

Pattern of Informal Housing Finance in Pakistan

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Housing demand in Pakistan amounts to 14.1 per cent of GDP. It is the largest single form of household wealth which accounts for between one-quarter and one and a half of the capital stock in the country. The objective of the study is to analyse the pattern of informal housing finance and its link to the formal sources. The study also highlights the saving pattern and the choice of assets used to cope up with the housing problem. It is established that net worth of house owned is positively correlated with level of household income. The study indicates that the share of informal borrowers in total shelter financing through credit is eighty per cent.

I Introduction

Housing investment in Pakistan like in many other developing countries typically amounts to 14.1 per cent of GDP. It is usually the largest single form of household wealth which accounts for between one-quarter and one-and-a-half of the capital stock in the country. However, the share of housing investment is financed by formal financial intermediaries is very small and housing finance accounts for only a small fraction of financial assets.

In Pakistan housing is one of the many national priorities that competes for Government funding aid, because it represents large investments and long-term commitments and is less attractive than most. In general, investment in housing is encouraged by Governments through tax incentives, easy access to housing finance, interest subsidies on housing loans and other incentives. Unfortunately, despite the fact that almost 85 to 90 per cent of housing investment in Pakistan is privately financed (Applied Economic Research Centre (AERC), 1988), a systematic institutional structure to channel financial resources by way of mortgage loans into housing investments is still lacking. As far as formal housing finance is concerned, it is estimated that the share of formal institutions in provision of shelter credit was only 13 per cent of total financing for housing (12 per cent through House Building Finance Corporation (HBFC) loan and the remaining 1 per cent from other institutional sources¹). Moreover, these formal finances have limited scope as these are not available for one of the most important housing activity, i.e., of acquiring a piece of land. Also the formal institutional finances in Pakistan are urban bias, i.e., 18 per cent of the institutional loans were allocated to urban people as compared to only six per cent to rural population who are dominantly poor (AERC, 1988).

Like many other countries (Gupta, 1988, Chong-Yah and Boon-Nga, 1990 and Renaud, 1984) the Government of Pakistan is also committed to improve the living standard of the low income group through interventions tempering the provision of shelter to shelterless. But the finance availability being the crucial impediment in facilitating the shelter, particularly to low income² is very limited.

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¹ Commercial banks, employers.

² Formal housing finance requires collateral in terms of leased plot or otherwise. To get loan one has to show some construction almost 30 per cent of the total, the same is a real problem to the poor.