



# Bhutan: Affordable Housing Development Sector Project

Project Name	Affordable Housing Development Sector Project	
Project Number	54355-001	
Country	Bhutan	
Project Status	Proposed	
Project Type / Modality of Assistance	Grant Loan Technical Assistance	
Source of Funding / Amount	Grant: Affordable Housing Development Sector Project	
	concessional ordinary capital resources lending / Asian Development Fund	US\$ 6.00 million
	Loan: Affordable Housing Development Sector Project	
	concessional ordinary capital resources lending / Asian Development Fund	US\$ 24.00 million
	TA: Affordable Housing Development Sector Project	
	Technical Assistance Special Fund	US\$ 1.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth	
Drivers of Change	Governance and capacity development	
Sector / Subsector	Water and other urban infrastructure and services - Urban housing	
Gender Equity and Mainstreaming	Effective gender mainstreaming	
Description	<p>The project will be aligned with the following impact: livability, safety, and sustainability of human settlements ensured. The project will have the following outcome: housing affordability for low-income individuals in designated communities improved. The outputs are:</p> <p>Output 1. Climate and disaster resilient, and affordable housing units and public facilities for low-income individuals constructed. This project component will leverage the National Housing Development Corporation Limited's (NHDCL) access to developable, serviced land to build an estimated 1,000 units for rent (with the opportunity for home ownership) and six integrated community service centers, serviced with roads, electricity, municipal, water and sewerage connections in support of the Sustainable Development Goal 1. This output includes components under the Asian Development Fund Thematic Pool grant to provide decent accommodation for families of urban workers, integrated service centers, and livelihood support for women. It is expected that the increase in supply of affordable houses will mitigate the rental shortage. The mid-rise multi-unit buildings will incorporate gender inclusive features and innovations in design, construction methodology, and operation and maintenance including the application of resilient and smart technology to improve resource-efficiency and greater use of locally available materials to boost local economic development. Climate and disaster resilient design features will be identified through a site risk assessment and take a multi-hazard approach. Bhutan cultural values and traditional architecture, aimed at improved public housing amenity, and green facilities will be reflected in the project. Additionally the site plans for each site will be designed in accordance with urban planning guidelines to incorporate appropriate green and public spaces for the location. The subprojects will be integrated with the surrounding community to the greatest extent possible given the constraints.</p> <p>Output 2. Institutional capacities, policy, and regulatory framework of the housing sector strengthened. This project component will (i) strengthen the NHDCL's housing management and construction capacity by assessing its current policies and procedures, and develop targeted housing for low-income groups, particularly women and youth, and revamping the rent-to-own scheme; (ii) develop disaster and climate resilient designs and related technologies, as a means to also improve resource-efficiency (leading to lower price to income); (iii) review and update the building code and regulations; (iv) conduct awareness trainings and a capacity building program for key project stakeholders on (a) disaster and climate resilient designs; and (b) the building code to effectively implement the designs; for enhanced seismic resilience; (v) enhance NHDCL operating business model with piloting of a public-private partnership focused on operation and maintenance for the units; (vi) develop sector-wide housing management information system; and (v) provide project implementation support services, including design and supervision, and set up of a safeguards unit. This output is critical to ensure that all assets developed under the project is managed in an efficient and sustainable manner.</p>	

Project Rationale and Linkage to Country/Regional Strategy

The proposed project will deliver affordable housing in selected settlements in Bhutan. Improved livability, safety, and sustainability of human settlements through access to adequate affordable housing is a national priority. The project will support the NHDCL to strengthen its services by improving its overall financial sustainability, management, and operations.

There is poor availability of affordable housing in Bhutan, particularly in urban areas where demographic trends are increasingly putting pressure on the residential land and housing stock. As of 2017, there was an estimated shortfall of 21,156 units nationwide, and as described in a study, subsidized housing finance on the demand side alone will not solve the affordability challenges faced in Bhutan. There are also some key sector-wide challenges which affect both the supply and demand value chains, thereby inhibiting the growth of the sector as a whole. Specifically, shortage of suitably zoned and serviced land, existing policy restrictions for the real estate industry, high construction materials cost, and inadequate development finance support from financial institutions, together restrict the private supply of urban housing. To address the demand side, ADB's ongoing financial market development program is developing housing finance mechanisms aimed to increase credit for housing.

Affordable rental housing is in particularly limited supply and often results in noncivil servant low-income households being overburdened with more than an estimated 40%-60% of their income being spent on housing costs. About 63.5% of urban households rent, and as demand for serviced land and housing increases and the supply is unable to keep up, housing prices are also increasing. This has left households no option but to self-build housing in peri-urban areas or overcrowd in the existing housing and overload infrastructure services, finding accommodation in substandard housing in poorly located and under-served areas or adjacent countries. Women are continuing to bear the burden and are vulnerable to housing insecurity exacerbated by overcrowding, which raises social pressures (e.g., domestic violence).

Limits on collateralizing land, restrictive planning regulations, and limited availability of housing development finance products result in private developers catering to higher-income groups using off-plan sales, as middle- and low-income groups are unable to afford minimum house prices. Only 7% of households own houses in urban areas. The private sector is similarly constrained in its role to increase rental housing stock due to the absence of serviced land and the high costs of development. According to the data available from the Royal Monetary Authority, loans for housing purposes (not disaggregated by use i.e., mortgage or construction loan) was 27% of the total loans availed up to 2020, in which loans under the housing loan rate was only 6.5% and the balance 20.5% loan was under commercial lending rates. To meet the needs of Bhutan households it is imperative that the affordable housing supply is increased. The government has an important role in increasing supply since it has greater access to land than private developers.

Bhutan's National Housing Policy, 2020 sets out the implementation responsibilities across the sector. Ministry of Works and Human Settlement is responsible for policy formulation and sector coordination whereas NHDCL is a state-owned enterprise established to deliver and operate public housing for both civil servants and noncivil servants. Of NHDCL's 2,496 units, civil servant tenants account for 83.5% (2,084 households, on two-year renewable leases up to a maximum of 10 years and tied to the place of work), private households account for 16.5% (412) in selected urban centers. The public housing stock underpins the delivery of decentralized public administration and services across the country. NHDCL's construction costs for the two categories of the smallest units (Category III and Category IV housing units) is around Nu2.5 million (equivalent \$33,900) per unit excluding land. As such, NHDCL units, of which more than 50% are leased to lower-income groups, are leased at subsidized rents. Preliminary assessments indicate that the NHDCL operates successfully with 9.9% annual growth in rental revenue, 15.9% annual growth in profit after tax and 8.5% annual growth in asset base during the period 2015-2019. The NHDCL has pursued prudent and sound financial management practices in managing the corporation's affairs. In the next few years, NHDCL is planning to construct about 2,500 housing units, in a phased manner, with the initial phase targeting 1,000 units for ADB funding. NHDCL does not have previous experience with multilateral development banks. Nevertheless, in 2002 NHDCL introduced a rent-to-own scheme with support from the Danish International Development Agency, and in 2006, NHDCL delivered 306 units with assistance from the Government of India.

Impact	Livability, safety, and sustainability of human settlements ensured
Outcome	Housing affordability for low-income individuals in designated communities improved
Outputs	Climate and disaster resilient, and affordable housing units and public facilities for low-income individuals constructed Institutional capacities, policy, and regulatory framework of the housing sector strengthened
Geographical Location	Damphu, Gelephu, Mongar, Nganglam, Phuentsholing, Samdrup Jongkhar, Samtse, Thimphu

Safeguard Categories	
Environment	B
Involuntary Resettlement	B
Indigenous Peoples	C

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	

Business Opportunities	
Consulting Services	To be developed following the strategic procurement planning activity
Procurement	To be developed following the strategic procurement planning activity

Responsible ADB Officer	Kohlhase, Jude Ernest
Responsible ADB Department	South Asia Department
Responsible ADB Division	Urban Development and Water Division, SARD
Executing Agencies	Ministry of Finance Royal Government of Bhutan Thimphu, Bhutan Attention: Director

Timetable	
Concept Clearance	08 Dec 2020
Fact Finding	15 Mar 2021 to 26 Mar 2021
MRM	21 May 2021
Approval	-
Last Review Mission	-
Last PDS Update	08 Dec 2020

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Project Page	<a href="https://www.adb.org/projects/54355-001/main">https://www.adb.org/projects/54355-001/main</a>
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