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**ASSESSMENT OF TECHNICAL
ASSISTANCE AND TRAINING**

**SHELTER RESOURCE MOBILIZATION
PROGRAM**

PAKISTAN

January 1993

FINAL REPORT

ASSESSMENT OF TECHNICAL ASSISTANCE AND TRAINING

SHELTER RESOURCE MOBILIZATION PROGRAM

PAKISTAN

Prepared for

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Islamabad, Pakistan**

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TABLE OF CONTENTS

I. Introduction	3
II. Project Summary	3
III. Progress to Date	4
IV. Assessment of the Technical Assistance and Training Activities	7
V. Observations and Conclusions	8
VI. Technical Assistance and Training Recommendations	11

LIST OF ACRONYMS

ABAD	Association of Builders and Developers
FDIC	Federal Deposit Insurance Corporation
FNMA	Federal National Mortgage Association
GOP	Government of Pakistan
HBFC	House Building Finance Corporation
HFI	Housing finance institution
HG	Housing Guaranty
IQC	Indefinite Quantity Contract
PSC	Personal service contractor
RHUDO	Regional Housing and Urban Development Office
SRMP	Shelter Resource Mobilization Program

ASSESSMENT OF TECHNICAL ASSISTANCE AND TRAINING SHELTER RESOURCE MOBILIZATION PROGRAM PAKISTAN

Executive Summary

In years past, the prevailing perception of the private sector had been that housing finance was not as profitable a business as other types of lending ventures. For that reason the private sector had shown little interest in housing finance, and virtually no effort had been made by either the private sector or the government to develop such a system. Compounding the problem was that private sector housing finance companies were not permitted to operate in Pakistan; moreover, private companies were barred from mortgage lending until the end of 1990. However, beginning in 1989, AID has played a significant role in changing this perception as well as convincing the government to support a new private sector housing finance system. There is now definite movement toward establishing a private housing finance system, with the first institution becoming operational in early December 1992.

Seven prospective housing finance companies have letters of intent and, as noted above, one of those companies was issued a license in November and began operations the following month. All seven companies are attending monthly meetings to exchange ideas and information and, through the Shelter Resource Mobilization Program (SRMP), are making a coordinated effort to bring about the administrative and legal changes necessary to organize the companies and make them operational. Prospects are excellent for the establishment of a trade association to represent the companies as a united front. Training has intensified to the point where more and more government and private sector housing finance officers have a good understanding and knowledge of housing finance. The Joint Secretary in the Ministry of Finance responsible for the SRMP is committed to the establishment of a private sector housing finance system and strongly supports the efforts of the housing finance companies and the SRMP.

It is unclear whether the remaining \$1.5 million in technical assistance and training will be fully utilized by the end of June 1994. Based on the technical assistance recommendations listed in this report, it is probable that at least half of the balance will be used. Nevertheless, the team believes that the availability of some unused funds at the PACD will be beneficial. If the Pressler Amendment is lifted or modified, then the remaining funds could be utilized to continue the TA Program for an additional one to two years.

The second tranche of \$15 million in HG funding has not yet been contracted. Given the housing companies' need to generate additional resources to make housing loans, utilizing HG resources to refinance below median income housing funded by the housing finance companies might be attractive to one or more of the companies. In the event this idea is acceptable, the companies should hold discussions with AID as well as consider a strategy to approach the Government of Pakistan (GOP) with such a request.

Since indications are that the next six months in the life of project will be crucial, it is important that the Mission and the SRMP program managers focus intensely on those TA and training activities that would assist the companies to obtain operating licenses, initiate operations, and generate lending resources. The SRMP staff should prepare a detailed work plan for each staff member in particular and the program in general to cover this critical period.

AID should offer to assist the GOP to clarify the functions of the House Building Finance Corporation (HBFC) in the new housing finance system, given the possible cut-off of government financing as well as the likelihood of the HBFC being privatized. This activity would include examining the feasibility of structuring a role for it as a market-oriented public sector lender, a privatized lender, a lender oriented to specific low-income groups, or a mixture of such functions. If a restructuring of HBFC results in a market-oriented direction, then AID should consider supporting a lending program especially if it directs its resources to low-income groups on a sustainable basis.

AID should also fund a study on how project developments could be financed and implemented through the housing finance institutions (HFIs). A case study on how a housing project is and should be developed and built in Pakistan would be helpful to the HFIs in determining whether and how to become involved in multi-unit developments.

Regulation and supervision of the Housing Finance Institutions are crucial to a well-functioning housing finance system. The experience of the Federal Deposit Insurance Corporation (FDIC) in these matters might be useful to the State Bank (Central Bank), which is responsible for this function. AID should provide technical assistance to define supervisory functions and institutional roles, staffing, and data needs of the supervisory agency.

AID should complement the finance mobilization study now being undertaken by having a US financial institution like the Federal National Mortgage Association (FNMA) perform a study on incentives, including those used in the region, to generate housing finance resources.

In many other countries, housing finance institutions also make loans to improve, complete, or expand a home. A study to determine whether the HFIs could develop these and other types of lending programs would be useful.

Developing a curriculum and course material on housing finance administration and operations must be a high priority for AID. It is recommended, therefore, that AID provide assistance to the HFIs and their trade association in the development of a local training institution to serve the needs of the housing finance community.

Additional TA and training should be demand driven. Therefore, it is suggested that a re-assessment of the TA and training needs and recommendations be carried out once the recommendations made in this report are substantially underway. Moreover, during this important period in the development of the program, AID oversight is critical.

I. Introduction

The purpose of this consulting activity was to carry out an assessment of the technical assistance and training component of the AID Shelter Resource Mobilization Program (SRMP) in Pakistan, to identify additional or expanded technical assistance and training activities, and to prepare a recommended program of technical assistance to be carried out prior to June 1994. The assignment was undertaken by two consultants from PADCO: Fredrik Hansen, team leader and senior housing policy and programs specialist, and Daniel Coleman, senior housing finance specialist. The team visited Pakistan over a two week period beginning on November 8, 1992, with field work being undertaken in Karachi, Lahore, and Islamabad. Meetings were held with public as well as the private sector officials, including representatives of six of the seven HFIs that have been issued letters of intent. Prior to departure from Pakistan, the team briefed the USAID Director. En route to the US, the team stopped in Bangkok to brief the Director of the Regional Housing and Urban Development Office (RHUDO/Asia).

The results of the consulting assignment are contained in this report. After a brief description of the project, the TA and training activities carried out to date under the SRMP are summarized, followed by a general assessment of the effectiveness of those activities on the program. Based on that assessment and the observations of the consultants, a number of conclusions on the TA and training activities are derived. The final section consists of specific recommendations for additional technical assistance to be implemented over the next six to twelve months. Given the significant changes during the past year, coupled with the expected increased volume of upcoming activities, it was not possible to lay out a complete technical assistance plan to the end of the project in June 1994.

II. Project Summary

The objective of the Shelter Resource Mobilization Program is to assist the GOP to establish a market-oriented housing finance system and to rationalize its housing finance policy. The Program was designed in 1988/89 and approved in June 1989, with a PACD of June 1994. The SRMP was originally configured with a technical assistance and training grant of \$5 million, plus \$100 million in Housing Guaranty loan authority. In early 1991, due to Pressler Amendment constraints, the HG loan was reduced to \$40 million and the grant to \$4 million. The PACD was also shorted by a year to June 1993, which later (August 1992) was extended back to the original June 1994 PACD. AID authorized the first tranche of HG resources in the amount of \$25 million in FY89, and a second tranche of \$15 million in FY90. Eligible expenditures on urban improvements that benefitted below median income groups have been certified and the first tranche of the HG loan was contracted in December 1992. No plans have been made yet for contracting the second tranche.

The first of the two long-term advisors authorized to help implement the program arrived only in November 1990, nearly 18 months after the program was initiated. The second advisor arrived in December 1991, thirty months after project authorization. Short-term

technical assistance has been sporadic. However, in the past year, a significant amount of TA has been provided by local firms. Training has consisted of a variety of activities, including sending participants to selected seminars and conferences, and to various housing finance and urban development courses in the US and Asian countries. Of the \$4 million in TA funding, about \$1.6 million has been expended to date, while another \$1 million has been programmed and/or budgeted for on-going activities. The remaining \$1.4 million in TA funds is available for new TA and training activities to be designed and implemented prior to June 1994.

III. Progress to Date

The \$4 million grant was programmed to be used for technical assistance to establish a housing finance system and to train Pakistanis from both the private and public sectors who are involved in housing finance. The technical assistance component consists of both long- and short-term advisory services. As indicated above, the long-term advisors, who are personal service contractors (PSCs), have been in place for two and one year respectively. They consist of a Chief Technical Advisor, who is responsible for coordinating TA and training as well as identifying policy development and TA and training needs, and a Housing Finance Advisor, who works with the Ministry of Finance, the State Bank of Pakistan, and the individual housing finance companies; and who coordinates institutions and companies.

The short-term advisory assistance consists of consulting services and special studies to be identified during the course of the program. In general, however, the short-term activities are programmed to add more specialized knowledge of technical areas, and to work with GOP officials to design and carry out special studies and projects. In addition, some grant funds are being used to set up and operate the SRMP office, including the purchase of office equipment and vehicles, and the training of local staff in computers (shown as "other" below). The original budget for the TA and training program allocates the funds as follows:

Item	Amount
Technical Assistance	\$2,500,000
Training	1,000,000
Other	500,000
Total	\$4,000,000

Actual and projected use of the funds indicate that the monies may be used in a slightly different, albeit consistent, way. The following table shows how the grant funds have and will be used, and gives a balance of about \$1.4 million to be made available for future activities.

Item	Amount Used/ Budgeted	Balance
Technical Assistance	\$1,689,900	\$810,100
Training	644,000	356,000
Other	269,000	231,000
Total	\$2,602,900	\$1,397,100

The \$2.6 million in grant funds allocated for TA, training and other costs covers both expenditures to date as well as contractual obligations. The breakdown for technical assistance alone is shown below.

Item	Amount
Long-Term Advisors	\$692,000
Short-Term Advisors	601,900
Office Staff, Rent, Maintenance	126,000
Total	\$1,689,900

The \$692,000 for long-term advisors assumes funding for the PSCs through the end of the Program in June 1994.

Short-term technical assistance activities have been carried out by both local and US consulting firms. An Indefinite Quantity Contract (IQC) for \$382,400 was awarded to 21st Century Consultancy and Management Services, a local consulting firm, in October 1990, as a result of a competitively bid offering. Under this IQC, delivery orders are issued for specific tasks as requested by the USAID Project Director. Eight delivery orders have been issued to date, some of which have been completed, while others are being implemented now. Four more delivery orders have been planned, which will utilize most of the funds available in the contract. However, the SRMP managers are investigating the possibility of adding \$140,000 to the IQC with 21st Century to carry some additional tasks that are expected to be required under the Program.

In addition to the IQC, technical assistance has been provided by consulting firms and individuals which were awarded under competitively bid contracts, purchase orders or housing and urban development IQCs, as follows:

- In March 1990, Abt Associates prepared a foreclosure study and licensing and supervisory requirements.
- In June 1990, PADCO provided assistance on local currency uses for the HG loan.
- The Urban Institute prepared a first year monitoring study in August 1990.
- Marja Hoek-Smit in early 1991 prepared a Training Program Design.
- Grindlay's Bank, Pakistan, is preparing a Capital Markets Resource Mobilization Study, to be completed in December 1992.
- EDC Consultants, Pakistan, is completing a study on marketing housing finance projects, to be dated January 1993.
- PADCO is being utilized to carry out this particular TA and Training Assessment, with completion in January 1993.
- A contract is being processed for the preparation of a Business Plan Concept Paper; the contractor has not yet been selected.

The breakdown of short-term TA is shown below.

IQC with 21st Century:

DO 1	:	Training Strategy	3,500
DO 2	:	SRO Analysis	3,900
DO 3	:	Task Orders	10,050
DO 4	:	Foreclosure Study	30,500
DO 5	:	In-country Training	36,900
DO 6	:	Planning and Housing	21,350
DO 7	:	Task Orders	16,500
DO 8	:	Bank Mortgages	9,800
DO 9	:	Implementation Agreement Issue	30,000
DO 10	:	Publicizing Housing Finance	90,000
DO 11	:	Mortgage Design/Underwriting	30,000
DO 12	:	Property Transactions	30,000
Un-Programmed Tasks			69,900
Total IQC Delivery Orders			382,400

Other Contracts:

Foreclosure Study	68,500
Local Currency Uses	21,000
Monitoring Study	22,000
Training Program Design	12,000
Marketing Housing Finance Prod.	20,000
Resource Mobilization Study	25,000

TA & Training Assessment	46,000
Business Plan Concept	25,000
Total Other Contracts	219,500
Total Short-term Consultancies	601,900

The final part of the TA component consists of the office staffing and support. Two local professionals have been hired to assist in the development of the Program. One professional is responsible for organizing and arranging training programs, while the other provides general program support. A secretary and one driver round out the local staff. Rent and maintenance are also included in this rubric.

The program has provided opportunities to 43 Pakistanis to participate in training exercises. Most of the participants (34) were from the public sector; however, the shift recently has been toward more participants from the private sector, as the HFIs become operational. The bulk of the training activities were in the area of housing finance, as expected. The following table shows the distribution of the training exercises, by participant.

Type of Training	Number of Participants		
	Public Sector	Private Sector	Total
Seminars/Conferences	9	1	10
Study Tours	1	0	1
Housing Finance Courses	23	8	31
Urban Development Courses	3	0	3
Totals	36	9	45

IV. Assessment of the Technical Assistance and Training Activities

The approach to the TA and Training Program has been to develop activities to focus on two types of needs. First of all, activities would be designed to promote the development of the embryonic housing finance sector as well as remove any constraints to the development of such a system. Secondly, activities would be carried out to help the institutions that will comprise the system become operational. Since only one institution has become operational, almost all the assistance has been focused on the first type of activity, which is promoting the housing finance system.

Even so, progress in implementing TA and training activities in this first area has been hampered. During the initial 18 months of the five year SRMP, there was no long-term

PSC advisor as envisaged in the original project design. Furthermore another year elapsed before the arrival of the second long-term PSC advisor. Therefore, during the first half of the project cycle, the SRMP was operating with a professional staff at a level considerably below that required to implement the TA program successfully. While the local USAID hire assigned by the Mission to manage the project (on a part-time basis) was able to pick up some of the slack, the lack of long-term advisory assistance prevented the provision of a steady stream of in-house advisory assistance as well as the expeditious implementation of the short-term consulting activities and the training exercises. However, over the past few months, the program has been operating at full-speed.

With respect to operational assistance to the new institutions, the program was almost halfway through the project cycle before two applicants received letters of intent from the GOP (October 1991); however, since the issuance of the initial letters of intent, five more companies have received those letters and it is expected that a few other applications will be approved in the next few months. Since the issuance of the initial letters of intent, the HFIs have proceeded to fulfill the necessary legal and organizational requirements to initiate operations. Citibank received its business license in November 1992 and initiated operations the following month. It is only now that the environment is ripe for the provision of technical assistance in the second focus area.

Given this working environment, the SRMP managers have concentrated on the informational and educational aspects of the program. The emphasis here was on educating public sector officials on the need for housing finance as a crucial ingredient to meet the housing need and convincing the private sector businessmen that a housing finance operation could be a profitable business.

This need to educate relevant officials and professionals on the subject of housing finance was a key factor in the decision to contract a locally based consulting firm through the issuance of an IQC in 1990. This firm has been instrumental in getting across to the Pakistani decision makers the need and the desirability of a housing finance system.

V. Observations and Conclusions

In Pakistan the primary agencies charged with the provision of housing are the Ministry of Urban and Environmental Affairs, the National Housing Authority, the Internal Finance Wing of the Ministry of Finance, and the House Building Finance Corporation (HBFC). The first two agencies provide funding for sites and services projects and for low cost housing projects. However, the number of units they provide is not significant, while many of those units are misallocated and/or located in unacceptable sites. As a consequence, scarce subsidized funding is not necessarily benefitting the intended lower-income groups.

The third institution, HBFC, provides partial financing using government funds for 15 to 20 percent of the housing produced in the country each year. Loans are given at subsidized rates. For example, a Rps. 100,000 loan (US\$4,000) carries a 10 percent interest rate, while rates are slightly higher for larger loans. Typically an institutional loan repre-

sents a tenth to a third of the value of the unit purchased. The remainder of the funds are provided by the family purchasing the unit. All these funds are then paid to the developer, typically over a three year period, to construct the unit. As an aside, it should be mentioned that the interest rate for private sector housing loans is 20 percent. The Ministry of Finance group licenses private housing finance companies and will be instrumental in how well the market-based system performs. As the private sector housing system evolves, the State Bank (Central Bank) and the Corporate Law Authority will also play key roles.

Construction financing remains an issue, even in this limited shelter delivery system. People have to come up with most of the construction funds themselves, even for housing financed by HBFC and produced by a developer. The informal sector provides the bulk of the housing and necessary services, much of which are inadequate and sub-standard.

1. In years past, the prevailing perception of the private sector had been that housing finance was not as profitable a business as other types of lending ventures, and moreover was a riskier proposition. For that reason the private sector had shown little interest in housing finance and virtually no effort had been made by either the private sector or the government to develop such a system. Compounding the problem was that private sector housing finance companies were not permitted to operate in Pakistan; moreover, private companies were barred from mortgage lending until the end of 1990. Beginning in 1989, AID has played a significant role in changing this perception as well as convincing the government to support a new private sector housing finance system. There is now definite movement toward establishing a private housing finance system, particularly since the first institution became operational in early December 1992.

Given the progress to date and the probability of continued forward movement in the sector, AID is expected to continue to support strongly the Shelter Resource Mobilization Project. If the Pressler Amendment is amended, then the project should be restored to its original size and scope. The \$40 million in HG resources that is currently being made available to the project will help ensure that the housing finance system is initiated and becomes operational. But if the de-authorized \$60 million from the original \$100 million program is once again made available and used to broaden the lending portfolio for low-income families, as well as the remaining \$1 million in TA and training, then the anticipated growth and strengthening of the housing finance institutions will be assured.

2. In spite of the delays in getting the SRMP underway, the project now appears to have reached a jumping-off point. Seven companies have letters of intent and, as noted above, one of those companies is now operational. All seven companies are attending monthly meetings to exchange ideas and information and are making a coordinated effort to bring about the administrative and legal changes necessary to organize the companies and make them operational. Prospects are excellent for the establishment

of a trade association to represent the companies as a united front. Training has intensified to the point where more and more government and private sector housing finance officers have a good understanding and knowledge of housing finance. The Joint Secretary in the Ministry of Finance responsible for the SRMP is committed to the establishment of a private sector housing finance system and strongly supports the efforts of the housing finance companies and the SRMP.

3. It is unclear whether the remaining \$1.4 million in technical assistance and training will be fully utilized by the end of June 1994. Based on the technical assistance recommendations listed below, it is probable that at least half of the balance will be used. Nevertheless, the team believes that the availability of some unused funds at the PACD will be beneficial. If the Pressler Amendment is lifted, then the remaining funds could be utilized to continue the TA Program for an additional one to two years, which will be necessary to recoup the time lost due to delays in the start-up of the SRMP. Other uses of the unused funds would be to help develop a follow-on HG loan, assuming the end of the Pressler Amendment and the desirability of additional housing guaranty assistance to Pakistan, or to provide project funding, as will be discussed later in this report.
4. The second tranche of \$15 million in HG funding has not yet been contracted. Given the housing companies' need to generate additional resources to make housing loans, utilizing HG resources to fund below median income housing by the housing finance companies might be attractive to one or more of the companies. Discussions on this topic among the housing finance companies at the December meeting would be useful to determine if any company would consider this option. In the event this idea is acceptable, the companies should hold discussions with AID as well as consider a strategy to approach the GOP with such a request.
5. The SRMP office has positioned itself well to support and provide guidance to the emerging HFIs, in part because it has an effective IQC with a local consulting firm, 21st Century. The firm is particularly effective in providing AID with substantially more capacity to interface with high level government officials and the business community. AID's level of understanding and appreciation of how things are done in the business and government community has been substantially enhanced. Through the consultants, issues and concerns are more easily discussed and presented to the proper authorities. This contractual relationship should be expanded so that the firm can continue to provide the professional and local insight on the studies, promotional activities, and seminars being carried out.

Since indications are that the next six months in the life of project will be crucial, it is important that the Mission and the SRMP program managers focus intensely on those TA and training activities that would assist the companies to obtain operating licenses, initiate operations, and generate lending resources. To maximize efforts to move along quickly over the next few months, it is suggested that:

- The SRMP staff should prepare a detailed work plan for each staff member in particular and the program in general to cover the next six months. These plans were discussed and finalized with the Director of RHUDO/Asia during his trip to Pakistan in early December, as well as with USAID.
- The SRMP staff should make a concerted effort to publicize the housing finance system, including efforts to network the public and private sectors. Working with 21st Century, a plan should be prepared to this effect.
- The existing IQCs in Housing and Urban Development should be utilized more intensely in order to obtain those technical assistance resources not available locally, especially since the US-based IQC firms can be contracted relatively quickly.
- The development of a housing finance trade association must be implemented as quickly as possible to collectively promote the housing finance companies' agenda. The establishment and operation of the HFIs and their trade association will help foster the dialogue with the government on the sector's needs. The HFIs should enlist the support of the Association of Builders and Developers (ABAD) on those issues which are of mutual interest. Assisting the builders in becoming classified as a specific industry group could open up sources of construction financing to the builders.
- The upcoming seminar on the results of the loan foreclosure study by 21st Century will be important. While foreclosure will continue to be a problem, it is likely that the results of the study will show that the new housing finance companies will have to excel at simple administration while attempting to institute some legal options that can work more quickly than the present foreclosure process. The seminar and the participation of all relevant parties will be an important element in the formulation and scheduling of follow-on activities for the government to pursue. It would be useful for representatives from ABAD, who have devoted considerable effort to the foreclosure issue, to participate in the seminar.
- Resolving the foreclosure issue is particularly important to encourage HFIs to provide mortgages to lower-income families, since the perception of the HFIs is that lending to those families is especially risky. The issues associated with foreclosure are complex and are not easily resolved. At some future point it may be essential to convince the authorities that technical assistance can help improve those procedures, including legal notification and recording steps, that are currently inhibiting foreclosure.

VI. Technical Assistance and Training Recommendations

This section contains a number of specific recommendations for technical assistance and training to be carried out under the SRMP.

Recommendation 1. Resource Mobilization. The study on resource mobilization which is now being prepared by Grindlay's Bank is timely and will make an excellent subject for the planned seminar. Clearly, the success of the HFIs will be determined by the volume

of financial resources captured, which in turn they can make available for mortgage loans. Since it is problematic that sufficient resources at market interest rates will be raised, the HFIs will continue to request that the government allow them to operate on a "level playing field". Therefore AID should complement the finance mobilization study by having a US financial institution like the FNMA perform a study on incentives to generate housing finance resources.

In this study it is important to examine the source and flow of resources and identify constraints, costs, and opportunities. Therefore, issues that need to be addressed would include tax relief, registration costs, passbook savings, secondary market considerations including standardized mortgage documentation and underwriting standards, the role of pension and insurance funds, the development of mortgage products to achieve broader access by all income groups, a role for NGOs, etc.

The study would review the techniques used by a number of housing finance systems in the world to provide incentives to mobilize resources. The effect of these incentives on the housing sector as well as other economic sectors (tax revenues, access to funds, etc.) should be assessed. A comparison of the different types of incentives is also to be analyzed. Conditions imposed on the housing institutions receiving these incentives should be described and assessed as far as information is available on compliance with the conditions. Finally, recommendations should be made to the GOP as to the appropriateness of these incentives in Pakistan. Contracting this study needs to be given a high priority.

The HFIs should be briefed on this consulting activity at the seminar on resource mobilization. They should be encouraged to wait for the results of FNMA's work before launching a campaign to obtain incentives from the GOP unless some obvious incentive based on local practice is evident from the Grindlay study.

The demand for housing should be an integral part of the study on resource mobilization. Indications to date are that the first HFIs to become operational will probably only finance construction and mortgage loans to individuals to build a home on a personally owned lot or to purchase a home already completed. In all likelihood, these individuals will have higher incomes and/or have access to a payroll check-off system to make monthly payments. In many other countries, housing finance institutions also make loans to improve, complete, or expand a home. An assessment on whether the HFIs could develop these and other types of lending programs would be useful. It would provide information to help the HFIs ascertain whether these types of programs are profitable, while at the same offer them the opportunity to expand their lending operations beyond the relatively small market that has already been identified.

If this assessment's results show that these types of lending programs are practical, then AID could look into the possibility of utilizing other sources to finance a small pilot project through an interested HFI. The study therefore should identify what type of pilot project

should be carried out, assuming the study results are positive with respect to alternative lending programs.

Recommendation 2. Regulatory and Licensing Assistance. Regulation and supervision of the Housing Finance Institutions are crucial to a well-functioning housing finance system. This is particularly relevant if the HFIs are to be successful in mobilizing small savings from a wide cross section of the population. The experience of the FDIC in these matters might be useful to the State Bank (Central Bank), which is responsible for this function. In addition, it is important to clarify the licensing process for new HFIs in order to speed up and expedite the process of approving new HFIs.

Initially, technical assistance could be provided to assess the status of the regulatory and supervisory capability of the division of the State Bank responsible for this matter. Recommendations should be made with respect to the administrative and operational needs of this division to effectively regulate and supervise the new HFIs. The TA activity should also make recommendations with respect to staffing requirements, training, equipment, including computer and software needs

Recommendation 3. The Role of HBFC. The HBFC and its place in the new housing finance is a major issue since at present the HBFC is still a significant provider of housing finance. Both the Asian Development Bank and the World Bank have carried out analyses of the HBFC during the last few years, all of which have indicated that the HBFC has major problems in fulfilling its mandate. Recommendations were made to improve its management and operations, and to date some limited improvements have occurred. On the other hand, the government has stated that HBFC will not receive any government funding after 1994. In addition, some discussions have been held on whether to privatize the institution; however, neither of these two actions will necessarily occur. It is reasonable to conclude at this time that HBFC, in its present structure, is not playing as constructive a role in financing housing as is needed to meet the demand.

During the life of this project, AID has maintained a working relationship with the HBFC. Officials of the institution have attended training courses sponsored by AID, and a representative of HBFC is invited to and attends the monthly meetings held by the private sector housing finance institutions. From time to time, AID meets with the HBFC to discuss the housing sector and other issues of mutual interest.

Our recommendation is that AID should continue this relationship with HBFC. Moreover, AID should offer to assist the GOP to clarify the functions of the HBFC in this new housing finance system by setting out the options (and costs) available for restructuring the institution, and particularly the role of the HBFC in the overall housing sector. While it is difficult to envisage the new role of HBFC within the housing sector, some restructuring alternatives might include:

- New leadership coupled with administrative improvements but maintenance of its current physical (e.g. branch offices), administrative (e.g. staff), and financial functions.
- The above structure, plus giving it autonomy.

- The above structure, plus autonomy, plus a mandate to be profit-making.
- Conversion of HBFC to an HFI.

If HBFC is converted to an HFI, then the study should address whether it should be allowed to accept savings while at the same time shifting some of its lending to lower-income families. The issue of the provision and level of government financial assistance should also be addressed. The study will need to assess the financial, political, and public opinion realities and perceptions and their implications on a restructured HBFC and the entire housing delivery system as it now exists and as it is envisioned. The results of the study would allow AID to determine better its position on the form and level of technical and financial support for the HBFC. AID support should take into consideration HBFC's continued assistance to lower-income groups on a sustainable basis and the degree to which HBFC is commercially viable.

Recommendation 4. Housing Finance and Urban Environmental Management. AID's technical assistance program and plans are correctly and realistically focused on supporting the establishment of a private housing finance system, and this focus should be maintained. Based on the achievements to date, it is anticipated that by the PACD deadline most, if not all, of the seven institutions now engaged in the start up process will be licensed. Several of the HFIs will have deposited the required Rps. 50 million in capital and will have issued and sold the additional Rps. 50 million required for the initial capitalization. Offices will be operational, attracting savings and investment for lending purposes. Mobilizing resources for the HFIs will be a considerable achievement insofar as commercial banks and other financial institutions have been so successful in tapping the financial markets to the point where excess liquidity is minimal.

Individual housing construction and mortgage loans will probably be given to higher income families and/or salaried employees with companies where payroll deductions for mortgage payments are required. Even small scale projects consisting of expensive units are unlikely to be funded by the HFIs since the risk in construction financing is higher and involves committing large sums of money on one project. Nevertheless the development of planned unit developments is necessary to meet the housing need, and at some point in the future the HFIs will need to become involved in project lending.

It is recommended that AID fund a study on how project developments could be financed. A case study on how a housing project is and should be developed and built in Pakistan would be helpful to the HFIs in determining whether and how to become involved in multi-unit developments. The national, municipal, and provincial government requirements and processing associated with land, infrastructure, and building construction and ownership as well as the construction process, will be addressed. In particular, construction material deliveries and draws, change orders, performance bond, and construction firm capacity appraisal have to be described and understood. Before the terms of reference for this study are issued AID should solicit comments on it from the HFIs and ABAD.

Recommendation 5. Training. The training provided to date, as well as future training plans, is appropriate and fully supports the objectives of the program. In general the training has been responsive to the needs of the new HFIs and the concerned government agencies. But as the HFIs become operational the need for training on credit and real estate appraisal, savings mobilization, mortgage instruments, portfolio management, and other operational matters will be necessary. Another critical training need for the HFIs will be how to appraise and manage construction applications, loans, disbursements, and compliance. Given the lack of experience with construction financing (developers now manage this process internally), training will be required in this area. Training in other areas will be identified as the system grows and develops.

To the extent possible, this type of training should be provided in-country. It may be possible to provide some of the training material from regional and worldwide associations in housing finance, and from other national institutions and training groups. Within Pakistan, the management and development of future training activities and courses could initially be assumed by the HFI trade association, which in turn is being assisted by 21st Century, with financial support and technical assistance from AID.

Developing a curriculum and course material on housing finance administration and operations must be a high priority for AID. It is recommended, therefore, that AID provide assistance to the HFIs and their trade association in the development of a local training institution to serve the needs of the housing finance community.

Recommendation 6. Additional Technical Assistance. Additional TA and training should be demand driven. In general the HFIs will be managed by competent businessmen who are profit motivated. Therefore grant resources for training and TA should be used to foster AID's concerns in regard to broadening the clientele to be served by a private housing finance system and ensuring a supportive yet regulatory role for the government. Furthermore, AID resources should be used to ensure to the extent possible that any direct GOP financial or institutional intervention in the housing sector be restricted to assisting the poor.

As stated earlier, it was not possible to lay out a complete TA and training program for the remaining 18-month life of the project. Therefore it is suggested that a re-assessment of the TA and training needs and recommendations be made once the recommendations made in this report are substantially underway. In all probability, this re-assessment should take place during the summer of 1993; however, the actual date should not be fixed now. Moreover, during this critical period in the development of the program, AID oversight is critical.