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Infrastructure & Cities for Economic Development

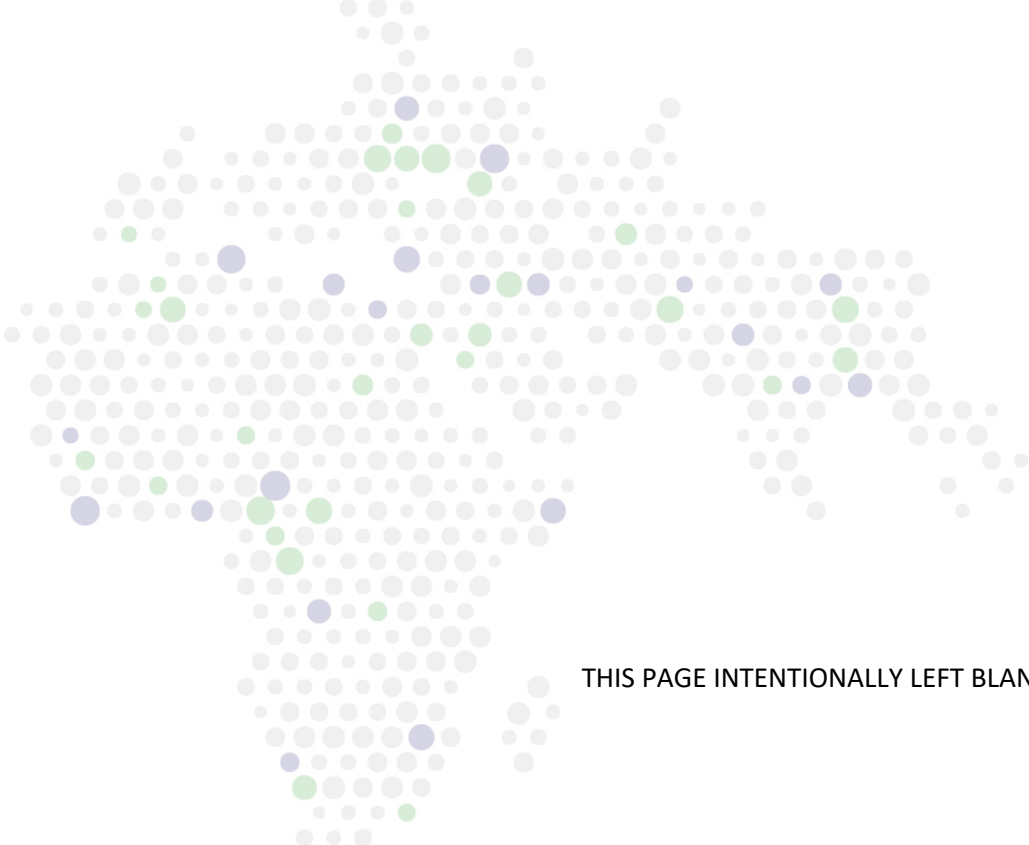
Pakistan: Housing Ecosystem Analysis & Entry Points

Executive Summary

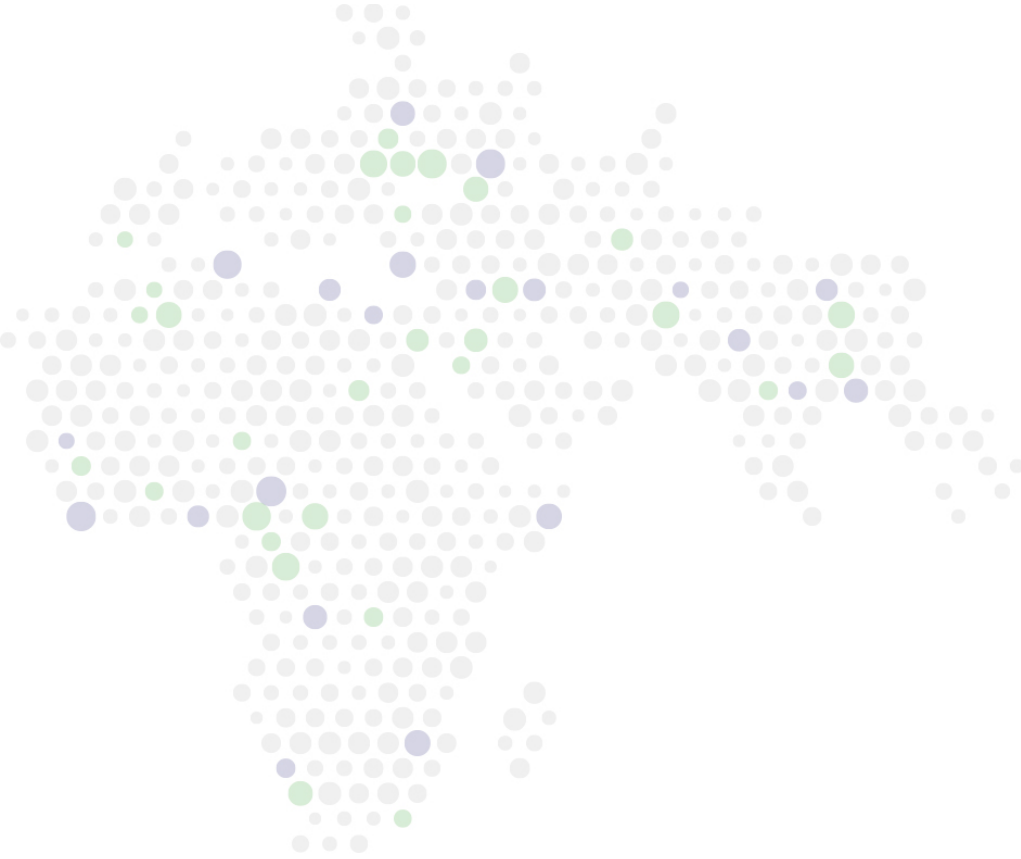
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1. Executive Summary

DFID Pakistan has asked ICED, via Arup and the Affordable Housing Institute (AHI), to conduct a short work package (“pre-scoping study”) to better understand and identify potential entry points to improve the affordable housing market in Pakistan. Engagement in the housing sector offers DFID Pakistan an opportunity to integrate programming related to poverty reduction, household financial stability, job creation, inclusion, environment, resilience, and climate change. Potential interventions are informed by DFID’s cross-cutting initiatives such as environmental and climate related challenges, and social equity.

Housing is understood to be a fundamental element of urban contexts; however, it is not always considered to be critical infrastructure in urban planning, political agendas, or public policies. At most public housing may be considered a key social service to be provided, but often the housing sector is left to develop independently while more focus is given to typical infrastructures such as water, road, and electrical networks. This approach however, misses a key opportunity to improve the economic outlook and resilience of cities. For DFID, housing has been an ‘orphan’ issue which doesn’t sit within one department or team. However, DFID has recognized this and its approach to urban development and housing is now informed by their Economic Development Strategy (2017) and Cities Strategy (unpublished but approved at ministerial level).

Although the current housing market has severe challenges, there are opportunities for focused engagement and innovative interventions from development agencies that could help catalyze sustained efforts to address the issues. Additionally, the Government of Pakistan is currently focused on improving the housing sector, as evidenced by the inception of the Naya Pakistan Housing Program (NPHP). Thus, the purpose of this work package and report is to deepen DFID’s knowledge of the sector and to provide a menu of potential interventions that would be implementable and catalytic.

1.1. Background

Pakistan’s housing deficit is currently estimated at 10 million units.¹ Annual demand for new units is estimated at 700,000, however the current market is only producing half of what is required, approximately 350,000 units per year.²

The housing needs of many low- and lower-income families are met through informal systems of both supply and demand, as well as informality of development and tenure. The World Bank estimates that 47% of urban households live in informal settlements (*katchi abadis*) with limited access to infrastructure and services.³ Furthermore, it is apparent that previous government-led attempts to provide affordable housing have consistently fallen short of addressing the sector’s chronic issues.

‘Formal’ Housing

According to city development authorities, ‘formal’ housing is legal housing that complies with standards for infrastructure, amenities, and other civic requirements. Anything other than this even if properly constructed is considered informal.

¹ Ibrahim and Nadeem, “Optimising the Naya Pakistan Housing Policy Opportunity,” 4.

² Ibid.

³ Ibid.

Table 1: Snapshot of key data points

Population	205m	Housing deficit (est.)	10m units
Pop growth rate	2.4%	Annual housing deficit increase (est.)	350,000
Urban population	36%	Annual housing demand (est.)	700,000
Informally housed (urban)	47%	Annual housing production (est.)	350,000
Informally housed (rural)	---	Number of outstanding mortgages	68,000
Urban pop growth rate	2.7%	Outstanding home loan balance	USD 586m
GDP	USD 278b	Mortgage depth	0.5%
GDP growth rate	2.9%	New mortgages per year	1,500
GDP per capita	USD 1,360	Avg. mortgage loan	USD 4,300
Inflation	9%	Avg. LTV	48%
Avg. monthly HH income	USD 650	Land cost	USD 24/ft ²
Total est. working pop.	---	Grey field construction cost	USD 9/ft ²
Salaried population	---	Avg. house cost (67 m²)	USD 23,300

Source: International Monetary Fund; World Bank; State Bank of Pakistan; Ibrahim and Nadeem

In order to develop practical recommendations, the consultant team has established the following guiding assumptions. Given the current state of the Pakistani economy and the understood timeline that DFID is considering for any possible intervention, these assumptions are an optimistic appraisal of a future state of affairs under which a range of housing interventions would be possible.

- 1) The Government of Pakistan has demonstrated a commitment to addressing the housing crisis in Pakistan. The amount of attention being paid to the housing sector right now indicates that the scope of possible solutions is reflective of the scale of the problem.
- 2) The Government of Pakistan is going to be able to execute on that real commitment (e.g. efforts will not be unreasonably stalled at the provincial level).
- 3) There will be baseline macroeconomic stability over the next 5-10 years that will provide the conditions for real catalytic change. It will likely be 12-24 months from now before change in this regard becomes apparent.⁴

1.2. Why Housing

Housing is a fundamental element of urban contexts and provides a key to improving the economic outlook and resilience of cities.

⁴ The recent IMF bailout indicates that there will be some macro level structural adjustments forthcoming. The potential for stabilization is further discussed in Section 2.3. While this is an optimistic assumption, some baseline is required in order to consider any intervention or engagement on the demand side.

Urbanisation requires a different approach to development programmes which should focus on a place-based approach rather than a traditional sector-based approach. Housing has been an ‘orphan’ issue which doesn’t sit within one department or team. However, DFID has a strong track record in the enabling environment which positions DFID strategically to engage with the Government of Pakistan at multiple levels and with other DFIs to realize the ambition of the federal government. DFID’s investment in urban programming has increased from approximately \$500 million in 2015 to £889 million in 2019 – most notably the ~£50 million Affordable Housing in Poor States Programme in India. This is a tiny fraction of what is required and success in housing and urban development will require collaboration and leverage with other DFIs (especially the International Finance Corporation and World Bank), partner governments and the private sector to realise a functional affordable housing market which fosters inclusive economic development and sustainability.

Economic development depends on housing as critical infrastructure

To sustain the city, one must grow its economy, and with that one must grow its population; yet a growing economy and population mean a need not just for more housing, but for more *affordable* housing.

Affordable housing is where essential urban jobs go to sleep at night.

The economics of land use guarantee that, in an urban context, most of the people can’t afford market housing, because both the standard of housing and the price of occupancy will continuously rise. If it rises too high, the people who make the city work, such as teachers and health workers, are market evicted to the periphery, where they further load already-stressed modes of transportation. In urban environments such as Pakistan’s this is further exacerbated by the immense income gap, deep poverty, and lack of efficient public transportation that leads to the development of slums.

Integrating housing into sustainable urban development

The following bullet points offer an overview of the many compelling reasons to focus on housing as a critical part of sustainable urban development.

- *Affordable housing is more than just an anti-poverty or social justice mechanism; it can drive economic development.*
- *Mixed development pays social and economic dividends.*
- *Well planned and climate resilient housing supports both social inclusion and economic expansion.*
- *Housing has additionalities including, increased economic stability at a household level, social cohesion, community strength, and improved urban environments.*
- *In many markets middle-income housing is as legitimate a target as low-income housing.*
- *Zoning reform can catalyze change.*

Relevance of the construction sector to economic growth, jobs and development

As described in a recent ICED report for DFID⁵, construction is an important sector in almost all of DFID’s focus countries, as it is a major producer of capital infrastructure necessary for the growth of most economic sectors, and of vital social goods such as housing. There is evidence of a very strong relationship between construction activity and economic growth, though there is debate over the nature of this relationship. Some studies in developing countries suggest that it is causal (i.e. with

⁵ Mella, A., Savage, M., et al. (2018) Construction Sector Employment in Low Income Countries. ICED for DFID

investment in construction causing economic growth). Others conclude that the relationship is correlated (i.e. construction activity reflects wider rates of economic growth and development).

The construction sector in DFID focus countries is important in both economic and employment terms, and continues to grow in size. Construction employment interventions offer good opportunities to deliver other development priorities, and can be integrated into wider programming. Construction sector employment interventions can potentially deliver strong value for money (VfM) co-benefits where they are integrated with more focused sectoral interventions (e.g. roads, transport, housing), or other cross-cutting priorities (e.g. climate change, poverty alleviation, female empowerment).

DFID might therefore explore opportunities to include measures to improve construction employment as sub-components to larger programmes. One example is green construction (e.g. Zambia Green Jobs Programme) which simultaneously delivers job growth and reform within a larger low carbon development supply chain.

1.3. Pakistan's Housing Ecosystem

Pakistan's housing ecosystem faces numerous challenges on both the supply and demand side value chains. The housing value chain "key," represented below, indicates that many of the links (the steps along both the supply and demand sides that occur to produce a housing unit with a family that can afford that unit) are "broken" and face either some challenges, or major challenges.⁶

⁶ Refer to the methodology section of this report for a more detailed explanation of the value chain key and analysis.

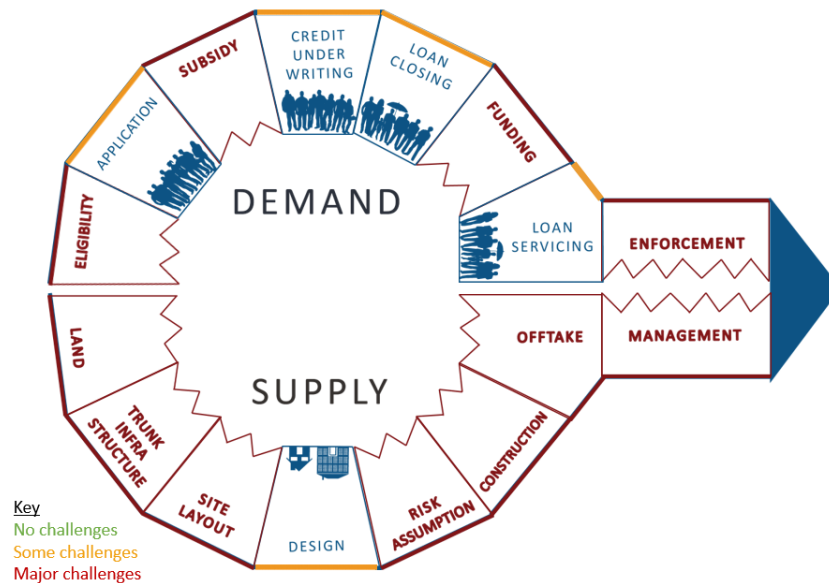


Figure 1: Assessment of Housing Value Chain in Pakistan

The following tables provide a summary of findings and map the key actors within the housing ecosystem.

The Value Chain Snapshot indicates significant obstacles along specific links of the value chains. These are not the only problems that affect each link, but they are the major issues that the literature review, value chain analysis, and consultations revealed. Any intervention on a combination of these challenges could lead to significant impact. A map of the key actors within the housing ecosystem can be found below.

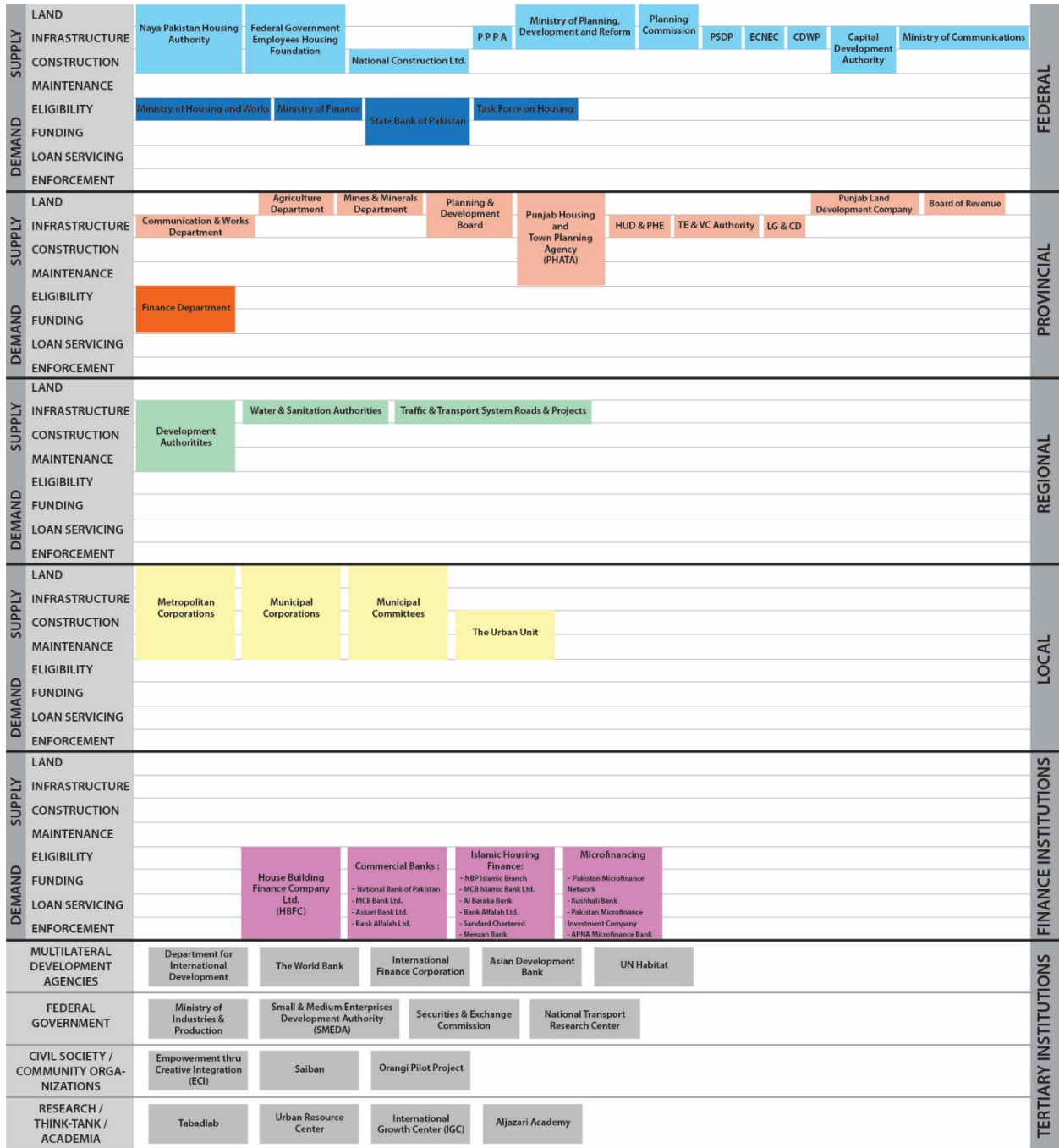
The value chain analysis reveals two severely compromised housing value chains. Both the demand and supply sides of the value chain are either moderately or severely challenged, meaning the ability to deliver affordable housing units (supply) to households that can acquire and use affordable financing to purchase those units (demand) is almost entirely absent from the market.

Table 2: Value Chain Snapshot
Red = significant challenges, Yellow = moderate challenges, Green = no challenges

Demand		Supply	
<i>Eligibility</i>	<ul style="list-style-type: none"> Large informal sector excludes most from conventional financing Limited capacity for low-income finance product design 	<i>Land</i>	<ul style="list-style-type: none"> Weak titling Poor land information systems Lack of coordination among land-owning/ regulating bodies High land costs due to speculation

Demand		Supply	
<i>Application</i>	<ul style="list-style-type: none"> Fairly standard across banking industry Simple and broad application process for NPHP Fees are a deterrent for lower and middle-income groups 	<i>Trunk infrastructure</i>	<ul style="list-style-type: none"> Often an afterthought in development process Leads to major public health and asset risks
<i>Subsidy</i>	<ul style="list-style-type: none"> No real housing subsidies Past attempts have had negligible impact 	<i>Site layout</i>	<ul style="list-style-type: none"> Wholesale urban planning reform is needed
<i>Credit underwriting</i>	<ul style="list-style-type: none"> Standard procedures in place for those who are eligible for formal housing finance Limited reach to low and middle-income and non-salaried households 	<i>Design</i>	<ul style="list-style-type: none"> Informal mid- and high-rise buildings pose health and resilience risks Not enough density where planning occurs Preferred typologies not suitable to meet housing demand
<i>Loan closing</i>	<ul style="list-style-type: none"> Standard procedures in place. Incremental disbursement of loan funds is a useful control for construction oversight, but adds time and potentially cost to overall processes. 	<i>Risk assumption</i>	<ul style="list-style-type: none"> Difficult to gather all financing for development Primarily off-plan sales, substituting consumer finance for development finance
<i>Funding</i>	<ul style="list-style-type: none"> Primarily done through equity (cash) investments Extremely limited access to long term/ fixed rate funding and liquidity for banks to innovate and expand product offerings Short term funding mechanisms drive up costs 	<i>Construction</i>	<ul style="list-style-type: none"> Fragmented construction sector Rising costs, high margins Inefficient permitting, NOCs, licensing Lack of coordination impedes innovation “Over-engineering”
<i>Loan servicing</i>	<ul style="list-style-type: none"> No significant impediments to servicing loans for qualified households Incremental disbursement adds time and complexity 	<i>Offtake</i>	<ul style="list-style-type: none"> Evidence of vacant plots and units in some cities suggest poor offtake mechanisms Lack of access to financing reduces offtake possibilities
<i>Enforcement</i>	<ul style="list-style-type: none"> Weak foreclosure enforcement High default rates, some intentional defaults Backlogged courts due to land disputes 	<i>Management</i>	<ul style="list-style-type: none"> Professional management restricted to high-end developments Local organizations in informal settlements address their own management issues

Figure 2: Map of Key Stakeholders in the Housing Sector



Based on the Value Chain analysis, the following key challenges have been identified as critically inhibiting the development of a robust and affordable housing market in Pakistan.

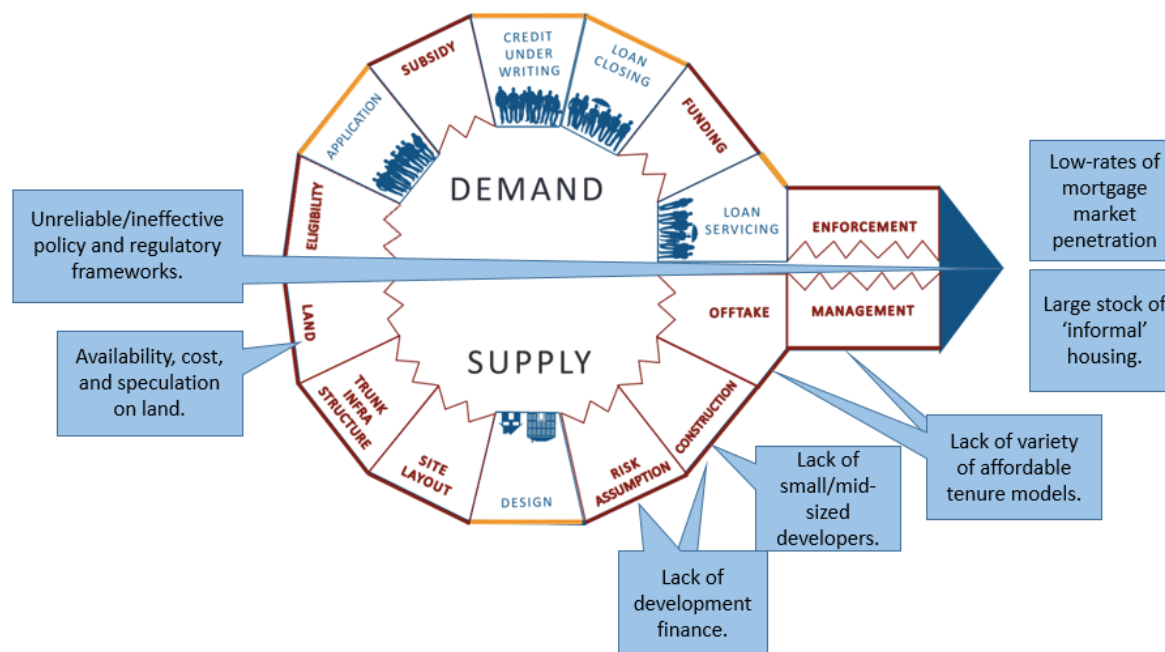


Figure 3: Key Challenges in Pakistan's Housing Ecosystem

- **Limited dedicated land supply for housing, and specifically affordable housing development.** The overall limited availability of developable land results in higher land costs and speculative pricing on the land that is available. Acquiring land for housing development through legal or formal channels is limited, particularly in urban areas. There are challenges with both privately held land and government owned land, including disputes, illegal occupation, or limitation from development for speculative reasons.
- **Lack of variety of secure and affordable tenure models** results in narrow pathways for access to housing and affordable housing, essentially restricting opportunities for household advancement and stabilization – both physically and economically.
- **Unreliable policy and regulatory frameworks** effect the entire ecosystem by increasing uncertainty. It dampens market appetite to engage in, and most importantly, innovate in the housing market. Unreliable and lengthy processes for title clearance, ineffective policies regarding enforcement of eviction and foreclosures, and limited policy frameworks for multi-family development combine to create a disabling environment for housing development and discourage private sector entities from entering into the middle and lower-income housing market.
- **Low rates of mortgage market penetration, and housing finance in general,** indicate the limitations for many households to access formal finance for purchase and improvement of their homes. This lack of financeable demand results from several causes, including the previously referenced ineffective policy and regulation around title and foreclosures, as well as the macro-economic conditions that have resulted in variable and high interest rates.

- **Lack of construction and development finance** in Pakistan, creates a situation in which developers must rely on either their own financial resources or pre-sales to finance a project. This, in turn, results in entities focusing primarily on land aggregation and distribution, leaving the actual development of houses to individual households. It also creates a barrier to entry for new developers and places households at risk for delays and/or non-completion of the project.
- **Lack of housing developers and small-to-mid-sized developers**, limits innovation and piloting of development approaches that could reach middle- and lower-income households. Housing development is an inherently risky business, so for a small player to break into the space they must be able to operate in an enabling environment that mitigates some of the risks.
- **There is an untapped housing resource present in the informal sector.** Though real, the risks and challenges associated with financing and improving informally constructed housing stock are often perceived to be higher than they practically are. The analysis of the consultations and the desk research suggest that there is a substantial stock of informal housing in Pakistan which is in fact durable and improvable, and represents a substantial opportunity for the expansion of affordable housing if legal impairments were removed. While there is not currently a consistent framework for regularization in Pakistan, there are numerous international examples that could inform future policy and action in this regard.

DFID is best positioned to consider interventions at one or multiple steps along the supply side. The moderately challenged segments of the demand side mostly represent where the formal financing sector has in place certain standards that, for a small percentage of the market, facilitate financial access. However, the considerable macroeconomic and fiscal issues, coupled with the recently imposed IMF reforms, means there is little to no ability to move the financial markets toward housing affordability for lower or even middle-income groups without significant change in the supply of housing. Once fiscal and macroeconomic constraints on bank lending are mitigated, the necessity and potential effectiveness of demand side interventions can be assessed.

1.4. Potential Solutions

Given the breadth of challenges in Pakistan’s housing ecosystem there is a wide-range of interventions that could be substantially impactful in increasing access to affordable housing in Pakistan. The following table summarizes the universe of potential solutions described in further detail in the main report.

Table 3: Key Challenges and Potential Solutions

Key Challenge	Existing Initiatives	Potential Solutions
A. Limited land supply for housing	Naya Pakistan Housing Program (NPHP)	1. Increase access to, and availability of, suitable land
		1a. Land banking and allocation for low-cost housing development, eminent domain
		1b. Zoning modifications, restrictions on low-rise urban sprawl, density bonuses
		1c. Technical assistance for land management, GIS, titling, and allocation
B. Lack of variety of secure and affordable tenure models	Sindh province condominium legislation	2. Diversify financeable tenure models
		2a. Develop rental sector with legal frameworks and affordable rental development incentives
		2b. Develop shared ownership models, legal frameworks, properties
		2c. Mobilize demand through expansion of options and community-based campaigns
C. Unreliable legal, regulatory frameworks	Sindh condominium legislation	3. Improve legal and regulatory frameworks related to housing
		3a. Develop housing PPP frameworks
	Existing foreclosure/tenancy laws	3b. Expand/ replicate condo legal frameworks
		3c. Strengthen fair eviction laws/ building standards to enable rental market
		3d. Strengthen foreclosure laws to enable mortgage expansion
D. Low rates of mortgage market penetration	PMRC SBP low-cost housing policy (<i>suspended</i>)	3e. Improve efficiency of legal proceedings
		4. Mitigate perceived financial risk in order to address real risk
		4a. Design title guarantee/ insurance products
		4b. Design credit enhancement for non-conforming loans
		4c. Design targeted loan products (lower income households, condos)
E. Lack of development finance	None	4d. Create alternative reserve requirements for targeted loan types
		5. Increase access to development finance
		5a. Establish development finance fund with specified target market for offtake
F. Lack of small and midsize developers	Ansaar Management Company	5b. Pay-for-performance incentives for developers who target low-/middle-income households
		6. Create enabling environment for small & midsize developers to enter the market
		6a. Provide capacity building for small developers
		6b. Develop PPP frameworks that encourage participation of small developers
G. Large stock of quality 'informal' housing	Local homestead-style title formalization given performance conditions	6c. Create a ring-fenced pot of funding for small developers aiming at target households
		7. Formalize well-built 'informal' housing
		7a. Expand/ create legal paths to title regularization and property formalization
		7b. Establish and enforce criteria for location and building safety

1. Increase access to, and availability of, suitable land

In order to bring down the cost of land, and reduce speculation, more land must be made available for housing development and specifically allocated for secure and affordable housing. In the case of Pakistan the physical land is available, but is limited from development through policy and regulation. As cities grow, and the housing shortage increases, it becomes increasingly critical to review and update land policies to create an enabling environment for coordinated development of safe and affordable housing which avoids the negative environmental impact of unplanned urbanization and promotes social inclusion through integrated planning.

a. Land banking and allocation for low-cost housing development

A Federal Land Bank would help to ensure an adequate and appropriately located supply of land for affordable housing. Such an entity would also help to establish a coordinated approach to the identification and allocation of land among Federal, Provincial, and Local governments, and could also acquire land with certain proscriptions on purpose and use. If urban policies can be coordinated with housing policies, the creation of a land bank will contribute to the creation of a sustainable and resilient urban growth model that encourages a healthy density and diversity of housing typologies.

b. Zoning modifications

Zoning, though inconsistently enforced, is an established practice in Pakistan and can be used to encourage the development of a broader range of affordable housing options, both by typology and tenure. In the particular case of Pakistan modifications to zoning codes that focus on providing incentives for higher-density mixed-use and mixed-income developments and restricting low-rise urban sprawl are likely to be the most catalytic.

c. Technical assistance for land management

As described in the value chain assessment, the current systems for land management in Pakistan are complex, and burdened by various legacy mechanisms. Federal, provincial, and municipal agencies that engage with the management and allocation of land would significantly benefit from technical assistance in GIS mapping, titling processes and reforms, and allocation mechanisms.

2. Diversify financeable tenure models

Homeownership is the most common form of tenure, the most common tenure model for property developers, and usually the first tenure type to be incentivized by government. But urban societies flourish when there is an ample supply of quality rental housing, and homeownership should seldom represent more than 75% of the residential tenures in cities. For this to happen, the government has to encourage and support the development of quality, secure affordable non-homeownership models, financial structures, and specialist entities (developers, owners, and managers).

a. Develop rental sector

For the rental sector to become a viable development asset class, it needs an enabling environment comprised of: legal frameworks that establish appropriate forms for multi-unit apartment ownership by individuals and entities; standardized residential leases with appropriate consumer protections; structure regulatory oversight of landlords; and multi-unit property configurations that increase density while improving the neighborhood environment.

b. Develop models and legal frameworks for shared ownership

In this context, 'shared ownership' can mean either:

- A rental co-operative, where the renter households own shares in a co-operative company that is itself the legal owner of record, or
- A landlord-renter relationship in which the landlord sells the household a percentage of the flat upon move-in, rents the remaining percentage, and grants the renter household the right to buy additional pieces in steps or stages.

Both forms exist atop the foundations of a viable rental housing ecosystem and have been proven in international contexts.

c. Mobilize demand through community-based campaigns

For households, rental housing is a lifestyle concept, and unfortunately often associated with poor quality housing and uncertainty. However, when people are given the opportunity to be renters together, in a community-led building, they have a different perspective on ownership, control, governance, management, and their society. It can become empowering at many levels, including financial and entrepreneurial. In the context of Pakistan, community-led savings co-operatives offer an opportunity for partnership. As many community-led savings groups are oriented around women within a household and other women's inclusion initiatives, this partnership represents a further opportunity for support to, and empowerment of, women in the stabilization and growth of their communities.

3. Improve legal and regulatory frameworks related to housing

As described in the value chain analysis, inefficient and unreliable regulation within the housing sector adds time, uncertainty, and ultimately cost to the development process. This, in turn, results in less production and higher sale prices for completed housing. The following five areas of regulation could be targeted to enable a more functional and streamlined development process:

- a. Develop housing PPP frameworks;
- b. Expand and replicate condominium legal structures;
- c. Strengthen fair eviction laws to enable the rental market;
- d. Strengthen foreclosure laws to increase financial institution in lending and expand the mortgage market;
- e. Improve efficiency of legal proceedings related to land, eviction, and foreclosure.

4. Mitigate perceived financial risk in order to address real risk

Stimulating the supply side and increasing the production of new homes requires actors in the market to take three main types of risk – delivery risk, offtake risk, and disruption risk. In addition to these being real risks, developers make decisions whether to proceed, and bankers make decisions whether to lend, on the basis of perceived risk, and in both circumstances government intervention, in the form of structured risk mitigation financial tools, can significantly reduce perceived risk and hence boost both market interest and housing production. Four proven tools that can help mitigate both perceived and real risk are:

- a. Title guarantee and insurance products;
- b. Credit enhancement schemes for non-conforming loans (e.g. formally titled, but informally built structures);

- c. Targeted loan products for specific household and tenure types (e.g. lower-income households or condominium ownership);
- d. Alternative bank reserve requirements for targeted loan types.

5. Increase access to development finance

For developers, access to development finance is the lifeblood of their growth. Making development finance available for specified types of developments can not only stimulate a market, it can often create one from scratch. In the purely private market, development finance comes from four sources: construction loans from banks, down payments or deposits from off-plan sales, private equity from investors, or the sponsor’s own liquid capital. None of these sources are friendly to aspirational developers, which is why in many countries real estate development is concentrated through entities that are already large. Government can break this logjam at a single stroke, by creating a development finance fund that is targeted as broadly or narrowly as government chooses, focusing on; developer type, housing affordability, offtake targets for affordability or household type, and combinations of the foregoing. Programs can also be established that provide pay-for-performance incentives to developers for creating housing stock that is affordable and accessible to low- and middle-income households.

6. Create enabling environment for small and mid-sized developers to enter the market

Development, as a business, is significantly different than general contracting – though they are often conflated in under-developed markets. For a short comparison, see the inset box below.

<i>Design-build general contractor</i>	<i>Developer</i>
<ol style="list-style-type: none"> 1. Creates master plan for affordable housing on a particular site 2. Proposes building typology 3. Proposes apartment configuration 4. Proposes principal construction materials 5. Value-engineers cost 6. Clears physically vacant site 7. Constructs the property to specifications 8. Delivers Certificates of Occupancy (CO’s) 	Everything the design-build general contractor does ...
	<i>... plus ...</i>
	<ol style="list-style-type: none"> 9. Secures site control 10. Clears site of adverse possession 11. Arranges for trunk infrastructure 12. Secures construction financing (debt, equity, or a combination) 13. Borrows construction financing 14. Funds cost overruns (all) 15. Achieves offtake by selling homes 16. Captures development profit (net)

At the essence of development is the willingness to accept risks of future performance that are hard to quantify and hard to insure against or hedge against. For these reasons, supply-side initiatives in Pakistan should not only deliver financial products (e.g. development loans, risk mitigation) and production resources (e.g. land, infrastructure), it should also take affirmative steps to broaden the

population of residential developers and to encourage contractors and builders to become affordable housing developers.

a. Provide capacity building for small developers

In this context, ‘capacity building’ means educating existing firms about what it takes to enter the affordable housing development arena. Particular skills or topic areas for which training and a course of study will yield significantly improved performance include: from general contractor to developer, Working with government as a partner, public private partnership, affordable housing as a distinct asset class, and why it can be profitable long-term.

b. Develop PPP frameworks that encourage the participation of small developers

Governments around the world have discovered, often after decades of trial and error, that despite its complications public-private partnership (PPP) tends to be the more durable and best value for money mechanism for delivering large-scale affordable housing. The Naya Pakistan Housing Programme is a natural to be an umbrella organization or office that can create, standardize, facilitate, and build a national PPP strategy executed by smaller regional developers and provinces or municipalities.

c. Create a ring-fenced pot of funding for small affordable housing developers

For an established business, any new business line represents an expenditure into the unknown: the expenditures are visible and immediate, the revenues further off and uncertain. The benefit-to-cost ratios change when the cost of exploration is reduced or eliminated through pump-priming capital or funding. This can include making capacity building free, offering small grants on a use-it-or-lose-it basis, or providing contingent-repayment loans that are secured mainly by assets (e.g. transactions in process) and repayable from profits or proceeds of a successful transaction.

7. Formalize well-built “informal” housing

Although the desirable end game of urban development is fully formal property, in the real world informal housing always proliferates in rapidly growing urban environments. Often the informal housing is on public or governmentally owned land, which can actually make it harder for government to enforce against what rapidly becomes a large mass of people. In such circumstances, time and again it has proven better to create paths to formalize well-built informal housing than to try to demolish informal housing or to compel the new urban immigrants to relocate elsewhere. There are numerous global examples of initiatives that have successfully created pathways to formalization for well-built and safely-located housing stock.

a. Expand, or create, legal pathways for title regularization and formalization of well-built property

Starting with the United States Homestead Act of 1862, governments have regularly used the concept of ‘earned formalization’, whereby the household occupant/ owner of a property is promised receipt of a formal title and a ‘grandfathering’⁷ of the property’s existing construction *provided that* the householder earns this by taking forward actions. There are currently some municipal-level initiatives for formalization of informal settlements in Pakistan, but these initiatives are not currently coordinated

⁷ Grandfathering means a provision that exempts existing property from current rules that apply to new property. Those exempt from the new rule are said to have *grandfather rights* or *acquired rights*, or to have been *grandfathered in*. Frequently, the exemption is limited, set as of a moment in time, and may be lost if, for example, the property is further expanded. Grandfathering is often used out of practicality, to allow new rules or improved standards without upsetting an established situation.

with municipal or provincial masterplans, and are inconsistent as to the requirements for approval. Further development of these pathways could enable expansion of the affordable housing markets.

a. Establish, and enforce, criteria for building location and safety

Guidance and enforcement is needed to identify suitable locations and standards for development – these typically take the form of land use zoning or development plans and building codes. Location criteria are informed by a range of physical and socio-economic factors (e.g. natural and man-made hazards, topography, proximity to services, density etc) to identify appropriate sites for housing and other forms of development which maximize the utility of the location and encourage sustainable development.

Such guidance is currently limited in Pakistan and particularly in the main urban centres which also lack enforcement. The result is discontinuous development which creates a sub-optimal environmental and social context. Furthermore, the absence of appropriate codes and their enforcement discourages finance from assuming liabilities over built assets as collateral.

1.5. Next Steps

Per the Terms of Reference this report has focused on providing an analytical overview of the housing challenges in Pakistan and a menu of options for potential catalytic intervention in the sector. Further research into appropriate partnerships, feasibility testing, and design will be required in order to carry forward any of the proposed solutions. Additionally, it is expected that this report can be used as a foundation for conversations with other DFIs – particularly IFC and the World Bank – related to coordination and potential partnership in developing initiatives that will have positive, sustainable and catalytic impacts on housing in Pakistan and support collective efforts to achieve more inclusive and sustainable development throughout the country.

