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ANALYSIS OF THE FEASIBILITY OF MORTGAGE LENDING BY COMMERCIAL BANKS

IN

PAKISTAN

FINAL REPORT

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AUGUST, 1992

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ANALYSIS OF THE FEASIBILITY OF MORTGAGE LENDING BY COMMERCIAL BANKS IN PAKISTAN

DRAFT REPORT

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(01)

Analysis of the Feasibility of Mortgage Lending by Commercial Banks in Pakistan

Draft Report

SUMMARY OF FINDINGS:

Commercial banks currently have neither the will nor the resources to enter the field of housing finance in any significant way. The lack of willingness is due to

(a) lack of knowledge, understanding and experience of housing finance system and its operations;

(b) absence of initiative in the nationalised set up and directed credit management (Hopefully the conditions on this account are improving);

(c) myth of high risk associated with housing finance, in the light of the experience of HBFC - the only housing finance institution in the formal sector - and banks' own experience in foreclosing mortgages/recovery of loans with the intervention of courts;

(d) traditionally, commercial banks borrow and lend short term. Housing finance generally involves lending for long term. Hence experience in matching funds (borrowing short term and lending long term) and management of liquidity, interest and inflationary risks over longer term is not available; and

(e) the experience of commercial banks in short term lending bridge financing to developers/cooperative societies, although limited, is not encouraging. There is no institutionalised system to open project accounts in the banks to be operated jointly or singularly by the banks.

02. Lifting of credit ceilings under the new credit management policy shall have very little impact on the mix of the present portfolio of lending of commercial banks for quite some time as

(a) short term lending to finance working capital requirements and demands of commerce and trade are most profitable as they generate ancillary business; and

(b) any excess liquidity is invested in FIBs as they yield a return of 15%, are also part of statutory reserves, can be encashed any time and are risk free. This practice is expected to continue.

03. Unlike neighbouring countries of the region low priority is assigned to housing finance by the Government/State Bank of Pakistan.

(a) Instead of mandatory targets related to assets as in Malaysia or assignment of a percentage of incremental deposits as in India, or an exemption from statutory reserves of a certain percentage of housing loans as in Thailand, ceilings are imposed on housing finance by SBP under their credit management policy. Even these low ceilings are not utilised. In fact the employees of the bank utilise about 95% of the ceiling as this is a part of their perks.

(b) no refinance facility is available for housing finance;

(c) no central agency exists to coordinate, facilitate flow of local and foreign funds in the form of equity or loan or both for housing finance to HFCs and commercial banks.

04. Commercial banks shall watch the performance of the new HFCs which have been given a go ahead signal under the legal framework issued in December 1990. They are in embryonic stage. Hence there is need and urgency to facilitate their healthy births in a congenial environment.

ACTION TO BE TAKEN BY THE SRMP:

05. There are three areas which need immediate attention of the SRMP to create an enabling environment for commercial banks to enter the field of housing finance.

(a) Marketing of effective housing finance system (HFS).

(b) Preparation of Studies on key issues.

(c) Training and Technical Assistance.

(a) Marketing of HFS:

An extensive marketing/promotional campaign has to be launched to disseminate knowledge about HFS; its essential building blocks and instruments of operations; management of credit, interest rate and liquidity risks; portfolio management - matching short term borrowings with long term lending - debt management; presentation of success stories of HFCs and commercial banks in the neighbouring countries in the field of housing finance and the incentive/facilitating package available to them. Following steps would be necessary

(i) holding a high level two day seminar to be inaugurated by Prime Minister/Finance Minister and attended by Chief Executives of HFCs, Presidents of Commercial banks, leading financiers; top officials of M/o Finance, SBP. The guest speakers from USA; India; Malaysia and Thailand should be invited;

(ii) organise seven/eight one to two day seminars in all important towns and cities;

(iii) collection and preparation of background material for writing of articles brochures by leading economists financiers, bankers, economic journalists, builders, developers social scientists community workers for publication in leading journals/news papers;

(iv) preparation of films and other audio visual aids; and

(v) arrange group discussion of opinion builders at informal meetings as well as on T.V. and Radio.

(b) <u>Preparation of Studies on Key Issues</u>:

In order to focus attention on key issues and explode the myths associated with housing finance, a number of studies may be undertaken on the following subjects - work on some of which has already started.

(i) Study on foreclosure/mortgage loan recovery mechanism and relevant laws;

(ii) study on legal framework for sanctioning HFCs and preparation of detailed guidelines for their operation plans;

(iii) capital markets in Pakistan, resource mobilisation for housing sector;

(iv) designing of mortgages and saving schemes for different sections of society;

(v) a design for short term financing to housing sectors; and its matching with long term financing;

(vi) motivation of commercial banks in the field of housing finance; and

(vii) an institutional framework for a central coordinating, facilitating and refinancing agency.

In this connection the commercial banks should be encouraged to prepare studies and formulate proposals to be funded by the SRMP for participation in both short and long term financing.

(c) <u>Training and Technical Assistance</u>:

Lack of education and training in the field of housing finance is the most important constraint in the field of housing finance. It is therefore essential that;

(a) senior management of State Bank of Pakistan; Commercial banks and HFCs - President, First Women Bank, Chief

Executives of Cres Investment Bank and Institute of Bankers Pakistan have shown interest - be sent for a study tour of the HFS and HFIs in India, Malaysia and Thailand;

(b) courses on housing finance may be organised at the Institute of Bankers for training of senior and middle management level bankers; and

(c) senior bankers may also be considered for participation in training courses conducted by Housing Development Finance Corporation (HDFC), Bombay.

Technical assistance would be necessary to design courses for training; initiate exchange of faculty/experts between training and research institutes of India, USA, Malaysia and Thailand and that of Pakistan such as Institute of Bankers in Pakistan (IBP) and Institute of Business Administration (IBA), Karachi. The training facilities of IBP and HBFC would also need upgradation.

BACKGROUND:

06. Government intervention in the allocation of credit has been quite extensive in Pakistan. Prior to 1972, State Bank of Pakistan relied on indirect quantitative and qualitative credit control measures to direct the flow of bank credit to different sectors and uses. The Bank rate was raised to 10% in 1977 and has remained at that level since. Interest rates on deposits and advances have generally moved in line with the Bank rate. The minimum statutory requirement for liquidity ratio including cash reserve was raised to 25% in 1967, 30% in 1972; 35% in 1973 and 40% in August, 1992.

Requirements of cash reserve have been 5% of total deposits. Margin requirements were used frequently to discourage imports and speculative stocking of goods. In the seventies, however, these indirect measures were supplemented with direct control on credit through mandatory targets, concessionary finance and credit ceilings. The credit control committee enforces the credit policy with a view to maintain stability in the financial sector and for flow of credit to essential and priority sectors. For this purpose National Credit Consultative Council (NCCC) was established in September 1972 under the Chairmanship of the Governor State Bank of Pakistan. For the allocation of volume of credit, the State Bank of Pakistan prescribes quarterly ceilings for individual banks in the light of overall limits determined by NCCC and seasonal demand. An upper ceiling is fixed upto which a bank can make advances to private as well as public sector. As part of the overall credit ceilings for a bank, sub ceilings are also fixed for pre-shipment export credit; fixed industrial investment; housing loans etc. In case ceiling is breached, bank is liable to pay penalty. In cases of priority sectors of agriculture, small loans for business and industry, mandatory targets are fixed which if not attained would also call for imposition of penalty. Trading in ceilings is allowed among the banks and the rates charged depend on demand for and supply of such ceilings and is generally higher than the one in call money market as they are traded for 15 to 90 days. Tools of credit control are discussed in detail in Annexure I.

INTRODUCTION:

07. Although a degree of intervention may have been instrumenta in providing liquidity to achieve socio economic objectives the evidence suggests that directed credit program have beei an inefficient way of redistributing income and of dealin! with imperfections in market. The Government of Pakistan, a: a measure of reforms to restructure and liberalise th(financial sector, had announced that with effect from Jul) 01, 1992 - the beginning of financial year 1992-93 - th(scheme of credit ceilings as in vogue shall be discontinued. However, the existing system of credit ceiling fo! individual banks ended with effect from July 30, 1992 vid(State Bank of Pakistan's Circular dated July 27, 1992 - cop) at Annexure II.

08. State Bank of Pakistan would now regulate credit expansior in commercial banks through open market operations, changes in cash reserve and liquid assets requirements and by fixation of credit deposit ratio. The credit deposit ratio for July-September 1992 quarter shall be 30% of the bank's average weekly local currency deposit and 40% foreign currency deposit during the preceding quarter. The practice of fixing mandatory targets and ceilings continue. The objective of the credit ceilings reforms is to reduce the role of the central bank and SBP as a lender of first resort.

09. The study analyses the impact of the credit ceiling reforms in general and on housing finance in particular; the attitudes of the commercial bankers towards housing finance,

present level of their activity in the field of housing finance; prospects of their greater participation; the factors which inhibit their participation and actions/incentives needed by the Government/SBP/SRMP to motivate them in entering the field of housing finance.

10. Meetings were held at the Institute of Bankers in Pakistan (IBP) to prepare a list of banks to be interviewed and finalise questionnaire to be answered by the bank officials. These were attended by Chief Executive IBP; Mr. Jabbar, Former President of Habib Bank, and National Bank of Pakistan; Mr. Hyder of Habib Bank; Dr. Mahfooz former Advisor of United Bank besides President, Managing Director and Consultant of the contract firm. Contacts were also established with senior officials of banks individually and collectively. As a result of these discussions, questionnaires were prepared which were finalised subsequently in consultation with SRMP, Chief Technical Advisor.

11. The first questionnaire was to be filled by the bank staff and the second one to be filled by the interviewer. The List of Bankers contacted is at Annexure III and Questionnaires at Annexures IV and V. The response in filling the questionnairs was poor but senior bankers of all the banks contacted, did cooperate fully and participated in discussions individually and collectively. At one of the joint meetings with senior bankers, Housing Finance Advisor SRMP also participated. A number of meetings were held with Dy. Governor (Policy) SBP; Executive Director (Operational)

SBP; Director Banking Control Department SBP; on the new credit regulatory policy and how to create an enabling environment for commercial banks to enter the field of housing finance.

THE CREDIT CEILING REFORM:

12. The National Credit Plan (NCP) prepared by the NCCC is the primary instrument to control not only the overall monetary expansion but also the direction and magnitude of credit flows to various sectors of the economy. In order to ensure that the aggregate credit expansion by commercial banks does not exceed the overall limit, the SBP Until July 30, 1992 allocated individual ceilings to all commercial banks, calculated on the basis of bank's share of total deposits in the previous year, size of the capital fund; foreign currency deposits and the previous year's utilisation. To promote the flow of credit to priority sectors of agriculture, small scale industry, small business, mandatory targets were laid down. Ceilings were fixed for preshipment export credit, fixed industrial investment, housing loans. If mandatory targets were not achieved or ceilings were breached, penalty was imposed by SBP.

13. One of the basic problems of credit controls was that allocation of commercial bank credit to the private sector was treated as a residual after meeting the credit requirements of the government and public sector enterprises. Credit ceilings have tended to adversely affect commercial banks' incentive to mobilise deposits, and

inhibit competition among banks. They severely limited bank's ability to respond to its special type of business, size and rate of growth. The direct control was super imposed from above based on rather inadequate and weak information and hence could not readily react to changing demand of the market.

14. With the introduction of financial reforms, there is shift from direct to indirect monetary control i.e. to a more flexible and market based monetary control. There is a target rate of monetary expansion that allows total demand to expand consistent with the overall growth in real resources without leading to undue price pressures. This should benefit the more aggressive and efficient banks as it would provide a stronger incentive for deposit mobilisation, profitability and reduction in arrears'/delinquencies. As the money market develops and a stable 'markup structure emerges, opportunities for indirect demand management will present themselves and credit ceilings can eventually be phased out. The key policy tool under indirect monetary control shall be the management of money reserves, through open market operations; changes in cash reserve requirements, discount rate, liquidity ratio and miscellany of credit controls such as prescription of credit deposit ratio, minimum margin requirements, prohibition of advances for certain purposes.

15. In pursuance of the above policy, the credit deposit ratios for commercial banks for July-September 1992 quarter were fixed at 30% of bank's average weekly local currency

deposits during the preceding quarter and 40% of foreign currency deposit - Annexure II.

In other words, the credit operations would now be governed by the level of deposits in the following manner.

(A) Liquidity Ratio/Reserve Requirements 40%

Cash Reserve 05%

Other Reserves 35%
Gold, Approved Securities; FIBs
(Raised from 30% to 35%-mid August 1992)

(B) Mandatory targets & Ceilings 30%

(C) Discretionary 30%

16. The mandatory targets are laid down for priority sectors such as agriculture finance; small scale industry and business while ceilings are fixed for housing loans and fixed industrial investment. In the unregulated sector commercial banks mainly concentrate on short term financing in the field of trade and commerce of which they have knowledge and expertise. Besides being of short term nature, risk element is minimum and generates ancillary business. They also meet working capital requirement which are of short term nature.

17. It should be noted that advances to Government and public sector agencies, Preshipment Export Finance, commodity transactions of public sector agencies do not form part of credit regulation. They are reimbursed by the State Bank of Pakistan.

ATTITUDES OF BANKERS TOWARDS HOUSING FINANCE:

18. As a result of discussions and interviews with bankers, the consensus that emerges is

(a) Lifting of credit ceilings under the new formula does not change the present position in any significant way. The only change is that credit is linked to deposit in a transparent manner. Mandatory targets to priority sectors and ceilings to other sectors including housing continue. Banks had freedom to the extent of around 30% to conduct business in their traditional fields under the regulated system.

(b) Housing sector has been and is most unattractive sector for the commercial banks for the following reasons:

(i) Investments are long term 15 to 20 years while funds available are for short term maturity and hence a large capital base is required to keep balance between supply of and demand for funds;

(ii) high risk due to inflation, change in interest rate, mortgage foreclosure laws; delays in court proceedings; problems in eviction;

(iii) lack of knowledge and experience of the housing finance;

(iv) unfortunate experience of HBFC and their own in foreclosing mortgage cases; and

(v) availability of attractive alternative avenues.

(c) As and when they have excess liquidity, the most attractive venue for investment are Federal Investment Bonds which yield a return of 15% and are also considered part of statutory reserves. These can be encashed immediately and are risk free.

(d) Housing sector can only be attractive if there is reasonable security and higher return.

(e) With the reforms in credit ceilings, the present mix of lending activities is therefore, not expected to change in any significant way.

CURRENT LENDING BY COMMERCIAL BANKS:

19. Commercial Banks in Pakistan are very conservative organizations. Prior to nationalisation (1972) most of them generally followed prudent lending policies. The overall conservative and inward looking behaviour further became pronounced since nationalization with loss of risk-incentive - reward framework and loss of autonomy. In fact profit maximisation motive was substituted by risk aversion. Three of the Nationalised Commercial Banks (NCBs) account for about 75% of advances of the Commercial banking sector. The total deposits (fixed and Savings Account) of scheduled banks jumped by about 67% from a level of Rs. 123,576.00 million on June, 1986 to Rs. 206,921.00 million on June, 1990, while advances to private sector business increased by 62% during the same period as may be seen from the following table.

SCHEDULED BANK DEPOSITS AND ADVANCES

Million Rs.

	Deposits			Advances	
	Savings	Fixed	Total	Private Sector Business	Total
June 1986	67,489	56,087	123,576	93,005	133,676
June 1987	81,281	64,977	146,258	110,413	149,158
June 1988	92,612	66,645	159,257	118,126	163,051
June 1989	100,229	78,318	178,547	133,536	178,471
June 1990	115,732	91,189	206,921	155,794	216,990

Source SBP - Annual Report 1990-91
Statistical Annexure Page 60-61

Source SBP - Annual Report1990-91
Statistical Annexure Pae 36-37

20. The profit centres for the business of banks have traditionally been Machinery, Merchandise and Precious metals where rate of return has consistently been between 10% to 13% during 1986-91 period. The rate of return on Real Estate has been low about 7.9% in June, 1991 as may be seen in the table below.

CLASSIFICATION OF SCHEDULED BANKS' ADVANCES

Weighted Average Rates of Return

END OF PERIOD	Precious Metals	Stock Exchange Securities	Merchandise	Machinery	Real Estate	Financial Obligations	Others	TOTAL ADVANCES
June, 1986 Overall	12.92	10.76	11.76	12.80	10.90	9.04	9.30	10.91
(Private Sector)	(13.18)	(10.04)	(12.16)	(12.95)	(11.50)	(9.07)	(9.24)	(11.21)
June, 1987 Overall	11.40	10.80	11.19	12.63	11.00	11.02	9.70	11.00
(Private Sector)	(12.16)	(10.11)	(10.95)	(12.71)	(11.73)	(11.13)	(9.52)	(11.20)
June, 1988 Overall	11.03	11.50	10.79	13.00	10.52	8.76	9.15	10.70
(Private Sector)	(11.19)	(11.39)	(10.71)	(13.40)	(11.55)	(8.80)	(8.73)	(10.98)
June, 1989 Overall	9.11	11.04	10.60	13.62	10.74	8.67	9.26	10.89
(Private Sector)	(9.29)	(10.91)	(10.59)	(13.87)	(11.67)	(8.66)	(9.15)	(11.16)
June, 1990 Overall	10.14	11.34	10.80	13.12	10.21	9.36	8.28	10.59
(Private Sector)	(10.95)	(10.91)	(10.50)	(13.22)	(11.02)	(9.35)	(8.31)	(10.77)
June, 1991[P] Overall	9.19	8.72	8.66	10.43	7.92	8.58	7.47	10.73
(Private Sector)	(10.80)	(10.79)	(10.27)	(12.05)	(9.92)	(10.63)	(8.34)	(11.03)

Source SBP - Annual Report 1990-91
Pages 74-75 Statistical Annexure

21. The rate of return on Saving deposits has fluctuated between 7.3% to 8.5% during the 1986-91 period. The return on fixed deposits for five years and more has been between 11.52% and 14.75% during the same period as may be seen in the following table.

Distribution of Schedule Banks' Deposits
Weighted Average Rates of Return

END OF PERIOD	Current Deposits	Call Deposits	Other Deposit Accounts	Saving Deposits	FIXED DEPOSITS							TOTAL DEPOSITS
					Less than 6 months	For 6 months and over but less than 1 year	For 1 year and over but less than 2 years	For 2 years and over but less than 3 years	For 3 years and over but less than 4 years	For 4 years and over but less than 5 years	For 5 years and over	
June, 1986	—	4.44	3.90	7.61	7.89	9.04	9.41	10.53	11.38	11.91	12.03	8.80
June, 1987	—	4.96	2.53	6.98	7.69	6.34	6.08	10.10	11.72	11.78	12.20	7.87
June, 1988	—	3.19	2.65	7.30	7.24	8.24	8.11	10.58	11.31	10.50	12.08	7.67
June, 1989	—	3.73	2.63	7.16	9.78	9.40	7.29	8.13	10.12	11.75	12.25	7.95
June, 1990	—	2.31	4.21	7.45	8.59	10.65	8.38	8.92	8.21	12.59	11.52	8.23
June, 1991	—	3.75	4.03	8.50	10.25	11.72	11.01	11.65	11.80	13.04	14.75	9.82

Source SBP - Annual Report 1990-91
Pages 76-77 of Statistical Annexure

23. Under the umbrella of regulatory credit mechanism, 90% of the commercial banks activity concentrated in the fields of Manufacturing. Agriculture and Commerce. Construction was at the bottom 2% to 3% as may be seen from the following table.

Schedule Bank's Advances

Private Sector Business

Million Rs.

	1986 Amount	1986 % of total	1987 Amount	1987 % of total	1988 Amount	1988 % of total	1989 Amount	1989 % of total	1990 Amount	1990 % of total
Total	93,005		110,413		118,126		133,536		155,794	
Agriculture	19,920	(20%)	27,923	(25%)	31,393	(26%)	37,225	(28%)	39,916	(26%)
Manufacturing	36,039	(39%)	42,778	(39%)	50,572	(43%)	54,115	(41%)	63,978	(41%)
Construction	3,804	(04%)	2,418	(03%)	2,569	(02%)	3,167	(02%)	4,314	(03%)
Commerce	21,567	(23%)	24,371	(22%)	23,903	(20%)	28,431	(21%)	35,376	(23%)

Source SBP - Annual Report 1990-91

- Pages 36-37 - Statistical Annexure

24. Traditionally commercial banks have focused their attention for short term lending in the field of financing working capital requirements and those of commerce and trade which generate ancillary business. The spread that they normally get is between 7 to 8 percentage points - lending at 17 to 19% and borrowing at around 10% with minimum risk and quick maturity.

25. The maximum lending to housing sector by the commercial banks interviewed has been between 1 to 3% of the total advances. According to the instructions of Pakistan Banking Council, commercial banks started house financing on income loss sharing basis as well as mark up basis. The basic principles under income loss sharing scheme are as follows:

(a) The property shall be registered in the joint names of banks and partners. In fact draft of the sale deed should be drawn by the bank lawyer. A standard agreement sale deed was drafted and circulated to the banks;

(b) price of land, cost of construction and rentals should be assessed in consonance with the prevailing market rates in the area. Bank engineering staff, surveyors valuers/architects, could be consulted if considered necessary.

(c) Income and loss of the property shall be divided between partners and the bank in the same proportion as their investment;

(d) gross rental income shall be revised every three years exclusively by the Bank till the entire investment of the Bank is repaid by the partner; and

(e) the net income of the property shall be worked out after deducting from gross rental income the following:

(i) actual property tax or an amount not exceeding 20% of gross annual rental income whichever is lower; and

(ii) an amount equivalent to 1/12th of the gross annual rental income on account of maintenance of the property.

(f) Share of the bank in the net annual rental income and return of the principal amount shall commence from the first of the month next following the date of sale deed.

(g) The share of the bank shall be paid whether or not said property has been rented out and irrespective of any loss of monthly income at any time during the currency of the agreement.

(h) The property shall be insured in the joint names of the bank and the partner. The payment made by the Partner shall be credited first against the payment of the bank's share in the rental income, then other dues and lastly against the principal amount.

(i) The property during the currency of the agreement could be disposed of on payment of all outstanding dues and share in the capital gains equivalent to highest annual rental of the property.

26. The above scheme was more or less similar to the Profit and Loss Sharing Investment Scheme introduced by HBFC since July 1979. The experience of HBFC is not very happy. Moreover, working out the share in net rental income involves time consuming, expensive, complex and arbitrary decisions at the level of bank managers throughout the country. Furthermore, share has to be changed every three years.

27. The commercial banks generally finance purchase or construction of a house on mark up basis with effect from March 1985. Under this system it is assumed by the Bank that the client already owns the land/house, sells it to the Bank and simultaneously repurchases it from the Bank on 'mark up basis'.

The mark up currently is paisas 41 per 1000 on daily product basis. This works out to a return of about 15% per annum. Sale price is determined by updating daily products of all debit balances in the Account upto the expiry date and totalling them up. Maximum amount to be advanced remains at Rs. 300,000.00 or 75% of the acquisition value of the house or cost of construction theron most conservatively assessed which ever is lower. The detailed mechanism is discussed at Annexure VI. In mark up system there is no compounding of income if there is default in payment. The following table explains the calculation of income at a notional return of 12% per annum under the two systems of Profit sharing and mark up.

Calculation of Income on Income/Loss Sharing/Mark up System on Rs. 1.0 Lac

Income/Loss Sharing @ 12%

Date	Principal	Income	Total	Repayment	Balance
01.07.92	100,000	—	100,000	—	100,000
01.08.92	100,000 (31 day)	1019	101,019	—	101,019
	101,019	—	101,019	2000	99,019
01.09.92	99,019 (31 day)	1009	100,028	2000	98,028
01.10.92	98,028 (30 day)	967	98,995	—	98,995
01.11.92	98,995 (31 day)	1009	100,004	—	100,004
01.12.92	100,004 (30 day)	986	100,990	—	100,990
01.01.93	100,990 (31 day)	1028	102,019	—	102,019

Balance as on 01.01.93 = Rs. 102,019

Markup Based @ 12% i.e. 0.33/per day/per thousand

Date	Principal	Repayment	Balance	Debit	Credit
01.07.92	100,000	—	100,000		
01.08.92	100,000	981	99,019	1019	1019
		—	—		
01.09.92	99,019	991	98,028	1009	1009
01.10.92	98,028	—	98,028	967	—
01.11.92	98,028	—	98,028	999	—
01.12.92	98,028	—	98,028	966	—
01.01.93	98,028	—	98,028	999	—
				5959	2028
				2028	
				931	

Balance as on 01.01.93 = Rs. 98,028
+ Rs. 3,931 (Balance mark up)

Rs. 101,959

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28. One of the commercial bank interviewed by us - First Women Bank; has been recently involved in Rural Housing Credit Programme with the assistance of World Bank. Under the programme maximum amount of loan shall be Rs. 25,000.00 and shall be advanced at market rate through the Group. Title to the land and saving shall serve as collateral. Details of the programme may be seen at Annexure VII.

CONSTRAINTS LIMITING THE ROLE OF BANKS:

29. There are both external and internal constraints which limit the role of commercial banks in the field of housing finance.

External Factors:

(a) Low priority assigned by the Government to Housing Sector. This is evidenced by the treatment accorded to the establishment and operation of specialised institutions of housing finance. They are not treated at par even with commercial banks for purposes of inter bank borrowing; leverage ratio of deposits to equity mobilisation of short term deposits of less than 1 month.

(b) Commercial banks are allocated by SBP a very low ceiling for financing house construction which is between 2% to 3% of their total lending operations to private sector business. About 95% of the ceiling is utilised by the bank's own employees. This is in fact part of perks and not of housing finance system.

(c) The banks can advance upto a maximum of Rs. 300,000.00 for the construction/purchase of a house as laid down by Pakistan Banking Council.

(d) State Bank of Pakistan has issued Prudential Regulations for regulating the operations of commercial banks with effect from July 01, 1992. In order to enable commercial banks to borrow and advance long term, necessary changes in Prudential Regulations would be necessary. An analysis of Prudential Regulations is placed at Annexure VIII.

Internal Factors:

30. There is myth of high risk and low profitability associated with housing finance. This has been compounded by lack of knowledge and experience in the field of housing finance both short term and long term and experience of HBFC.

EPILOGUE:

31. Commercial banks have neither the will nor the resources to provide financing for housing. The revised policy allowing banks flexibility in credit lending does not provide any incentive as such for undertaking housing finance. Following steps are considered necessary to motivate commercial banks in entering the field of housing finance.

(a) A directive required from SBP/MOF that banks shall provide a certain percentage of the total credit/a percentage of their assets/a percentage of their incremental deposits for housing loans - [like 5% of total assets in Malaysia or 1.5% of the incremental deposits in India].

(b) SBP may provide some re-finance facility at concessionary rates of interest e.g. 25% of the total credit provided by commercial bank to housing sector.

(c) Commercial banks may try (and government to support them) to secure loans/equity for subsidiaries from international agencies to support them in housing finance activity.

(d) Senior bankers have to be educated/convinced of the efficacy of housing finance by

(i) sending them abroad for exposure/training in housing finance activity;

(ii) holding seminars, workshops in Pakistan; and

(iii) conducting training programmes in housing finance.

(e) Bankers will have to be convinced that proper scrutiny of loan applications and tight monitoring of recovery process can ensure good recovery of housing loans without recourse to litigation.

(f) Some amendments in debt recovery mechanisms and foreclosure laws would go a long way in reducing the apprehensions of bankers that housing loans cannot be recovered easily and quickly through courts.

(g) Government may encourage launching of some bank savings schemes linked to house loans.

A scheme similar to the on in Malaysia may be introduced whereby developers be required to open project accounts in commercial banks and all the credit for bridge finance and the payments from the buyers be placed in that account which may be operated by the bank. This will safeguard interest of banks as well as the house buyers.

(i) Facilitate setting up of commercially viable specialised housing finance institutions which would explode the myths of high risk and low profitability and create a healthy environment for commercial banks to enter the field of housing finance.

(j) Provide guidance and financial assistance to commercial banks to undertake studies in various fields related to housing finance.

ANNEXURE

ANNEXURES

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ANNEXURE I

Tools to Control Credit

The State Bank of Pakistan (S.B.P.) has several tools to effect quantitative and selective control of credit:

Bank Rate:

The rate of interest at which S.B.P. buys or rediscounts bills of exchange or other commercial paper is called the Bank Rate. In Pakistan, the Bank Rate was 3% in 1948 and raised to 4% in 1959, 5% in 1965, 6% in 1972, 8% in August 1973, 9% in September 1974 and is, at present, 10% since June, 1977. A higher bank rate proportionately reduces the demand for credit. A change in the bank rate, therefore, influences the volume of credit.

Reserve Requirement:

Under S. 36 (1) of SBP Act, every scheduled bank is required to maintain with the State Bank of Pakistan a balance the amount of which shall not, at the close of business on any day, be less than 5% of the total Demand and Time Liabilities of such bank in Pakistan. Therefore, the amount which is required to be so kept as Cash Reserve with the State Bank of Pakistan cannot be lent out.

Liquidity Ratio:

Under S. 29 (1) of the Banking Companies Ordinance 1962, every banking company is required to maintain in Pakistan, in cash (including Cash Reserve with State Bank of Pakistan), gold or unincumbered approved securities, valued at a price not exceeding the current market price, an amount which shall not at the close of business on any day be less than 35% of the total of its Demand and Time Liabilities in Pakistan. In net effect, therefore, the amount which is required statutorily to be maintained as liquid funds, cannot be lent.

Open Market Operation.

The State Bank of Pakistan may undertake purchase and sale of bills and securities directly. But this technique is generally not effective in Pakistan due to lack of fully developed money and capital market and also because a "parallel" money market exists in the system.

Per Party Limit:

Under the existing credit regulations, no banking company can give advances to a party more than 20% of the Paid up Capital and General Reserve of the banking company concerned. Under this provision, the per party limit for each bank has to be adhered to, no matter whether there is availability in the credit ceiling or whether a first-class security is offered. This is intended to check concentration of credit in big accounts. It is interesting to find that as at 30th June 1983 the number of borrowers who availed advances upto Rs. 10,000/- represented 61% of total borrowers but they received only 3.5% of total advances whereas the number of borrowers having advances of Rs. 100 thousand and over constituted 3.5% of total borrowers while they received 83% of total bank advances. Besides concentration of credit the per arty limit also aims at rationalisation of lending risk.

Selective Controls:

Selective controls on credit are also applied by State Bank of Pakistan through revision of margin requirements and by putting or withdrawing embargo on advances for certain type of commodity or end-uses.

Credit Ceiling:

The National Credit Consultative Council (NCCC) formulates annual credit plans for the economy consonant with the Annual Development Programme. Representation on the Council includes the Federal and Provincial governments, the State Bank of Pakistan (SBP), Pakistan Banking Council (representing the private sector.*)

Direct and selective controls have been for some time the primary instruments for regulating the growth and distribution of domestic credit in Pakistan. The NCCC has primary responsibility for determining monetary and credit policy and for formulating annual credit plans and specific credit targets in the light of investment objectives of the development programme. The supervision of the implementation of the NCCC credit plans rests largely with the State Bank. The annual NCCC credit plans establish specific overall monetary and credit growth targets, as well as credit sub-targets within recipient sectors for lending to the government and the non-government sectors.**

What is Credit Ceiling?

An upper ceiling is fixed by State Bank of Pakistan upto which a bank can make advances to private as well as public sector. It is statutory to maintain credit ceiling.

Under the overall credit ceiling for a bank, sub-ceilings are also fixed for pre-shipment export credit, fixed industrial investment, housing loans and for other purposes. Mandatory targets are also given for priority sectors such as agriculture and small loans for business and industry.

Penalty for Breaching Credit Ceiling

If by any reason credit ceiling is not maintained and it is breached, penalty as under is charged by State Bank of Pakistan:

i) The bank is required to deposit with the State Bank of Pakistan in a Special Deposit Account an amount equal to excess over credit ceiling free of interest not counting towards the statutory cash reserve or liquid assets. In case deposit is not made on the date of default the bank will have to pay penal interest at the rate of 5% above the bank rate i.e. 15%.

ii) If the default continues for 2nd week, the amount of Special Deposit free of interest is raised to 1=1/2 times of the excess over credit ceiling.

iii) In case the default continues into the 3rd week, the amount of Special Deposit free of interest is raised to an amount equal to twice the amount of excess over ceiling in the third week.

iv) If the position is not regularised and the default persists beyond the 3rd week, then the defaulting bank shall deposit an amount equal to three times the amount of default for the concerned week.

v) In case the bank fails to make the required Special Deposit free of interest as per clause (ii), (iii) & (iv) above, the rate of penal interest shall be 7=1/2% p.a. above Bank Rate i.e. 17=1/2% on the amount required to be deposited with the State Bank of Pakistan in Special Deposit Accounts.

Determining the Position of Credit
Vis-a-Vis the Ceiling - Private Sector

The computation of excess over or availability in private sector ceiling will be done as under:

i) The loans and advances given by a bank to the private sector proper, inland and import bills of private sector purchased and discounted shall be taken but excluding credit extended to the C.E.C. for purchase of raw cotton and as export finance (such as Packing Credit Part - I, Part II & FBP) and investment in Central and Provincial government securities & government-guaranteed debentures.

ii) Treatment of 'Other Items"

In case "Other Items" on the liabilities side exceed the "Other items" on the assets side, the difference thereof or the 'Net effect' would be deducted from the credit as calculated at (i) above and vice versa i.e. if "Other items" on assets side "exceed the Other items on liabilities side" the difference thereof or the 'Net effect' would be added to the credit. For determining the 'Net effect' of other items on the assets and liabilities side, the following components will be taken on the respective sides:

OTHER ITEMS

Liabilities

a. Deposits from Banks__ Demand

b. Borrowing from Banks__ Demand

c. Deposits from Banks__Time

d. Borrowing from Banks-Time

e. Capital (Paid up) & Reserve

f. Other Liabilities

The Heads of Account to be taken in 'Other Liabilities' are as under:

i) T.T. Discounted

ii) Income Account

iii) All Contra Accounts

iv) Inter Branches Account (Credit Balances)

v) Any other accounts which can be classified as 'Other liabilities

Assets

a. Balance with National Bank of Pakistan.

b. Balance with other Banks

c. Advances to Banks.

d. Other assets

The Heads of Account to be taken in 'Other assets' are as under:

i) Advance Deposits

ii) S.F.F. & Vehicles

iii) Inter Branch Account (Debit Balances)

iv) D.D. Paid in Suspense Account

v) Suspense Account including Eid Advances

vi) Remittance in Transit

vii) Stamps in Hand

viii) Excise Duty

ix) Advance Rent

x) Stationery Stock

xi) All Charges Recoverable

xii) Expenditure Account

xiii) All Contra Accounts

xiv) Any other accounts which can be classified as Other Assets

By way of example, the Credit Ceiling of branch 'A' has been calculated with hypothetical figures to clarify the computations:

Suppose ceiling of branch 'A' has been fixed as 13.00 million.

Total Advances of 'A'			12.7 million
	Less:		
i)	Government Advances	Nil	
ii)	Public Sector Advances	0.45	
iii)	Export Bill	0.30	
iv)	Pre-shipment Export Finance, Under Part - I.	0.15	
v)	Cotton Export Corp. (Cash Credit/Overdraft & Bill Purchased).	0.50	1.40
		Balance Debit:	11.30
	Add Net of 'Other items' as per detail separately given below:		1.35
	Total Credit Private Sector.		12.65
	Credit Ceiling Private Sector.		13.00
Availability in Credit Ceiling:			0.35

Detail of 'Other Item' Liabilities:		Detail of 'Other Item Assets:	
a) Deposits from Banks (Demands)	0.15	Balance with National Bank of Pakistan	0.05
b) Deposits from Banks (Time)	0.05	Balance with Other Banks	Nil
c) Other Liabilities.	0.25	Other Assets	1.7
Total:	0.45	Total:	1.8

Total Assets	1.80
Less: Total Liabilities	0.45
Balance to be included in Credit as Assets exceed Liabilities:	1.35

BEST AVAILABLE DOCUMENT

As total of 'Other items' on Assets side exceeds the total of 'Other items' on Liabilities side, the net difference amounting to Rs. 1.35 has been added to the credit which has increased.

In case the total of 'Other items' on Liabilities side exceeds the total of other items on Assets side, the net difference will be deducted from the Credit and will reduce it for the purpose of credit ceiling.

State Bank of Pakistan
Banking Control Department
Central Directorate
KARACHI

No. BCD Circular Letter No. BCD(CC)/ 14 /127.Priv.92 27th July'92

All Banks (By name).

Dear Sirs,

CREDIT EXPANSION - PRIVATE SECTOR PROPER

Please refer to BCD Circular Letter No. BCD(CC)10/127. Priv.92 dated the 29th June, 1992 regarding credit expansion by banks.

2. It has been decided to discontinue the existing system of credit ceiling for individual banks with effect from 30th July, 1992. From then on, the State bank shall regulate credit expansion in the commercial banks through open market operations, changes in cash reserve and liquid assets requirements as also fixation of credit deposit ratios.

3. The credit deposit ratios for July-September, 1992 quarter shall be 30% of the bank's average weekly local currency deposits (General) during the preceding quarter and 40% of the average weekly foreign currency deposits (General) during the preceding quarter. The monitoring of the expansion viz a viz the credit deposit ratio shall be on weekly basis through weekly statement of position submitted to us under Section 36(3) of the State Bank of Pakistan Act, 1956. Credit commitments made prior to the date of this Circular which were undertaken on the basis of BCD Circular No. 3 of 1992 shall be exempt from the credit deposit ratio. Banks should submit list with details of such cases by 06th August, 1992.

4. Credit in excess of the level determined by the credit deposit ratio shall attract fines in the same manner as presently applicable in the case of breach of credit ceiling. Credits in excess of the permitted level under the above credit deposit ratio shall not be subject to any fine uptill 30.06.1993, provided the said excess credits are within the existing credit ceilings.

5. The definition of credit for the purpose of regulating private sector proper credit through credit deposit ratio shall be as under:

i. (a) Loans, advances and finances given by a bank to the private sector proper, excluding credit extended to the Public Sector Enterprises, Cotton Export Corporation for purchase of raw cotton, finances provided for commodity operations of the Federal/Provincial Governments and their agencies, finances provided under Prime Minister's Self Employment Scheme, finances outstanding, if any, provided to holders of Special National Fund Bonds upto 75% of the face value of the bonds and advances given for pre-shipment export credit under Concessionary Export Finance Scheme.

(b) inland and import bills of private sector purchased and discounted and

(c) investment in securities other than Federal and Provincial Governments Securities, including Treasury Bills.

ii. (a) Net effect of 'Other Items as on 30th June, 1988 on the assets and liabilities sides as specified in the performs of weekly statement of position submitted to the State Bank and mentioned at item (iii) below. Any increase in the net liabilities under 'Other Items' or any decrease in the net assets compared to the position over 30.06.1988 shall be ignored for the purpose of credit-deposit ratio. Any reduction in the net liabilities or any increase in the net assets under 'Other Items' compared to the net of 'Other Items' on 30.06.1988 shall be treated as credit for the purpose of credit deposit ratio. However, the inter scheduled bank lendings and borrowings (other than Call Money) if reported in the same week both by lending and borrowing banks shall be treated as hitherto-fore regardless of net of 'Other Items' as on 30.06.1988.

(b) The inter-scheduled bank call money would be excluded from the 'Other Items' provided both the banks concerned report the transaction correctly in the same week. If the transaction is not so reported, the State Bank will treat the call money as a part of the credit provided by the lending bank.

(c) As already advised, a bank having surplus funds in its PLS operations would be free to place such funds on call with another bank on PLS basis.

iii. The following items of the weekly statement of position will comprise 'Other Items' for computing the outstanding credit <u>but deposits from or advances to other than scheduled banks in Pakistan shall not be taken into account</u>:

<u>OTHER ITEMS</u>

<u>LIABILITIES</u>	<u>ASSETS</u>
a) Deposits from banks-Demand.	a) Balance with National Bank of Pakistan.

b) Borrowings from banks-Demand.	b) Balance with other banks.
c) Deposits from banks-Time.	c) Advances to banks.
d) Borrowings from banks-Time.	d) Other Assets.
e) Capital(paid-up) and Reserves.	
f) Other Liabilities.	

6. The mandatory targets, amount earmarked for fixed industrial investment and the maximum limit for housing finance shall be indicated to each bank separately. Credits to these priority sectors shall form part of banks private sector proper credit regulated by credit deposit ratio. Other instructions on the subject of disbursement, monitoring and reporting of credits to these priority sectors etc., will also be issued separately.

7. Please acknowledge receipt.

Yours faithfully

(SAEED HAIDER BHATTI)
Director

ANNEXURE III

List of Banks Contacted and Persons Interviewed

01. State Bank of Pakistan	–	Mr. Ashraf Janjua, Deputy Governor (Policy).
	–	Mr. S. M. I. Mahmood, Executive Director.
	–	Mr. M. N. Qureshi, Executive Director.
	–	Mr. R. A. Chughtai, Director Banking Control Department.
	–	Mr. A. I. Farooq, Director NBFI Department, Additional Director, Banking Control Department.
02. Institute of Bankers	–	Mr. M. M. Malik, Chief Executive.
03. National Bank of Pakistan	–	Mr. Abdul Jabbar, Ex-President.
	–	Mr. Jamil Sheikh, Senior Executive Vice President.
04. Habib Bank	–	Mr. Abdul Jabbar Ex-President.
	–	Mr. Shafiuddin Hyder, Executive Vice President.
05. Muslim Commercial Bank	–	Mr. Bashir Jan Mohammad, Director.
	–	Mr. Azizuddin Khan, Executive Vice President.
06. Bank Commerce Al Habib Ltd	–	Mohammad Usman Kushtiwalla, Director.
07. First Women Bank	–	Mrs. Akram Khatoon, President.
	–	Mrs. Zeba Mumtaz, Executive Vice President.
	–	Mrs. Tahira Mujeeb, Chief of Advances and Area Executive.

08. United Bank Ltd		Dr. Mahfooz, Ex Economic Adviser.
09. Indus Bank Ltd	–	Mr. Askari Taqvi, Director.
	–	Mr. Sabihuddin, Managing Director.
10. Bolan Bank Ltd	–	Mr. Javed Yunus, Chief Executive.
11. Mehran Bank Ltd	–	Mr. Yaqoob Tabani. Director.
12. Cres Bank	–	Mr. Nessar Ahmed, Chief Executive.
13. A. N. Z. Grindlays	–	Mr. Nadeem Anwar, Manager, Corporate Finance, Merchant Banking Division.

Possibilities of Housing Finance by Commercial Banks in Pakistan

Questionnaire for Banks

01. With the lifting of credit ceilings after July 01, 1992 what are the possibilities of Housing Finance by your Bank? (Please tick)
    (a) Would increase
    (b) Would remain at the current level
    (c) Would decrease

02. Whether your Bank would like to enter the field of Housing Finance after July 01, 1992. Yes or No.

03. Whether your Bank would like to advance short-term loans for Housing (a) For Purchase of Land ________
    (b) For Infra-structure Facilities ________
    (c) For Bridge-Financing ________
    (d) For Purchase of Completed Houses ________
    (e) For Improvement/Additions to Existing Houses ___

04. Whether your Bank would consider to provide long-term loans for housing.

05. Whether your Bank would lend for mortgage of
    (a) Commercial buildings ________
    (b) Industrial buildings ________
    (c) Residential buildings ________

06. Would your Bank start mobilization of resources linked with housing. Yes or No.

07. Whether your Bank would like lending for housing purposes to:
    (a) Development Authorities
    (b) Local Governments
    (c) Builders and Developers
    (d) Housing Finance Companies
    (e) Construction Companies

08) Do you ever face problem of excess liquidity? Please identify fields where the excess amounts were invested under the Government policy and at what rate of return.

09) With the lifting of credit ceiling what are your plans projections of lending to various sectors - to Trade and Commerce Agri: Industry; Mining; Construction/Housing. Please indicate in percentage term.

10) What is the current level of activity of your Bank in the field of construction/housing finance as a percentage of total advances.

Continued

11) How the construction/housing sectpr is viewed as a field for greater activity by banks in the short term for land purchase; infrastructure development; bridge financing and in the long term for mortgage lending and participating in developing secondary market in mortgages/securities.

12) How prospects of Resource Mobilisation schemes linked with housing are viewed by banks and what position of current liquidity with lifting of credit restriction be diverted to housing sector.

13) What steps should be taken by Government and SBP to make housing sector competitive and attractive. What steps are contemplated/are considered necessary which should be taken by the Bank to enter the field of housing finance.

14) What steps are needed to motivate banks to enter the field of housing finance - in term of technical assistance in undertaking research/feasibility studies; training of official; dissemination of knowledge.

15) What factors make the field of housing finance less attractive - business costs, debt recovery; lack of knowledge and experience of housing finance.

16) What are the constraints on your Bank on the activity of lending for housing.
(a) By the State Bank of Pakistan
(b) By the Ministry of Finance
(c) By the Bank itself under its Charter/Banking Ordinance.

17) Do you anticipate - any other restrictions on credit allocation on your Bank by the State Bank of Pakistan. Kindly indicate those restrictions/regulations.

18) If training is required whether the Bank would like to get some technical assistance from US-AID/SRMP

If there is any hesitation to supply any information please write so, we will discuss with you verbally as this is an opinion based research effort for the Shelter Resource Mobilization Programme of US-AID.

Name ____________________

Designation ____________________

Dated ____________________

Possibilities of Housing Finance by Commercial Banks in Pakistan
Questionnaire to be filled by the Interviewer

All the information supplied would be kept confidential.

01. Name of the Bank

02. Address of the Head Office

03. Telephone No.

04. Fax No.

05. Possibilities of Housing Finance after July 01, 1992 by your Bank. Please tick.
   a) Would increase
   b) Would remain at the current level
   c) Would decrease

06. Whether your Bank would like to enter the field of Housing Finance after July 01, 1992. Yes or No.

07. Whether your Bank would like to advance short-term loans for Housing
   (a) For Purchase of Land ________
   (b) For Infra-structure Facilities ________
   (c) For Bridge-Financing ________
   (d) For Purchase of Completed Houses ________
   (e) For Construction of New Houses ________

08. Whether your Bank would consider to provide long-term loans for housing.

09. Whether your Bank would lend for mortgage of
   (a) Commercial buildings ________
   (b) Industrial buildings ________
   (c) Residential buildings ________

10. Given the situation with no restriction on sectoral allocation, how much your bank would allocate percentage wise credit for
   (a) Trade ________
   (b) Industry ________
   (c) Agriculture ________
   (d) Housing ________
   (e) Other sectors ________

11. Would your Bank start mobilization of resources linked with housing. Yes or No.

12. Whether your Bank would like lending for housing purposes to:
   (a) Development Authorities
   (b) Local Governments
   (c) Builders and Developers
   (d) Housing Finance Companies
   (e) Construction Companies

13) Do you face problem of excess liquidity: Please identify fields where the excess amounts was invested under the Government policy and at what rate of return.

14) With the lifting of credit ceiling w.e.f. July 01, 1992, are their plans; projections of lending to various sectors. To Trade and Commerce % Agri: Industry; Mining; Construction/ Housing in Percentage term.

15) Will these sectors absorb your entire excess liquidity.

16) What is the current level of activity of your Bank in the field of construction/housing finance.

17) How the construction/housing sector is viewed as a field for greater activity by banks; risks and opportunities both in the short term for land purchase; infrastructure development; bridge financing and in the long term for mortgage lending and participating in developing secondary market in mortgages/securities.

18) How prospects of Resource Mobilisation schemes linked with housing are viewed by banks and what position of current liquidity with lifting of credit restriction be diverted to housing sector.

19) What [illegible] should be taken by Government and SBP to make housing sector competitive and attractive. What steps are contemplated/are considered necessary which should be taken by the Bank to enter the field pf housing finance.

20) What steps are needed to motivate [illegible]ankers to enter the field of housing finance - in term [illegible] technical assistance in undertaking [illegible] research/fea[illegible]ity studies; training of official; dessemination [illegible]nowledge.

21) What factors [illegible] the field of housing finance less attractive [illegible]siness costs, debt recovery; lack of knowled[illegible] experience of housing finance.

22 [illegible] would be the constraints on your Bank on the activity lending for housing

(a) By the State Bank of Pakistan
(b) By the Ministry of Finance
(c) By the Bank itself under its Charter/Banking Ordinance.

23. What would be the terms and conditions for such mortgage lending by your Bank.

24. After the credit control is lifted on July 01, 1992 what would be the impact on your Bank lending specially for lending for housing.

25. Do you anticipate - any other restrictions on credit allocation on your Bank by the State Bank of Pakistan: Kindly indicate those restrictions/regulations.

26. Do you think training for Housing Finance is necessary for your staff. Yes/No.

27. If training is required whether the Bank would like to get some technical assistance from US-AID/SRMP

28. Will there be any impact of technical assistance/training on increase in Housing Finance by your Bank.

If there is any hesitation to supply any information please write so, we will discuss with you verbally as this is an opinion based research effort for the Shelter Resource Mobilization Programme of US-AID

RURAL HOUSING CREDIT PROGRAMME

PROJECT JUSTIFICATION

The available studies and statistics on Sindh indicate that housing conditions in rural Sindh are among the poorest in the country. To summarize: at 4.9 persons per room, densities are the highest in the country; similarly, 65% of the houses are one room, also the highest in the country. Qualitatively, some 52% of houses are katcha, ie, mud brick and plaster walls, versus only 8% in urban Sindh. Only 3% of the housing units have piped water inside the unit, the lowest percentage in the country, versus 68% in urban Sindh, the highest in the country. Further, 92% of rural households cook with wood, also the highest percentage versus 28% in urban Sindh, the lowest.

This dichotomy in housing conditions between rural and urban Sindh has not gone unnoticed by the Provincial government. Although the GOS has attempted to improve shelter conditions in rural Sindh through the national SDP and Zakat housing schemes, these programmes have only had a limited impact, viz 6777 completed out of a target of 13,696 Zakat houses and 2520 completed out of 7916 SDP units. Further, from field observations, a substantial number of these units are still lying vacant.

Having determined that the national Seven Marla Programme would also have a limited impact on rural housing conditions, the GOS in August 1987 passed the Sindh Goth-Abad (Housing Scheme) Act. The Act gives the GOS, acting through the Sindh Board of Revenue, the power to extend titles (Sanads) to landless villagers in some 26,000 villages on state land and a further 9000 on private land after compensation to the landlord.

According to the BOR Goth-Abad Directorate, as of January 1991, some 772,000 villagers had been conferred with property rights through Sanads out of a target of 1.5 million. In addition, since the Sanad has been recognized as acceptable collateral by the HBFC, 2107 applications for house construction loans had been filed as of 31 January 1991, out of which 1365 had been approved for a total of Rs.82,700,000, an average of Rs.60,586 per loan.

In order to ascertain the priorities of rural households, their demand for housing loans, and their willingness to repay, a sample survey was conducted in 67 villages in every district of Sindh. The findings of the survey reveals that there is a high demand for housing loans among the villagers to improve their houses. However, most villagers do not want to borrow from the HBFC because of long and cumbersome procedures. Further, since the HBFC does not lend for home improvements and additions, the existing house has to be demolished before a new one can be built with the HBFC loan.

THE FIRST WOMEN BANK

The decision to establish Women Bank was taken in June 1989 at the time of announcement of Federal Budget. The bank started functioning w.e.f.01.12.1989 with five branches at each of the Federal and Provincial Capital. It emerged as 6th scheduled nationalized Commercial Bank of the country, with paid up capital of Rupees 100 million contributed by:

*	HBL	30 million
*	MCB	30 million
*	NBP	10 million
*	UBL	10 million
*	ABL	10 million
*	Ministry of Women Development	10 million

From the very beginning FWB was given a non-traditional role of performing commercial/social activities.The main objective of the bank is to enhance the economic status of women by increasing job and business opportunities. Thus, activating them in the main-stream of economic activities.

Emphasis is laid on the women from low and middle income groups, which are not exposed to business activities, market, market demand etc. The FWB approach is to address such issues by imparting appropriate technical and entrepreneurial skills prior to extending credit.

The bank initially started with 5 branches but has now been extended to 14 as per plan the number would go up to 25 by the end of 1991. The expansion strategy of the bank is to move from Federal and Provincial Capitals to major cities of secondary importance, and then to towns and villages. At present the bank is in the second phase of expansion and has extended their canvas to villages like Mirpur Sackro in Thatta, suburban Goths and Katchi-Abadis of Karachi through NGOs like SRWCO, OPP-RTI, ECI, Aurat Foundation, APWA and Association of Business Professional and Agricultural Women. Since the bank is primarily concerned with the viability of the project to be financed, their experience has been very satisfactory during the past 16th months and the involvement of the NGOs have ensured the availability of credit to the right person.

SINDH RURAL WORKERS COOPERATIVE (SRWCO)

SRWCO was formed in 1978, as a non-profit voluntary organization, with 340 contacts in villages in Sindh. Its primary objective is to mobilise people in the villages to initiate their own development, on self-help basis. SRWCOs approach is different from the traditional, charitable and welfare organizations.
Its aim is to motivate and support the members at grass root level by mobilizing local resources. SRWCO covers 300 villages and has approximately 10,000 committee members in 15 districts of Sindh. Each committee develops its own projects and

all members participate in their implementation. These committees or cooperatives are independent and almost invariably self-financed and self-managed. Their projects are in community development and include providing hand pumps and related extension work, appropriate technology like smokeless stoves, and latrines. They operate income-generating projects, saving schemes for income generation, vocational training schools, and schools for girls.

The SRWCO has a community based credit programme for rural women in district Thatta through support from ILO and Dutch government. In this project, six lady field workers have established women's organizations in twenty villages, in Sindh (Thatta District). The field workers have also initiated a few cooperatives funded by the women themselves, for business experimentation on small scale and alternative income-generating activities in which the women are involved. The women are being equipped to strengthen their groups and explore different options for employment and improved living standards.

SRWCO has agreed to act as a facilitator for Rural Housing Credit programme in rural Sindh. Their network would be used to motivate the community, assist them in forming saving groups and in loan disbursements and repayments, arrange for skilled labour, and monitor the use of the loan proceeds.

PROJECT GOAL

The overall goal of the pilot project is to test the feasibility of a provincial based rural housing credit programme which enlist the participation of the rural poor in improving their housing conditions through the promotion of village action groups and the mobilization of resources, including monetary savings, at the village level.

PROJECT OBJECTIVES

The specific objectives of the Project are:

* to facilitate the access of groups or individual households to credit using the Sanad and savings as collateral;
* to mobilize savings for housing and/or community works at the village level;
* to establish links between village communities and financial institutions and relevant government departments;

In addition the programme aims at providing assistance to rural women in raising family income and standards of living through self-identified income generating activities by improving their access to training, credit and savings programmes.

PROJECT DESCRIPTION

The proposed programme rely heavily on the participation of the rural community in the savings and loan scheme in improving their housing conditions. The project will facilitate the access of individual households to credit using Sanad and savings as collateral through the formation of borrowing groups. The groups will be formed by the potential borrowers themselves through the assistance of community motivators. To stimulate the savings aspects of the programme, potential borrowers would be required to join a savings scheme such that the lender can gauge the borrower's repayment capacity and sincerity. Community motivators will assist the community in initiating the savings for housing purpose. Individuals interested in joining the savings programme will be made members of the scheme. To guarantee cohesiveness and joint accountability potential borrowers would be organized in groups conforming to the following considerations:

* Only adult will be eligible to become members.
* Prospective members will have to undertake to avail the loan at market rate.
* Only one male/female would be allowed to become a member of a saving group from one household.
* Homogeneity (kinship, similar economic condition, like minded) will be the basis for the formation of the group.
* Each member of the group so formed shall specify the type of home improvement/extension they would like to have and submit a work plan after having reached a consensus.
* Each group will have an elected leader and a group secretary and take a decision after mutual consent on the selection of first borrower. And the remaining members will ensure the proper utilization of the loan as per plan submitted.
* The tenure of office of the group leader and group secretary, shall be for a period of six months and shall not be eligible for re-election before one year.
* The group members will pool their savings in fortnightly meetings which will be held regularly twice a month. Bank representative and the NGOs representative shall have to be present at the meeting to receive the installments/savings and will issue them pass books and maintain the record of each transaction.
* Every member of the group must be fully aware of his/her responsibilities as a member and must endeavour to maintain discipline within the group and to observe the rules and regulations of the bank. All members shall always keep vigilance over each other regarding the use of bank credit and regular repayment of instalment. They shall also make sure that every member attends the meetings regularly.
* The performance of the group shall be evaluated on the basis of savings record and repayments.

In order to qualify for collateralized loan from the bank, potential borrowers are required to form a group. The group will ensure mutual trust as well as responsibility. Before any group member obtains a loan, the entire group will be motivated and trained by the community motivators and bank staff in maintaining savings, filing loan applications, and disbursements and repayments. The group reserves the right to propose the first borrower and recommend the members loan application to the bank. In order to qualify for the housing loan the prospective borrower shall have to save regularly up to six months thus inculcating a habit of saving. However, participants with accumulated savings will be eligible for credit for house improvement/addition by the end of first quarter as, matured cases, provided they are able to satisfy FWB requirements. The bank will recognize a group only after being satisfied with the eligibility of its members and after observing several successive meetings, their eagerness to maintain group discipline. The groups will be responsible for the selection of the borrowers and for the repayment of all loans made to group members. However, bank reserves its rights to refuse loan to a person selected by the group either completely or change the sequence on the basis of the saving record and behaviour. FWB mobile credit officers will assist the prospective borrowers in filing loan applications and educate the applicants as to the various loan obligations. Regular meetings will be held in each village to process loan applications as recommended by various groups. The bank staff will maintain a continuous liaison with the groups till all loans are recovered. No new loans will be provided unless all outstanding loans are current. Although the loans will be made to and repaid by the individual, the group will be jointly liable. If any member defaults in a group, future access to credit will be denied to other members of the defaulting group until the loan is repaid.

The group arrangement provides reassurance for members to take risks they might not otherwise take and provides a sort of "moral collateral". Another significant feature of the group approach is that all the proceedings of the meetings will be conducted openly in front of the members. Every member knows what is happening and can assess his/her position in relation to others. The objective of carrying out all transactions in public with their participation in the meetings and dealing with problems together is to prohibit the individuals from defying and to reinforce a relationship of social and economic accountability.

To generate the interest in participation. the motivation campaign will take care of the following tasks:

* Advertisement of programme through brochures in Urdu and Sindhi through pamphlets and posters at strategic places in the village.
* Participation in public meetings with various interest groups and family members of the potential participants to discuss the programme in detail. The specific purpose of these meetings will be to explain the conditions under which they are eligible for support, institutional set-up and the long term goals of the project.

* Participation in meetings with the individuals interested in joining the scheme and support the members in formation of savings group. The specific task will be to organize members of the sub-groups to actively participate, express themselves, decide collectively and abide by their decisions.
* Training of sub-groups in maintaining a savings bank account, loan disbursements and repayments. The specific tasks will be to train the group leaders in maintaining the cash book, general savings ledger of the group and updating of the pass books of the members.
  Parallel training to sub-groups in maintaining regular contacts with the elected local bodies, approaching administration (line departments ...., services) or any other external sources for support. This will help the sub-groups to be motivated and organised for carrying on other development and improvement works through participatory approach.

The Parameters of Savings and Loan are:

1. The Account under FWB's Rural Housing "Savings and Loan" Programme is subject to the terms and conditions of the Programme prevailing from time to time.

2. Each Account holder is eligible to apply for a housing loan up to four times the savings plus accumulated interest (at the time of loan sanction). Loan amount, however, will be based on the expected construction costs and borrower's repayment capability, with a minimum and maximum limit of Rs 5,000 and Rs 25,000 respectively. The loan must be utilized for housing activity only. Potential borrowers will be required to submit the work plan for the proposed home extension or improvements to FWB for determining the mode of disbursement.

3. The saving contributions made into the Account will earn interest at the rate of 7.8% per annum, compounded semi-annually. Interest on any savings contribution shall accrue beginning the day following the date of receipt by FWB of that contribution and shall be paid at the time of withdrawal of savings from the Account.

4. Interest on the loan amount sanctioned and disbursed under the Account will be charged at market rates (prevailing at the time of sanction). The loan will be repayable over 60 equated monthly installments (5 years) with a grace period of two months. However, at the discretion of FWB, repayments can be scheduled quarterly or bi-annually depending upon the borrower's frequency of income. In such a case, token monthly installments, as fixed by FWB would be required; regular installment would be reduced by the amount of token payments made.

5. Accumulated savings together with Sanads, guarantee of the local sub-group, surety of the husband where a woman is the sole borrower and any other security as FWB may require, from time to time, will be held as collateral till the loan is completely repaid. The borrower, however, has

the option to use the savings to pay final installments of the loan. Savings of the other local sub-group members, i.e. non-borrowers, will be free of any charge by the Bank.

6. The savings of 1/4 the proposed loan amount (to be determined at the beginning of the savings plan) must be completed within a minimum of six months from the date the Account is opened. The date on which the first contribution is received (after approval of the Account) will be considered the date of Account opening. Savings contribution can be made in cash at any of FWB offices or against cheque/demand draft in favour of "First Women Bank Limited", duly crossed and marked "A/C Payee Only" drawn on any local bank. Arrangements for deposit of savings contributions can also be made through FWB's Mobile Credit Officers, who will visit the participating villages at regular intervals.

7. Loans would be disbursed by pay orders. Where considered necessary, payments will be made directly to local building materials suppliers through payment vouchers.

8. Account holders can withdraw their accumulated savings, prior to sanction of loan, by making a written request for the same.

9. At the Applicant's option, Account may be opened individually or jointly. Loan under the Account may be applied for jointly with the co-applicant, or alternatively, the Applicant can apply individually in her/his name or may renounce her/his claim to apply for the loan in the favour of the co-applicant.

10. The loan, which will not exceed four times the accumulated savings and interest, will be sanctioned provided FWB is satisfied that no material facts have been withheld, suppressed, concealed or found to be incorrect or untrue and provided that the loan applicant is credit-worthy; that s/he has sufficient repayment capacity and that s/he will be able to effect her/his loan repayments without jeopardizing her/his other commitments and that s/he has adequate security to satisfy the requirements of FWB. Furthermore, sanction and disbursement of the loan will be subject to the lending rules and policies of FWB as may be prevalent at that time. If FWB is not satisfied in respect of any of the above, it may sanction and disburse such loan amount as it may deem appropriate. In such a case, savings plus accumulated interest in excess of the required 25% of the sanctioned loan amount can be withdrawn from the Account by the borrower at her/his discretion.

11. In the event of the Account being in joint names, all communications will be addressed to the first applicant in this application. Moreover, the repayment, for whatever reason, of the savings amount accumulated in the Account will be made in the name of the first applicant. In the event of death of the applicant, the repayment of the savings amount in such cases will be made to the co-applicant without reference to the heirs and/or legal

representatives of the deceased. FWB shall not be bound to or be required to heed to any communications from any person being contrary to the aforesaid.

At the time of disbursement, each borrower will be given a Pass Book containing the Repayment Schedule. The Pass Book will also serve as the borrower's record of repayments made. Repayments can be made in cash a. any of FWb offices or against cheque/demand draft in favour of "First Women Bank Limited", duly crossed and marked "A/c Payee Only" drawn on any local bank. FWB's Mobile Credit Officers will also regularly visit participating villages to collect repayments either directly from the borrower or through its group leader, as per borrower's preference.

The loan will be repayable over a maximum 60 equated monthly installments (5 years) with a grace period of two months from the date of disbursement. However, at the discretion of FWB, repayments can be scheduled at other times during the year depending upon the borrower's income cycle.

Collections will normally be made during the first five days of each month or immediately following crop harvesting. Repayment Schedules for all loans will be drawn such that repayments become due at the beginning of the month only; disbursements, however, will not be restricted to be at month-ends. Late repayments will be collected during the Mobile Credit Officer's weekly visits to the villages. In case of late repayments, penalty (as determined by FWB) will be levied on the borrower. The borrower will have the option to adjust its savings towards payment of final installments.

As far as the involvement of community in recoveries are concerned the group members will be jointly liable for repayment of loans made to the members of the respective groups. The group will act as a conduit to provide the lender with information about group members and will also exert peer pressure on potential defaulters (when their own interests are at stake). Once a member of the group receives a loan, the others are ineligible for loans until the first borrower establishes a regular pattern of repayment and strict observance of rules and regulations are followed by all group members. All loans taken from the bank shall generally be repayable in monthly installments, but at the discretion of the bank could be scheduled on bi-annual or quarterly basis.

In cases of bi-annual or quarterly installments, borrower has to pay a token amount (as fixed by the bank) monthly (to develop habit of regular repayments), the remaining amount shall be paid in one instalment as scheduled by the bank.

SITE SELECTION

To test the operational procedures and build institutional capacity such that in time a rural housing credit programme could have an impact on the quality of the housing stock, pilot project would begun in areas of Sindh where smallholders are present and villages are regularized under the Sindh Goth-Abad (Housing

SRWCO will be responsible for providing services in the field of community organization in developing a demonstration project in selected villages which should be cost effective and replicable to other villages in the province.

The major responsibilities would include the following:

- appointment and training of community motivators (two females and two males) exclusively for the pilot project as per approved project plan of action.

- prepare and submit job descriptions, including duties, responsibilities and qualifications for the proposed staff positions for approval by the FWB. (community motivators will be required to appear for an interview before the selection committee comprising of representative from FWB, SRWCO and Shelter Consultants).

- organize public meetings in the pilot villages to introduce the programme to the community and representatives of various committees such as Union Councils, Zakat Committee or any other active groups in the community.

- Identify and select contact office in each pilot village (to be used as a common meeting place for weekly and fortnightly meetings) with the consent of the community.

- conduct regular visits to pilot villages, involving an average of 4 working days a week. During these visits scheduled meetings will be held in order to facilitate the process of group formation, leadership development, identification of activists/group leaders and resource persons, planning and management of proposed activities, training and orientation to prepare and orient the communities and women in particular to receive and manage the savings for housing, and to ensure that priorities are determined through a consultative process.

- coordinate with mobile credit officers (FWB staff) in educating the community on savings and lending aspects, proper utilization of loans advanced and in recoveries.

- liaise with relevant government representatives (especially Sindh Goth-Abad Directorate), FWB and relevant NGOs/CBOs in the area in order to achieve integrated programme development.

- prepare a monitoring and recording system for the community motivators and subsequent reporting to Monitoring cell.

- provide a brief monthly progress report (including proceedings of group meetings), and financial statement of accounts to FWB. A quarterly progress report with a summary statement of accounts will be submitted midway and at the end of the project.

- provide monthly update on the progress of community motivation process, its problems and level of awareness achieved during the weekly meetings to FWB.

Goth-Abad Directorate will:

- issue Sanads under the law to bona-fide residents of benefitting villages in a timely fashion.

- provide and maintain a record of Sanads issued in each village.

- provide a copy of each Sanad issued and copy of Village Form II to FWB for cross referencing with each successful applicant.

The Shelter Consultants will coordinate the various institutions and activities involved in the project. They will be responsible for the following:

- award a contract to the financial approved sub-contractor and carry out all legal management and administrative obligations in respect of that contract following approval by SDC/World Bank. The obligations include timely payment of approved invoices.

- provide technical input in supervising the project.

- provide under separate terms of reference monitoring and evaluation of the pilot project sub-contract services.

PROJECT PHASING

The Rural Housing Credit Pilot Project will be implemented in selected villages.

First Quarter	Preparation of field activities (includes: recruiting and training of mobile credit officers and motivators; mobilization of village action groups; formation of borrowing groups and collection of savings; identification of training needs for income generating activities; survey and preparation of training plans and workshops; training workshop and disbursement of income generating loans. Also disbursement of housing loans to matured cases.

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Villages to be covered in first quarter includes: villages of taluka Mirpur Sackro, district Thatta.

Second Quarter

Disbursement of housing (to matured cases) and income generating loans at villages of taluka Mirpur Sackro, district Thatta.

Mobilization of village action groups in other selected areas on similar pattern as in the first quarter.

Third Quarter

Collection of savings; disbursement of housing loans (regular cases) and initial recoveries (of matured cases); training workshop; follow up and disbursement of income generating loans; mobilization of village action groups; formation of borrowing groups and collection of savings; identification of training needs for income generating activities; survey and preparation of training plans and workshops; and disbursement of income generating loans.

Fourth Quarter

Collection of savings and disbursement of housing and income generating loans in Konkor and Ladhia; mobilization of village action groups in Badin District on a similar pattern as in the first quarter of the pilot project.

Next Steps

Evaluation of action for further expansion to actual investment programme for villages in rural Sindh.

WORKPLAN/SCHEDULE OF ACTIVITIES

Chart 1 shows the schedule of activities to be carried out for one village this shall be repeated for each village.

OUTPUTS

- Quarterly progress report including details of accounts of village borrowing groups.
- 6 mobile credit officers trained on-job in princples of village banking.

- o Village Borrowing groups formed in at least selected areas and maximum of 100 loans distributed in them.

- o A final report synthesising previous reports and providing recommendations for the continuing support activities in the next phase. The report will elaborate on findings both successful and unsuccessful. It would highlight the next steps to be taken in the form of an agreed project management plan for each settlement including the future role for FWB, NGOs/CBOs, government agencies, community and donor agencies (e.g. UNICEF) in the process.

PROJECT COSTS AND FUNDING

The World Bank & SDC will together fund the staffing and operational costs for the first phase of the Rural Housing Credit Programme as well as the training workshops for the income generating loan component. The former is expected to cost some Rs. 671,000 while the latter is estimated at Rs. 692,000 Details of the expected costs are set out in the attached budgets.

* See attached work programme for Phase II - Rural Housing Credit Pilot Project.

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RURAL HOUSING CREDIT PILOT PROJECT

BACKGROUND

Government of Pakistan requested assistance from the World Bank in late 1987 to finance national shelter improvements. In response to this request the World Bank undertook a sector review and, subsequently, through the good offices of the Governments of Switzerland and Japan, arranged for the recruitment, financing and administration on behalf of Government of international and local consultants to prepare a policy based investment programme. This programme was carried out in phases I-III between july 1990 and September 1991. Following a broad review of the consultants draft final reports by Federal and Provincial Governments, World Bank and Swiss Development Cooperation in September and October 1991, Rural Housing Credit Pilot Project was selected in Sindh to support the main investment programme proposed by the Shelter Project Consultants. The services will be contracted to and executed by SDC, First Women Bank, Sindh Rural Workers Cooperative and the Shelter Consultants.

PROJECT GOALS

The goal of the pilot project is to test the feasibility of a Provincial, and subsequently, national based savings and rural housing credit programme which would enlist the participation of the rural poor in improving their housing conditions through the promotion of village action groups and the mobilization of resources, including monetary savings, at the village level.

OBJECTIVES OF THE PROJECT

The specific objectives of the project are:

* to facilitate the access of individual households to housing credit using the Sanad and savings as collateral;
* to mobilize family savings for housing;
* to establish links between village communities and financial institutions and relevant government departments;
* to assist women in raising family incomes and standards of living through income generating activities by improving their access to training, credit and savings programmes.

PROJECT DESCRIPTION

The FWB will provide credit for 100 housing loans during the pilot project. The credits would be a maximum of Rs.25,000, adjusted periodically for inflation, and would be lent at market rates for a maximum of five years. An improvement cost matrix for rural houses based on a covered area of 300 square feet is shown in annex 1, along with relevant specifications. These costs have been worked out on the basis of current market rates for various house components. Since credits

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ANNEX 1

IMPROVEMENT COST OF HOUSE COMPONENT (COVERED AREA 308 SFT)

S.NO.	HOUSE COMPONENT CATEGORY	JUGGI TO KATCHI HOUSE E1	E2	SEMI PUCCA HOUSE D1	D2	D3	C	B	PUCCA HOUSE A
1.	Walls	6,454	9,677	13,634	13,245	9,012	13,824	8,640	16,615
2.	Roof	3,773	3,773	4,928	4,928	9,379	7,022	10,780	21,560
	Sub Total	10,227	13,450	18,562	18,173	18,391	20,846	19,420	38,175
3.	Floor	3,696	3,696	3,696	3,636	3,696	3,696	3,696	3,696
4.	Steel Door	1,226	1,226	1,226	1,226	1,226	1,226	1,226	1,226
	Sub Total	4,922	4,922	4,922	4,922	4,922	4,922	4,922	4,922
	Grand Total	15,149	18,372	23,484	23,095	23,313	25,768	24,342	43,097

SPECIFICATION

CATEGORY		WALLS	RATE SFT Rs.	ROOF	RATE SFT Rs.
A.		Baked brick/stone in cement mortar.	19.23	RCC	70.00
B.	I.	C.C. block masonary 4" thick in cement mortar (Ratio 1:7).	10.00	RCC battened and tile roof.	26.50
	II.	C.C. block masonary 6" thick in cement mortar.	15.00		
C.		9" Baked bricks/stone in mud.	16.00	Asbestor sheet/ wooden rafters.	22.80
D.	I.	6" thick block masonary in lime & cement mortar (1:1:6).	15.78	G.I. sheets on wooden rafters.	16.00
	II.	6" thick block masonary in cement mortar (1:7 ratio).	15.33	Girder beam roof with tiles.	30.45
	III.	Soil cement block masonary 6" thick.	10.43	Girder beam roof with tiles.	30.45
E.	I.	Sundried bricks 9" thick in mud mortar.	7.47	4" paddled earth with C.C. tiles	12.25
	II.	Sundried bricks 13.5" thick in mud mortar.	11.20	4" paddled earth with C.C. tiles	12.25

for improvements, additions or new construction can vary from Rs.5000 to maximum of Rs.25,000, an average loan amount of Rs.15,000 has been assumed for the programme.

Rural housing credits extended during the pilot project would have the following characteristics:

* Loans would be a maximum of Rs.25,000 and be lent at market rates for a maximum of five years;

* Repayment would normally be on a monthly basis, but at the discretion of the FWB could be scheduled at other times during the year, depending upon the frequency of income;

* Collateral would be in the form of Sanads, individual's savings with the bank, the guarantee of a local sub-group of four to five persons, and surety of the husband where a women is the sole borrower;

* Potential borrowers would be required to join a monthly savings scheme such that the lender can gauge the borrower's repayment capacity and sincerity. The amount of loan will be four times the amount of saving of the member;

* Loans would be disbursed by pay orders based on the approval of FWB representative. Where necessary, payment vouchers to local building materials suppliers would be used.

* Potential borrowers would be required to submit the work plan for the proposed home extension or improvements to the bank for determining the mode of disbursement for the said purpose.

* Potential borrower borrowing from the FWB must use this loan for housing activity only and repay the principal within 5 years in 60 monthly installments. A repeat loan is not approved until all members of the group repay their loans.

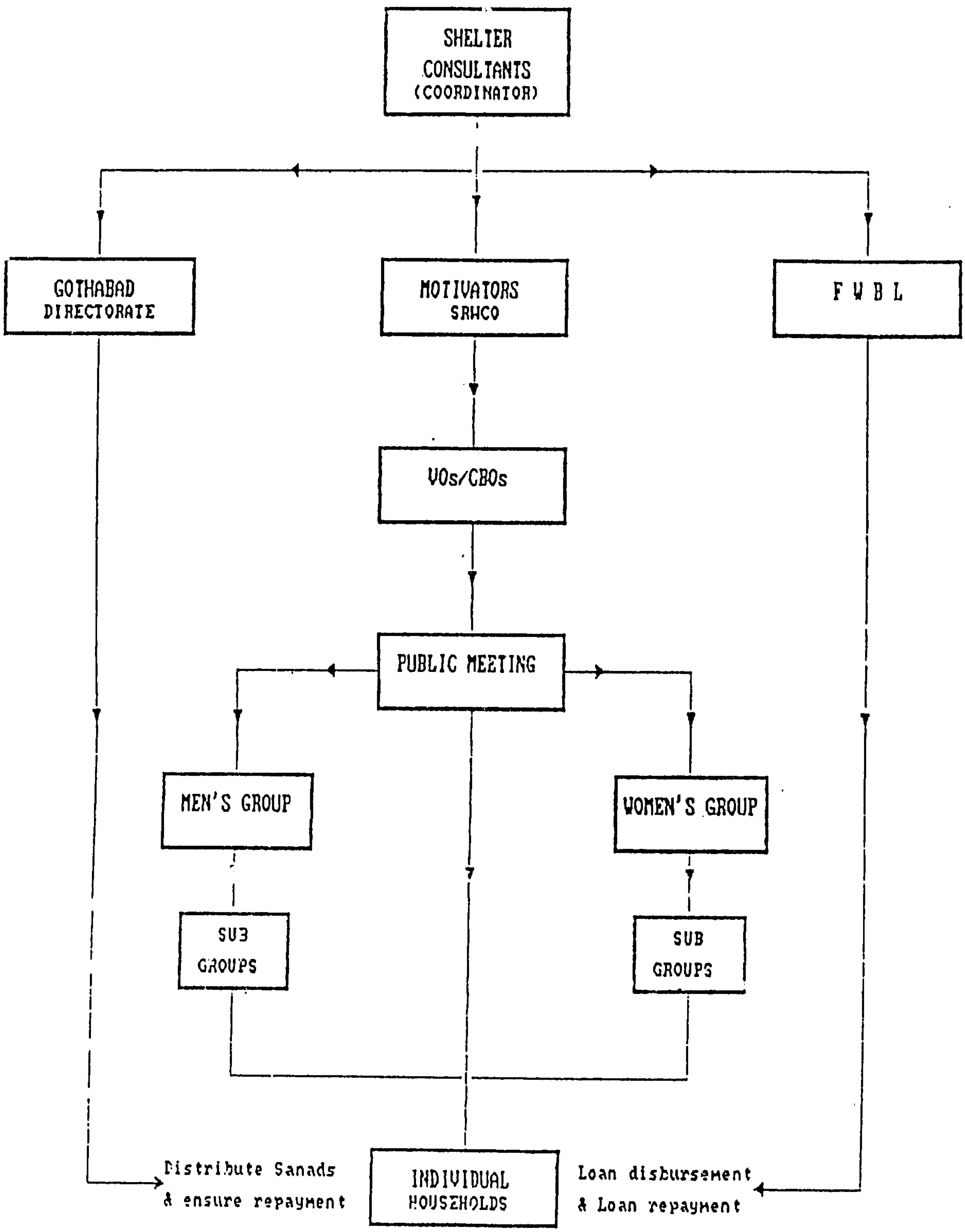
PROJECT ORGANIZATION

Implementation of the project will be a collaborative effort among several parties: the Shelter Consultants, FWB, Sindh Goth-abad Directorate, community motivators from the Sindh Rural Workers Cooperative (SRWCO), and the village communities.

The Shelter Consultants will act as project coordinator and liaison between the concerned government bodies and other organizations involved in project implementation (see attached project organization chart).

Individuals interested in joining the savings programme will be made members of the scheme. They will further be divided into separate sub-groups of four or five persons each. The groups will be responsible for the selection of the first borrowers and will be responsible for the repayments of all loans made to group members. No new loans will be provided unless all outstanding loans are current.

ORGANIZATIONAL CHART



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FWB will provide credit for 100 housing loans during the pilot project. FWB mobile credit officers will collect the savings, assist the prospective borrowers in filing loan applications, and educate the applicants as to various loan responsibilities.

TERMS OF REFERENCE

The project area comprises upto eight villages in District Karachi East, Thatta, Hyderabad, and Badin. Most of these villages have been surveyed and regularized under the Sindh Goth-Abad Housing Act. Sanads have also been distributed but in some cases Sanads needs to be distributed to the villagers. The majority of the households in these villages derive their source of livelihood from Agriculture. In most cases, the villages do not have basic facilities such as sanitation, education, electricity and roads

Scope of work

The following organizations are involved in the implementation of the programme and will be responsible for the provision of following services:

- First Women Bank (FWB)
- Sindh Rural Workers Cooperative (SRWCO)
- Sindh Goth-Abad Directorate
- Shelter Consultants

First Women Bank (FWB)

First Women Bank will act as a banker of the Rural Housing Credit Pilot Project and will disburse from its own funds approximately 100 loans to qualified borrowers over the course of the pilot project. More specifically they will be responsible for the following:

- arrange for recruitment, training and development of suitable staff to carry out the services

- develop group savings and lending instruments which are appropriate for low income households

- designate a senior officer of the Bank to manage the pilot project to participate on a regular basis with the monitoring and evaluation cell

- make upto 100 loans (maximum Rs. 25,000 each) from its own funds at market rates to qualified applicants in upto 8 rural villages for upto 5 years, and make adequate arrangements for collection of repayment. The borrower should have the option of repaying a loan early without excessive penalty

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- participate in fortnightly group meetings with community motivators to educate potential borrowers in maintaining savings bank account, filing loan applications, loan disbursements and repayments.

- accept Goth-Abad issued sanads, other right to occupy documents, and savings of all group members as collateral for loans

- bear any bad debts as part of normal banking credit risk

- coordinate with SRWCO in hiring recruitment and training of community motivators in banking procedures for the Rural Housing Credit pilot Project, fund SRWCO staff to act as an intermediatory facilitating agency and provide support facilities as may be agreed by both parties

- set up a separate project account and share accounting information with the monitoring cell

- generate savings activities from the general community in addition to savings groups/borrowers

In addition to the rural housing credit programme, FWB will also run a training programme for women entrepreneurs selected for FWB income generation loans with the assistance of Entrepreneurship and Career Institute (ECI). The programme will consist of four training workshops of six week each, with each workshop containing 20 to 30 participants.

Sindh Rural Workers Cooperative (SRWCO)

SRWCO will be responsible for providing services in the field of community organization in developing a demonstration project in selected villages which should be cost effective and replicable to other villages in the province.

The major responsibilities would include the following:

- appointment and training of community motivators (two females and two males) exclusively for the pilot project as per approved project plan of action.
- prepare and submit job descriptions, including duties, responsibilities and qualifiçations for the proposed staff positions for approval by the FWB/Shelter Consultants. Community motivators will be required to appear for an interview before the selection committee comprising of representative from FWB, SRWCO and Shelter Consultants).
- organize public meetings in the pilot villages to introduce the programme to the community and representatives of various committees such as Union Councils, Zakat Committee or any other active groups in the community.
- Identify and select contact office in each pilot village (to be used as a common meeting place for weekly and fortnightly meetings) with the consent of the community.

- conduct regular visits to pilot villages, involving an average of 4 working days a week. During these visits scheduled meetings will be held in order to facilitate the process of group formation, leadership development, identification of activists/group leaders and resource persons, planning and management of proposed activities, training and orientation to prepare and orient the communities and women in particular to receive and manage the savings for housing, and to ensure that priorities are determined through a consultative process.
- coordinate with mobile credit officers (FWB staff) in educating the community on savings and lending aspects, proper utilization of loans advanced and in recoveries.
- liaise with relevant government representatives (especially Sindh Goth-Abad Directorate), FWB and relevant NGOs/CBOs in the area in order to achieve integrated programme development.
- prepare a monitoring and recording system for the community motivators and subsequent reporting to Shelter Consultants.
- provide a brief monthly progress report (including proceedings of group meetings), and financial statement of accounts to Shelter Consultants. A quarterly progress report with a summary statement of accounts will be submitted midway and at the end of the project.
- provide monthly update on the progress of community motivation process, its problems and level of awareness achieved during the wee[illegible]

Institutional Framework

- The team leader (SRWCO) will be overall responsible to the FWB/Shelter Consultants for the implementation of the pilot project for one year.
- The team leader (SRWCO) will work under the overall responsibility of the Shelter Consultants and the guidance of FWB head office Karachi.
- The team leader (SRWCO) will serve as a channel of communication between the staff of SRWCO and Shelter Consultants/FWB.

Time schedule

The duration of this assignment/consultancy is initially be for a period of one year commencing from May 1992 to May 1993. In case of any extension in the agreement thereafter, the necessary terms of reference shall be reviewed based on the past experience and achievements and the terms including the financial cost shall be renegotiated.

Logistic Support

The consultancy fee which includes the salaries and honorarium for the team leader shall be paid on the basis of lumpsum cost (as shown in the budget) through the FWB. Support services to SRWCO will be provided by FWB.

Sindh Goth-Abad Directorate

Goth-Abad Directorate will:

- o issue Sanads under the law to bona-fide residents of benefitting villages in a timely fashion.
- o provide and maintain a record of Sanads issued in each village.
- o provide a copy of each Sanad issued and copy of Village Form II to FWB for cross referencing with each successful applicant.

Shelter Consultants

The Shelter Consultants will coordinate the various institutions and activities involved in the project. They will be responsible for the following:

- o award a contract to the financial approved sub-contractor and carry out all legal management and administrative obligations in respect of that contract following approval by SDC/World Bank. The obligations include timely payment of approved invoices.
- o provide technical input in supervising the project.
- o provide under separate terms of reference monitoring and evaluation of the pilot project sub-contract services.

Work Plan/Activities

The Rural Housing Credit Pilot Project will be implemented in upto eight (8) villages.

PHASING

The pilot project will be implemented in selected villages.

First Quarter	Preparation of field activities includes: recruiting and training of mobile credit officers and motivators; mobilization of village action groups; formation of borrowing groups and collection of savings; identification of training needs for income generating activities; survey and preparation of training plans and workshops; training workshop and disbursement of income generating loans. Villages to be covered in first quarter includes: villages of taluka Mirpur Sackro, district Thatta. Time required: 3 months.

Second Quarter	Disbursement of housing (to matured cases) and income generating loans at villages of taluka Mirpur Sackro, district Thatta. Mobilization of village action groups in other selected areas on similar pattern as in the first quarter. Time required: 3 months.
Third Quarter	Collection of savings; disbursement of housing (regular cases) loans and initial recoveries (matured cases); training workshop; follow up and disbursement of income generating loans; mobilization of village action groups; formation of borrowing groups and collection of savings; identification of training needs for income generating activities; survey and preparation of training plans and workshops; and disbursement of income generating loans. Villages to be covered in third quarter include: villages of taluka Mirpur Sackro, Thatta district, district Badin. Time required: 3 months.
Fourth Quarter	Collection of savings and disbursement of housing and income generating loans; recoveries of housing (matured cases) and income generating loans; mobilization of village action groups in other selected villages on a similar pattern as in the first quarter of the pilot project. Villages to be covered in the fourth quarter include: villages of taluka Mirpur Sackro, Thatta district, district Badin, and district Karachi-East. Time required: 3 months.
Next Steps	Evaluation of action for further expansion to actual investment programme for villages in rural Sindh.

Analysis of Prudential Regulations recently issued by the State Bank

The State Bank of Pakistan issued 16 Prudential Regulations on January 07, 1992. The enforcement time is effective July 01, 1992. The transformation and conformity of the existing operation of banks shall be completed in accordance with the time specified in the regulations. These are as under:

(i) Per Party Exposure (PPE)

(a) Under P.R.1, and subsequent clarification thereof by SBP, the total outstanding financing facilities (i.e. accommodation, fund-based or otherwise) of a bank to a single 'person' shall not exceed 30% of the bank's equity (i.e. unimpaired capital and reserves), provided that the maximum outstanding against fund based financing facilities do not exceed 20% of the said equity.

(b) For Pakistan branches of foreign banks, the maximum PPE limit of 30% shall be based on their 'assigned capital' maintained under S.13(3) of the Banking Companies Ordinance, 1962, provided that the maximum PPE on account of fund - based facilities shall be 20% of the said capital or Rs. 12 mn, whichever is higher.

Assigned Capital': Under the Banking Companies Ordinance (B.C.O.) 1962, foreign banks operating in Pakistan are required to maintain Paid-up Capital and Reserves in Pakistan of not less than Rs. 5 mn or an amount equal to 71/2% of their demand and time liabilities in Pakistan as on close of previous calendar year, whichever is higher. The amount required to be maintained has to be kept in the form of either: (i) interest-free deposit with the SBP in Pak Rupees or in a freely convertible foreign currency, or (ii) un-encumbered approved securities. Provided further that such deposit shall be by transfer of funds from outside Pakistan or in the form of assets acquired out of remittable profit.

(c) The term 'person' includes any individual, association or body of individuals, fir, company, whether incorporated or not by any other juridical person.

(d) The term 'accommodation' (or financing facility) includes:

(i) all loans, advances, credit facilities and Bills purchased and discounted (BP&D) to the 'person' or to another person on the guarantee of the 'person'

(ii) subscription to or investment in shares, PTCs, TFCs or any other commercial paper (at book value) issued or guaranteed by the 'person'.

(iii) any financing obligation undertaken on behalf of the 'person' under L/C, SB-L/C, loan repayment or any other guarantees, acceptance/endorsement on account and any other liability on client's behalf for funds advanced. However, for calculation of FPE the weightage in respect of documentary credits, guarantees/bonds (other than repayment guarantees) shall be 50%.

(iv) But does not include:

1. Loans and advances to Federal/Provincial Government or other agencies for commodity operations.

2. Loans, advances and BP&D given to Federal/Provincial Government or guaranteed by the Federal Government.

3. Pre-and post-shipment credit to finance exports under confirmed irrevocable L/C.

4. L/Cs for import of plant and machinery for new industrial projects in rural areas.

5. Obligations under L/C and L/G to the extent of cash margin retained.

6. Import L/Cs not creating any financial obligation for the opening bank.

7. Inter-bank borrowing/facilities.

8. 80% of the deposit of the party held by the bank under its lien and face value of government bonds held as collateral shall also be excluded.

(ii) Accommodation to Bank's Directors etc.

Under P.R.1(2): No bank shall provide any accommodation (fund-based or otherwise) to any of its Directors, Chief Executive Officer (CEO) and shareholders holding 5% or more of the share capital of the bank, or to their spouses, parents, children or firms and companies in which they are interested as partners, directors or shareholders holding 5% or more of the share capital of that concern.

(iii) Bank's Exposure Against Contingent Liabilities (EACL)

Under P.R.II:

(a) Contingent liabilities of a bank shall not exceed 10 times its paid-up capital and general reserves free of losses or 10 times the "assigned capital" (to be maintained under S.13:3 of the Banking Companies Ordinance 1962) in the case of Pakistan branches of foreign banks.

(b) The contingent liabilities will not include bills for collection, forward exchange contracts and 50% of bid/mobilisation advance/performance bond facilities.

(iv) Bank's Exposure Against Unsecured Advances (EAUA)

Under P.R.III:

Financing on unsecured basis up to a maximum of Rs. 50,000 to any one borrower for agricultural, commercial and industrial purposes, provided the bank's aggregate exposure against all its unsecured assets does not exceed the amount of the bank's capital and general reserves, free of all losses.

(v) Linkage between Borrowers' Equity and his Borrowing:

Under P.R.IV:

(a) Banks must ensure that total accommodation (as defined in P.R.1) availed by any borrower from banks/FIs does not exceed 10 times the capital and reserves (free of losses) of the borrower as disclosed by his written statement or accounts.

(b) Every bank shall, as a matter of rule, obtain copy of accounts relating to the business of the borrower for analysis and record. This is, however, not mandatory if the facility is less than Rs. 50,000. Where the facilities are above Rs. 50,000 but less than Rs. One million, and internal auditor's certificate and for facilities above Rs. One million a Chartered Accountant's certified accounts will be a mandatory requirement for banks.

(vi) Borrower's Debt-Equity Ratio

Under P.R.V, Banks shall ensure that:

(a) Current liabilities of the borrower do not exceed his current assets and that

(b) the total long term debt-equity (LTD-Equity) ratio of the borrower does not exceed 60:40 except as stipulated by the Government or SBP in specific cases.

(vii) Facilities Against Shares

Under P.R.VI:

(a) No bank shall provide unsecured credit to finance subscription towards shares floated by public limited companies.

(b) No bank shall allow any financing facility (fund-based or otherwise) against shares of non-listed companies.

(c) Facilities against shares will be subject to following margins: 20% where market value (M.V.) of the share does not exceed its face value (F.V.), 40% where M.V. does not exceed twice the F.V. and 50% where M.V. exceeds twice the F.V. of the shares.

(viii) Dealing with Directors, Major Share-Holders & Employees of the Banks

Under P.R.VII:

Banks shall not without the prior approval in writing of the State Bank of Pakistan enter into leasing, renting and sale/purchase of any kind with their directors, officers, employees or persons who either individually or in concert with family members beneficially own 10 per cent or more of the equity of the bank.

(ix) Classification and Provisioning for Risk Assets

(a) Effective from December 30, 1992, P.R.VIII lays down the guidelines for classification and provisioning for Short Term (ST) and Long Term (LT) facilities.

(b) The provision is to be made at the specified percentage on the net difference (i.e. the difference between the outstanding balance of principal and amount of liquid assets realisable without recourse to a Court of Law).

(c) The unrealised mark up (M.U.) and interest (int.) on classified facilities is to be kept in Suspense A/c and not to be credited to Income Account.

(d) The provisions required for S.T. facilities are as under:

1. In case of Other Assets Especially Mentioned (OAEM), where M.U./Int. or Principal is over-due by 90 days, provision @ 2% of the net difference.

2. In case of Substandard assets, where M.U./Int. or Principal is over-due by 180 days or more, provision @ 25% of the net difference.

3. In case of Doubtful assets, where M.U./Int. or Principal is over-due by one year or more, provision @ 50% of the net difference and

4. In case of Loss assets, where M.U./Int. or Principal is over-due beyond two years or trade bills (i.e. import, export or inland bills) are not paid/adjusted within 180 days of due date, provision @ 100% of the outstanding balance of principal.

(e) The provisions required for LT facilities are as under:

1. In case of OAEM, where M.U./Int. or instalment of principal is over-due by 180 days, provision @ 2% of the net difference.

2. In case of Substandard assets, where M.U./Int. or instalment of principal is over-due by one year or more, provision @ 25% of the net difference.

3. In case of Doubtful assets, where M.U./Int. or instalment of principal is over-due by two years or more, provision @ 50% of the net difference and

4. In case of Loss assets, where M.U./Int. or instalment of principal is over-due by three years or more, provision @ 100% of the outstanding balance of principal.

Management

Under P.R.IX:

No member of the Board of Directors of a banking company holding 5 per cent or more of the paid-up capital of the banking company either individually or in concert with family members or concerns/companies in which he/she has the controlling interest, shall be appointed in the bank in any capacity save as the chief executive of the bank (which should not exceed one in any case) and that no payment shall be made or perquisites provided to any such directors other than travelling and daily allowances for attending meetings of the Board of Directors or its Committee. Provided further that no more than 25% of the total directors can be paid executives of the bank.

Bank Charges

Under P.R.X:

1. All the commercial banks shall be free to determine the rates of charges in respect of various services that they may provide to their constituents.

2. It shall be mandatory for each commercial bank to fix its rates of charges on half-yearly basis in advance for the half year January-June and July-December. Each bank shall get its schedule of charges printed and so notified as to be available to its constituents at least 7 days before the commencement of the half year during which the rates shall remain in force at all places of business. The bank shall be required to provide a copy of the printed schedule of charges to the Banking Control Department of State Bank of Pakistan before the commencement of the related half year.

Opening of Accounts

Under P.R.XI:

Banks shall make all reasonable efforts to determine the true identity of every would-be account holder. Towards this end, banks shall institute effective procedures and methods for obtaining proper identification from new customers.

Prevention of Criminal Use of Banking Channels for the Purpose of Money-Laundering and other Unlawful Trades.

Under P.R.XII:

The following guidelines are issued to safeguard banks against their involvement in money-laundering activities and other unlawful trades. These will add to or reinforce the precautions banks may have been taking in this regard:

(a) Before extending bank services, banks shall make reasonable efforts to determine the true identity of the customers. Particular care should be taken to identify ownership of all accounts and those using safe-custody facilities.

Effective procedures should be instituted for obtaining identification from new customers. An explicit policy should be devised to ensure that significant business transactions are not conducted with customers who fail to provide evidence of their identity.

(b) Banks shall ensure that banking business is conducted in conformity with high ethical standards and that banking laws and regulations are adhered to. It is accepted that banks normally do not have effective means of knowing whether a transaction stems from or forms part of wrongful activity. Similarly in an international context it may be difficult to ensure that cross broker transactions on behalf of customers are in compliance with the regulations of another country. Nevertheless banks should not set out to offer services or provide active assistance in transactions which in their opinion are associated with money derived from illegal activities.

(c) Specific procedures be established for ascertaining the customer's status and his source of earnings, for monitoring of accounts on a regular basis, for checking identities and bonafides of remitters and beneficiaries, for retaining internal record of transaction for future reference. The transactions which are out of character with the normal operation of the account involving heavy deposits/withdrawals/transfers should be viewed with suspicion and properly investigated.

(d) For an effective implementation of banks' policy and procedures, suitable training be imparted to members of staff and they be informed of their responsibility in this regard.

(e) Banks may make arrangements for setting up an internal audit system in order to establish an effective means of testing/checking compliance with the Bank Policy and procedures established by it.

Keeping in view the above principles, banks shall issue necessary instructions for guidance and implementation by staff members.

Service Charge on PLS Deposit Accounts

Under P.R.XIII:

No bank shall levy any charge, in any form, on the credit balances held by it on PLS basis in customers' deposit accounts.

Payment of Dividend

Under P.R.XIV:

(1) No banks shall pay any dividend on its shares unless and until:

(a) All its capitalised expenses (including preliminary expenses, organisation expenses, share selling commission/brokerage, amount of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off; and

(b) All bad and doubtful debts and other classified assets have been fully and duly provided for in accordance with the prudential regulations of and to the satisfaction of the State Bank of Pakistan.

Undertaking of Cash Payments Outside the Bank's Authorised Place of Business

Under P.R.XV:

The banks are prohibited from undertaking any business of cash payments at any place other than the authorised place of business except through the installation of Automated Teller Machines (ATM).

Window Dressing

Under P.R.XVI:

Banks are required to refrain from adopting any measures or practices which either artificially or temporarily show an ostensibly improved position of bank's accounts in their P&L Account and Balance Sheets specially in relation to its deposits and profit. The inter-branch and inter-bank accounts must reflect accurate and true position.