harmful viruses, some of them severe in nature. Thus, having a house of one's own takes care of this problem. Moreover, it also takes care of a sensitive, social problem in the form of sexual harassment of females who have to resort to open air defecation in the absence of toilets within the houses.

Organized Housing; Organized Communities

Organized housing facilities seem to be the precursor to organized communities. In these communities, the awareness and willingness concerning social and economic mobility, health, education, life choices, entrepreneurship and investment are prevalent at a far greater level relative to unorganized settlements. Having a house of one's own comes with a sense of security that is prized by the person who is entitled to it. It also removes the considerable uncertainty of being removed from a house in case of a dispute over rent or any other matter.

¹⁴ "*Innovative Financing for Low Income Housing Improvement*", Alfredo Stein and Luis Castillo, *Environment&Urbanization*, Vol 17, No.1, April 2005, p.54.

¹⁵ "*Out in the Open*", by Geeta Rao Gupta. *The NEWS*, 27th February 2015.

USA's Successful Experience

In USA, LIHTC has been one of the most successful affordable housing schemes since it began in mid-eighties. As the name suggests, the LIHTC is a popular method of financing low income household construction in the US.¹⁶ Under this scheme, the investors (private investors who front capital to a land developer) are rewarded in the form of tax/capital credits only after the successful completion a low income housing scheme. The basic condition is that the families, for whom the units are built, will move in and live there for at least fifteen years. During that time, the rents have to stay affordable, with the affordability rate determined by the government in conjunction with the developers. Thus, it's a long term investment for potential investors who are slated to benefit from sizeable rewards in the future.

The 'Revolving Fund' Method

In South America, one relatively successful way of funding affordable housing has been the '*revolving fund*' method. The basic idea is that an initial amount (the seed money) is given to the financially most sound of the lot, to build their house. Once that is done, and money is recovered gradually (in instalments) with a slight profit percentage, and then lent to the next in line. Thus, the original credit keeps revolving within the community, helping families one by one. Complementing this approach is the technical assistance for house building and institutional development for further enhancing house building and related aspects. Similarly, the *Rajiv Indira Suryodoya* Project for building Mumbai slums in India presents another example. It was started in 1995 and the main idea revolves around use of own funds, plus subsidized funds backed by a twenty percent guarantee by a donor agency. Recovery of own funds is ensured through selling or renting commercial areas.

Community Participation for Cost Recovery

Evidence of these kinds of programs from around the world also suggests that recovery of cost hinges on active community participation. The most probable reason is that community participation instills a sense of ownership among those who participate. Therefore, any program that is geared towards addressing the issue of housing provision should also

¹⁶ See Terry Ludwig, "*Pay for Success: Building on 25 Years of Experience with the LIHTC*", Federal Reserve Bank of San Francisco (FRBSF).

take in this aspect seriously. Intermediaries or institutions that specialize in community participation could become handy.

Pakistan's Experience

Governments at various tiers and the private sector in Pakistan have also experimented with various housing schemes over the years. Majority of the government schemes were unable to achieve the desired results, while some were relatively successful.¹⁷ One of the success stories has been the *khuda ki basti* scheme in Hyderabad. Some of the features of the LIHTC scheme can also be found in this initiative organized by SAIBAN, an organization working in this sector for more than two decades. The construction on plots offered by SAIBAN is done on incremental basis, with the family building the plot required to live on it otherwise their allotment is cancelled. This project was completed with the help of the city government, and represents a good example of Public Private Partnership (PPP) in the housing sector.¹⁸

¹⁷ A brief review of efforts towards this end can be found in Ahmed, Noman "*Housing Situation*".

¹⁸ For details, see Tirmzi, M. Ali, "*Low-Income housing strategies in Pakistan with focus on urban housing*".

Proposed Roadmap

It's not just the government and the private sector that can address the problem of housing those who do not have a shelter of their own. It has been recognized over time that any sustainable solution to the low income housing problem cannot come about without the active involvement of the people themselves. The UN Declaration of 1974 is a reflection of this realization, and was aimed primarily at encouraging the development of low cost housing on a self-help basis. It called for equipping people technically, financially, skill-wise and making them knowledgeable to the extent that they themselves feel that they are stakeholders in the scheme of things.¹⁹ Keeping this fact in view and the above stated discussion, the following points represent a roadmap for policy-makers for large scale housing construction projects for the future.

Legislating the Role of Government

This is probably the most important piece of the issue under discussion. There is an urgent need for legislation that could regulate and redefine the government's role in housing related matters. Over time, ownership by the state only tends to result in excessive speculation, lengthy legal battles, collusion between state and non-state functionaries, concentration of land in the hands of a few and incentivizing rent seeking behavior in the masses. If there has to be any meaningful development in terms of building shelter, then the government's dominant influence needs to be curbed through meaningful legislation.

¹⁹ UNHABITAT (2008).

Houses; Not Plots

One of the best ways to curb speculation in this sector is to end the policy of plotting and distribution of plots by the government as well as the private sector. Policymakers can take a cue from Europe and US in this regard, where fully built houses instead of plots are sold. Moreover, legislation should also require buyers to move in and live in the residential facility instead of buying it for speculative purposes.

Government as a Regulator & Facilitator

The government's role should be limited to that of a regulator and a facilitator in terms of provision of residential facilities. The regulation aspect concerns quality and curbing of detrimental practices (like speculation), and facilitator in the form of easier provision of access to land and ameliorating the considerable transaction costs involved in this whole process.

Setting a Time-frame

It is imperative that a timeframe be set for completion of housing projects. Experience suggests that there is a fair bit of gap between announcements of official projects and their completion. A case in point is the '*Apna Ghar*' scheme, announced by the Prime Minister in 2013. But there has been little or no development in this regard after the lapse of almost two years. Therefore, it is extremely important that a framework is charted out so that the intended goals are met within the designated time frame. Complementing this should be consensus between various stakeholders and political parties regarding any such projects so that a change in governments or a dispute between stakeholders should not become a hindrance to the project completion within time. Ideally, there should be an independent committee that oversees this whole process and ensures that it keeps moving.

Coordinated Decision Making

It should be ensured that all the concerned ministries and divisions are on board when it comes to any intended housing project in the future. Especially important will be the role of institutions that deal with the regulations, provision of land, taxation, release of monetary amount and credit guarantees from the government side. Land, by law, is a provin-

cial subject. But equally important is the role of the federal and the local level governments. As suggested above, it will be much easier to carry out any housing related construction project in the future if all concerned institutions are on the same page.

Long Term Policy

From purely economic and opportunity cost point of view, it is suggested that there should be a change in government priorities in the acquisition of a long term asset over short term support as a means of generating income mobility and addressing poverty and inequality. In Pakistan's case, this strategy would seem to be most productive given the huge demand for housing and the considerable amount that the government spends on short term financial aid. At present, the government is spending more than R. 100 billion on short term anti-poverty, anti- inequality measures like the Benazir Income Support Program (BISP) and Zakat. But the evidence of success of these programs in eradicating/lessening poverty or curing substantial income inequalities is scant. The building and owning of a house, in contrast, will be a huge, one time boost to the future income prospects. Having a solid, large asset at disposal will not only boost the financial profile of the title holder, but also offer them more choices in terms of work and geographic mobility, income earning potential, the ability to get loans for investment, and expenditure on other goods, etc, that go to rents. If we go by Milton Friedman's distinction of permanent and non-permanent income criteria, then the saved money due to owning one's own shelter would be akin to adding to the permanent income of the people. This has substantial implications, from spending the money on building human capital (health and education) to building a better community. In short, a re-assessment and re-orientation of priorities is suggested.

Redefining Urbanity

There is an urgent need to redefine what constitutes an urban area. The idea of redefining urban areas was shelved after the 1998 census, and a new one has yet to be agreed upon. The earlier definition was based on categorizing an area as 'urban' if more than 5,000 people inhabited the area.²⁰ Yet its shelving gave rise to the present anomaly, whereby independent analysts and researchers see more than 60 percent of the population as urban, while government sources still consider 60 percent

²⁰ *'Urbanization in Pakistan and its consequences'*, by Ayesha Siddiq.

of the population as rural. The consequences of this could be substantial in terms of overall investment in infrastructure and social sectors. Due to this statistical anomaly based upon a faulty precept of what constitutes ‘urbanity’, many areas are missing out on much needed investment. Housing construction is one of these areas.

Optimizing Positive Spillovers

New housing units should be situated near to relatively well-off neighbourhoods. As discussed above, there is a growing body of research that suggests that there are positive spill-over effects of healthier neighbourhoods on the relatively less well-off ones.²¹ Constructing units in the same environment does not provide a solution to the problems of poverty and inequality. Over time, the nearness of a poor neighbourhood to relatively well off one tends to have a positive effect upon it. Children tend to be better fed, better educated, and have better prospects of getting reasonable paying jobs that their poor parents never had. All this helps break the vicious cycle of intergenerational poverty, and serves to reduce economic inequalities over time. And the positives are not only limited to the families, but also to the implementing agencies (government or non-government). For example, locating a housing project near an already settled area confers the advantage of not spending too much on infrastructure since it’s already present. No new investments will be needed in this regard.

Enhancing Wealth Accumulation Prospects

Another reason that low income houses should ideally be located near well-off neighbourhoods (or in a location in demand) is that home ownership has proven to be a powerful determinant in the accumulation of wealth over time. Wealthy or well off localities are characterized by increasing prices of land over time. As with other effects like better health and better education, the effect of rising prices is also likely to be shared by nearby settlements.

Importance of Location

Policymakers also need to look at the aspect of the location of housing projects in terms earning opportunities. It would be ideal if the planned

²¹ For example, see *‘Rethinking Local Affordable Housing Strategies: Lessons from 70 years of Policy and Practice’*, by Brookings Institution.

residential projects are near to places of employment. This could be a critical factor. For example, one major reason for the failure of 'Plot Township' scheme of the 1960's was that they were located far away from places of work of the target families²². Land price is directly related to location. More important is to equip new locations with social, physical and then gradually economic infrastructure. Transport is the main factor. Like in Bangkok and Delhi, development of new service points of Metro Service is changing housing supply dynamics. This is understandable since travelling long distances confers a cost, especially for those who have to travel everyday and on time. The situation is exacerbated in the absence of any viable public transport system, something that is very much visible in Pakistani cities. Therefore, policymakers should keep these considerations of distance and availability of a viable transport system when designing or implementing new housing schemes.

Revising Zoning Laws

If there has to be affordable and inclusionary housing, then there has to be a change in the kinds of zoning laws that we have at present. Our zoning laws are squarely biased in favour of urban sprawls and against vertical expansion. This kind of horizontal expansion only results in non-affordability of housing for majority of the population. Experts on these matters have been arguing for a change in this policy for long²³, but are yet to be heard. If affordable housing is to be realized, then there is little chance of it being realized with the present zoning laws. Unhelpful land regulations, like the ones that we have at present, have proven to be the biggest deterrent to building affordable housing around the world²⁴. Therefore, zoning laws have to be redesigned and tweaked in favour of vertical expansion.

Zoning laws should also make it mandatory upon developers to provide certain facilities in the city (like auditoriums and other public spaces). Physical development as well as leisure opportunities is as important for development as is housing.

²² Tirmzi, M. Ali, "*Low-Income housing strategies in Pakistan with focus on urban housing*".

²³ For example, see '*Frustrated Urbanization and Failed Development in Pakistan*', Nadeem-ul-Haq, in Michael Kugelman, 'Pakistan's Runaway Urbanization'.

²⁴ '*Rethinking Local Affordable Housing Strategies: Lessons from 70 years of Policy and Practice*', p.85, by Brookings Institution.

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“This is a systematic study of not only the current housing landscape for the low-income communities in Pakistan but he also provides the sound recommendations to address this extremely relevant and crucial issue. I sincerely hope that this book will ignite further dialogue among stakeholders involved in the field of housing and housing finance to address the issue of delivering successful, viable and sustainable business models for low-income housing supply and finance.” (Excerpt from Foreword)

State-Led Pilferage: The Case of Electricity Provision in Pakistan

This study analyzes the state led provision of electricity in Pakistan. It examines different aspects of the debate over public provision of this utility, process of tariff determination and the substantial costs associated with the entire system. It is authored by Shahid Mehmood.

Conditional Cash Transfers: Safety Net or Welfare Trap?

This study proposed that government may take short-term measures to achieve poverty alleviation but poverty cannot be eradicated by cash transfers, conditional or unconditional. The long-term and permanent solutions are required through which human capital is enhanced like vocational trainings and educational programmes so that the allocated budget can be utilized in the best possible manner. It is authored by Fizza Behzad.

Export Development Fund

“Export Development Fund: A Critical Analysis and Roadmap for Restructuring”, highlights various factors which have led to misallocation and misappropriation of funds instead of boosting exports. It is authored by Sara Javed.

State Coercion and the Fledgling Enterprises in Sharaqpur Bazaar

This study demonstrates that by simplifying regulations, decreasing corruption, debottlenecking procedures, lowering tax rates and making it easier for them to own their business premises, a lot more businesses can be brought into the formal sector, than coercion, penalties, punitive taxes, heavy fines and demolition of buildings with earthmoving machinery can collectively bring because no amount of coercion can outsmart the acumen and ambition of an entrepreneur. It is authored by Asad Ullah.

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