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Report No: PAD522

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 36.3 MILLION  
(US\$50 MILLION EQUIVALENT)

TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR A

PRO-POOR SLUMS INTEGRATION PROJECT

March 11, 2016

Social, Urban, Rural and Resilience Global Practice  
South Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2016)

Currency Unit = BDT  
BDT 79 = US\$1  
US\$1.3805 = SDR 1

## FISCAL YEAR

July 1 – June 30

## ABBREVIATIONS AND ACRONYMS

ACCA	Asian Coalition of Community Architects
CAS	Country Assistance Strategy
CONTASA	Convertible Taka Special Account
CSC	Community Support Center
EMF	Environmental Management Framework
FMR	Financial Monitoring Report
GAAP	Governance and Accountability Action Plan
GDP	Gross Domestic Product
GoB	Government of Bangladesh
IDA	International Development Association
IUFR	Interim Unaudited Financial Report
M&E	Monitoring and Evaluation
MC	Municipal Committee
MFI	Micro Finance Institution
MoHPW	Ministry of Housing and Public Works
MOU	Memorandum of Understanding
MTR	Mid-term Review
NCB	National Competitive Bidding
NGO	Non-Government Organization
NHA	National Housing Authority
O&M	Operation and Maintenance
PDO	Project Development Objective
PKSF	Palli Karma-Sahayak Foundation
PMU	Project Management Unit
PO	Partner Organisation
PSC	Project Steering Committee
SGA	Subsidiary Grant Agreement
SLA	Subsidiary Loan Agreement
SMF	Social Management Framework
SOE	Statement of Expenditures
UPPR	Urban Partnerships for Poverty Reduction

Regional Vice President	Annette Dixon
Country Director:	Qimiao Fan
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	David Warren
Task Team Leader:	Anna O'Donnell/ Sabah Moyeen

**BANGLADESH**  
**Pro-Poor Slums Integration Project**

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## PAD DATA SHEET

*Bangladesh*

*Pro-Poor Slums Integration Project (P130710)*

### PROJECT APPRAISAL DOCUMENT

*SOUTH ASIA*

*0000009362*

Report No.: PAD522

Basic Information			
Project ID P130710	EA Category B - Partial Assessment	Team Leader(s) Anna C. O'Donnell	
Lending Instrument Specific Investment Loan	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 01-Jul-2016	Project Implementation End Date 30-Jun-2021		
Expected Effectiveness Date 01-Jun-2016	Expected Closing Date 31-Dec-2021		
Joint IFC No			
Practice Manager/Manager David Seth Warren	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Martin G. Rama	Regional Vice President Annette Dixon
Borrower: Government of Bangladesh			
Responsible Agency: Palli Karma-Sahayak Foundation			
Contact: Telephone No.:	Golam Touhid (880-2) 9140056	Title: Email:	Deputy MD pkssf@pkssf-bd.org
Responsible Agency: National Housing Authority			
Contact: Telephone No.:	Md. Shamsur Rahman 880-029553911	Title: Email:	Deputy Project Director se_dc@nha.gov.bd

Project Financing Data(in USD Million)										
<input type="checkbox"/>	Loan	<input type="checkbox"/>	IDA Grant	<input type="checkbox"/>	Guarantee					
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Grant	<input type="checkbox"/>	Other					
Total Project Cost:		57.50			Total Bank Financing:		50.00			
Financing Gap:		0.00								
Financing Source						Amount				
BORROWER/RECIPIENT						7.50				
International Development Association (IDA)						50.00				
Total						57.50				
Expected Disbursements (in USD Million)										
Fiscal Year	2017	2018	2019	2020	2021					
Annual	2.00	8.00	10.00	15.00	15.00					
Cumulative	2.00	10.00	20.00	35.00	50.00					
Institutional Data										
<b>Practice Area (Lead)</b>										
Social, Urban, Rural and Resilience Global Practice										
<b>Contributing Practice Areas</b>										
<b>Cross Cutting Topics</b>										
<input type="checkbox"/>	Climate Change									
<input type="checkbox"/>	Fragile, Conflict & Violence									
<input checked="" type="checkbox"/>	Gender									
<input type="checkbox"/>	Jobs									
<input type="checkbox"/>	Public Private Partnership									
<b>Sectors / Climate Change</b>										
Sector (Maximum 5 and total % must equal 100)										
Major Sector			Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %		
Public Administration, Law, and Justice			Public administration-Other social services		27					

Finance	Microfinance	18		
Health and other social services	Other social services	25		
Water, sanitation and flood protection	General water, sanitation and flood protection sector	15		
Industry and trade	Housing construction	15		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

### Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Social dev/gender/inclusion	Participation and civic engagement	40
Social dev/gender/inclusion	Other social development	20
Social dev/gender/inclusion	Social Inclusion	20
Urban development	Urban services and housing for the poor	20
Total		100

### Proposed Development Objective(s)

The Project Development Objective is to improve shelter and living conditions in selected low income and informal settlements in designated municipalities in Bangladesh

### Components

Component Name	Cost (USD Millions)
Community Mobilization & Planning	11.50
Urban Community Improvements & Upgrading	22.00
Shelter Component and Lending	18.00
Monitoring & Evaluation	1.00
Project Management, Training & Capacity Building	4.00

### Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	Substantial

3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	High
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	High
9. Other	
<b>OVERALL</b>	High

### Compliance

#### Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]

#### Safeguard Policies Triggered by the Project

	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11	X	
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

#### Legal Covenants

Name	Recurrent	Due Date	Frequency
Implementation	X		CONTINUOUS



<b>Description of Covenant</b>			
To facilitate the carrying out of Parts 1, 2, 4 and 5 of the Project, the Recipient shall make part of the proceeds of the Financing allocated to Parts 1, (except for Part 1(b) which shall be financed by the Recipient), 2, 4 and 5 of the Project available to NHA under a subsidiary grant agreement between the Recipient and NHA (“NHA Subsidiary Agreement”), under terms and conditions approved by the Association			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation	X		CONTINUOUS
<b>Description of Covenant</b>			
To facilitate the carrying out of Part 3 of the Project, the Recipient shall make part of the proceeds of the Financing allocated to Part 3 of the Project available to PKSf under a subsidiary agreement between the Recipient and PKSf (“PKSF Subsidiary Agreement”), under terms and conditions approved by the Association			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Reporting	X		Quarterly
<b>Description of Covenant</b>			
The Recipient shall prepare and furnish to the Association Project Reports on the basis of the indicators acceptable to the association for each calendar year no later than 45 days after the end of the period covered by such a report.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Audit	X		Yearly
The Recipient will prepare and furnish to the Association interim unaudited financial statements no later than forty five days (for NHA) and no later than sixty days (for PKSf) after the end of each calendar quarter, and shall have audited financial statements submitted to IDA within six months after the end of each fiscal year			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Environment and Social Safeguards	X		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall ensure that the Project is carried out in accordance with the provisions of the EMF, SMF, all Safeguard Assessments and Plans and the requirements of the Grievance Redress Mechanism			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Governance	X		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the Governance and Accountability Action Plan			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Additional Commitment		12 months after	ONCE

		withdrawal of Category 2(c)		
<b>Description of Covenant</b>				
By no later than twelve (12) months after withdrawal under Category 2(c) has been made, PKSf shall submit evidence satisfactory to the Association showing that PKSf has extended Sub-loans to at least forty percent (40%) of lower income categories (as defined in the CLOM).				
<b>Conditions</b>				
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>		
IDA	PKSF Phase 2	Disbursement		
<b>Description of Condition</b>				
PKSF shall submit evidence satisfactory to the Association showing that PKSf has met the condition of the Second Phase.				
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>		
IDA	PKSF Phase 3	Disbursement		
<b>Description of Condition</b>				
PKSF shall submit evidence satisfactory to the Association showing that PKSf has met the condition of the Third Phase.				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Anna C. O'Donnell	Team Leader (ADM Responsible)	Senior Social Development Specialist	Team Lead	GSU06
Sabah Moyeen	Team Member	Senior Social Development Specialist	Co-TTL	GSU06
Tanvir Hossain	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist	Procurement	GGO06
Mohammed Atikuzzaman	Financial Management Specialist	Financial Management Specialist	Financial Management	GGO24
Christopher T. Pablo	Team Member	Sr Urban Spec.	Urban development	GSU12
Daniel Ortega Nieto	Team Member	Operations Officer	M&E and Learning	GGHVP
Farhat Jahan Chowdhury	Safeguards	E T Consultant	Environment	GEN06

	Specialist			
Janet Bably Halder	Team Member	Program Assistant	Program Support (Dhaka)	SACBD
Jorge Luis Alva-Luperdi	Counsel	Senior Counsel	Counsel	LEGES
Md Kutub Uddin Bakhtiar Sohag	Team Member	Consultant	Economist	GSU06
Md. Akhtaruzzaman	Safeguards Specialist	Consultant	Social & Resettlement	GSU06
Md. Rafiqul Islam	Team Member	Consultant	Civil Engineer	GSURR
Satish Kumar Shivakumar	Team Member	Finance Officer	Loan Officer	WFALN
Shah Nur Quayyum	Team Member	Financial Sector Specialist	Financial Sector	GFM06
Venkatakrishnan Ramachandran	Team Member	Program Assistant	Program Support (DC)	GFA12

#### Extended Team

Name	Title	Office Phone	Location
Carolina Martin	Sociologist		Washington
Harish Khare	Housing Microfinance Specialist		Delhi, India
John Arnold	Low Cost Housing Specialist (Engineer)		UK
Kevin Tayler	Municipal Engineer		London, UK
Manikandan Kunissery Parameswaran	Housing Microfinance Specialist		Chennai, India
Michael Slingsby	Urban Poverty Advisor		Yangon

#### Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Bangladesh	Rājshāhi	Sirajganj	X		
Bangladesh	Dhaka	Nārāyanganj	X		
Bangladesh	Chittagong	Comilla	X		
Bangladesh			X		In addition to these municipalities, PKSF will

					select up to ten additional Class A pourashavas or city corporations across the country
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required ?    Consultants will be required					

## I. STRATEGIC CONTEXT

### A. Country Context

1. ***Over the past two decades, Bangladesh has made significant economic gains.*** Since 1990, Bangladesh's GDP has been growing at around five percent in real terms, and the number of people living below the poverty line has reduced from 49 percent in 2000 to 32 percent in 2010. Bangladesh has also made noteworthy gains in education and health. By 2005, around 90 percent of girls were enrolled in primary school, which was slightly more than boys, and double the rate in 2000. Over the same period, child mortality fell by two thirds, and maternal mortality fell by three quarters. And between 1990 and 2010, life expectancy rose by 10 years, from 59 to 69. Despite these gains, Bangladesh remains a lower middle income country, with a GDP per capita of US\$1,086 (2014)<sup>1</sup>.

2. ***Bangladesh's poverty reduction is driven by urban economic growth, particularly in manufacturing.*** At independence (in 1971), Bangladesh was a country with a very low level of urbanization and an economy greatly dependent on agriculture. Less than eight percent of the country's population could be identified as 'urban' and the urban sector contributed less than 25 percent to the national GDP.<sup>2</sup> Today, the scenario is quite different; over a third of the country's population is now urban and the urban sector contributes to over 70 percent of national GDP. Urban centers have sustained population growth rates of 4-5 percent over the past several decades, as compared with national averages of 2-3 percent.

3. ***Rapid urban growth has put considerable strain on urban infrastructure, most notably housing.*** Half a million new people arrive in urban areas annually in Bangladesh, and the lack of adequate planning and development of cities results in an inability to accommodate this influx of rural migrants. This has put strains on urban infrastructure including water supply, sanitation, urban transport, and, especially, housing.<sup>3</sup> A 2009 study estimates that around five million housing units are needed in Bangladesh to address demand shortfalls, and most of the need is concentrated in the lower- and lower-middle income groups.<sup>4</sup> Pressures on land in urban areas further drives up the cost of land, and by extension housing, resulting in a proliferation of temporary shelter in slums and informal settlements.

4. ***Slums<sup>5</sup> and informal or low income settlements of Bangladesh's urban areas provide housing solutions for the urban poor.*** A 2010 Settlement Mapping exercise estimates that in

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<sup>1</sup> World Bank (<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>) accessed January 9, 2016.

<sup>2</sup> Islam, Nazrul and Salma A. Shafi (2008) "A Proposal for a Housing Development Programme in Dhaka City," Centre for Urban Studies (CUS), Dhaka.

<sup>3</sup> Islam, N. et al (2008).

<sup>4</sup> Nenova, Tatiana (2009) *Expanding housing Finance to the Underserved in South Asia: Market Review and Forward Agenda*, Washington DC: The World Bank

<sup>5</sup> 'Slums' have traditionally been referred to as "housing areas that were once respectable or even desirable, but which have since deteriorated as the original dwellers have moved to new and better areas of the cities... and the units have been progressively subdivided and rented out to lower income groups". More recently, the definition of slums has broadened to include the concept of informal settlements, that include squatter settlements and illegal subdivisions, where dwellings vary from simple shacks to more permanent structures, and access to basic services and infrastructure tends to be limited or badly deteriorated (UN-Habitat, 2003 *The Challenge of Slums: Global Report on Human Settlements 2003*, United Nations Human Settlements Programme, p. 9).

Bangladesh's 29 largest municipalities (*pourashavas*) and city corporations, there are 44,804 informal or low income settlements.<sup>6</sup> These settlements are characterized by a combination of poor housing materials, limited access to public services, densely crowded and unsanitary living conditions, and lack of tenure security. These settlements are also typically characterized by informal networks or economies. This status quo means that the urban poor often pay higher per unit costs for poor quality housing, and/or illegal or semi-legal connections to public services. And with little security of tenure or access to affordable credit, they often have little incentive to improve living conditions in these areas. Today, the total number of dwellings in urban areas of Bangladesh is estimated at between 3.5 and 4.0 million, of which between 1.9 and 3.0<sup>7</sup> million are estimated to be temporary.<sup>8</sup>

5. ***Poor living conditions undermine continued economic growth and poverty reduction efforts.*** In Bangladesh, the poor are increasingly more urbanized, as they search for better employment and income generating activities. While national poverty rates saw a reduction from 56.8 percent to 31.5 percent, the share of urban poor rose by seven percentage points between 1990 and 2010. The urban poor are more vulnerable than the rural poor in particular to economic fluctuations, higher costs of living, underlying insecurity of tenure, and rising land prices. Without secure tenure, the urban poor remain largely in inferior dwellings for fear of evictions. Global studies have shown that investments in housing improve household health and education, and lead to increased access to employment and reductions in crime.<sup>9</sup> In addition, formalizing settlements brings benefits such as increased tax revenue, increased economic outputs from small businesses, most notably from the local construction industry, reduced expenses on health and other social programs, environmental sustainability, and capturing of lost utility charges. Finally, developing the housing sector contributes to economic growth; the housing sector typically comprises 7 to 20 percent of a country's gross domestic product (GDP), and without a well-functioning housing sector, a country's economy is likely to stagnate.<sup>10</sup>

## **B. Sectoral and Institutional Context**

6. ***Approximately 40 million people in Bangladesh live in urban areas, out of which 21 percent live below the poverty line.*** This means that more than eight million Bangladeshis live on less than US\$ 2 per day. Such poor urban households live in inadequate and insecure houses, often in unsanitary conditions and face difficulties in accessing employment, made worse by having little or no social protection. Further, they have limited access to adequate health services and education opportunities. With one of the highest urbanization rates in Asia, the situation continues to worsen for an increasing number of urban poor in Bangladesh. Bangladesh continues to have one of the highest shares of urban poor slum dwellers (60 percent in 2009). The figure below provides a

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<sup>6</sup> UPPR (2011) *Poor Settlements in Bangladesh: an assessment of 29 UPPR towns and cities* Urban Partnerships for Poverty Reduction (UPPR) December 2011.

<sup>7</sup> The exact number varies based on the data source and the definition of "temporary".

<sup>8</sup> Nenova, Tatiana 2010. *Expanding housing Finance to the Underserved in South Asia: Market Review and Forward Agenda*, Washington DC: The World Bank

<sup>9</sup> Vlahov et al 2007 ("Urban as a Determinant of Health") and WHO. *A Billion Voices: Listening and Responding to the Health Needs of Slum Dwellers and Informal Settlers in the New Settings*. WHO Kobe Center: Kobe; 2005.

Krieger J, Higgins D. Housing and health: time again for public health action. *Am J Public Health*. 2002;92(5):758–768.

<sup>10</sup> Habitat for Humanity (2012:4)

regional comparison of slum populations as a percentage of the total urban population in select countries:

**Figure 1: Urban Slum Population as a Percentage of Total Urban Population (2009)**



Source: UN Data(<https://data.un.org/>)

7. ***A combination of government and market failures exclude the urban poor from development opportunities.*** Over the past several decades, the World Bank and other development partners, have supported the Government of Bangladesh in the implementation of governance and municipal service delivery programs. These have included improving municipal finances, strengthening systems of financial accountability, improving physical and sectoral planning, building capacity at the municipal level, and improving coordination among various service agencies and the private sector. However, few of these programs have explicitly targeted the urban poor, who continue to live in overcrowded and unsanitary living conditions. Moreover, because slums and informal settlements often lack legal titles, the urban poor do not benefit from municipal services (e.g. water, sanitation, electricity), nor from many social safety nets and social programs. In addition, even where the fear of being expelled from their current dwellings is not pervasive, urban poor residents lack access to formal financing to improve housing.

8. ***Need for alternative models of affordable housing.*** Over the medium term, the most sustainable path towards low income housing solutions is for local and central government to take pro-active measures to plan for upcoming urban inflows, by increasing the supply of urbanized or serviced land with adequate access to basic services, enabling the adequate functioning of land markets, while promoting upgrading of existing informal settlements in a consistent and orderly fashion. However, where the political, economic and institutional realities do not allow for the proactive planning for land, housing and infrastructure, a growing number of global examples have pointed to practical, small scale and community based interventions to begin to address slum upgrading and housing shortages. Specifically, examples have demonstrated an opportunity to tackle low-income urban housing through leveraging government support with private investment

and community savings. These approaches can reach a greater number of beneficiaries than could be reached with government-donated housing alone.

9. ***Community-driven urban poverty programs have demonstrated success to improve living conditions in the face of government and market failures, and where institutional complexities are present.*** Across Asia, several community-driven programs in Cambodia, Thailand, the Philippines, Nepal, Kenya, India and Bangladesh have demonstrated the capabilities of communities to drive upgrading and housing improvements in informal settlements and slums. One notable approach stems from Thailand's Community Organization Development Institute (CODI), and has scaled up to 215 cities in 19 countries through the Asian Coalition for Community Action (ACCA). This approach promotes a demand driven and people centered approach to slum upgrading, including tenure and housing rights. It starts with community mobilization and organization, building social cohesion by working together to implement grants for small scale infrastructure in informal settlements and slums. It then provides loans for larger housing projects, supporting communities with architectural and planning assistance for improved site layout and design. Communities are supported in acquiring formal land title through negotiated purchases, or securing land grants or long term leases. A major tenet of the approach is to encourage community savings, which empowers community groups to leverage other sources of finance and allows communities to drive the development of their neighborhoods. Successful communities are linked with other communities on the city level for peer learning and support, which provides them the opportunity to learn from each other's experiences and links city wide savings efforts. The program brings about social cohesion and empowerment through the development of community groups who work together as part of the project and make decisions about their own development. The demand-responsive, people-driven nature of the approach is its key principle.<sup>11</sup>

10. ***Key innovations of the community-driven approach.*** The key features of the ACCA program differentiate it from past experiences with slum upgrading. While community engagement has featured in different slum upgrading programs in the past, the ACCA approach goes beyond simple participation by allowing communities to drive their own development. Communities self-select into the program, applying for projects that best suit their own needs, thereby overcoming potential information asymmetries present in beneficiary selection. Second, the program focuses on incremental investments, encouraging communities to organize first and build the social, political, and economic capital to manage investments and upgrades. In addition, while slum upgrading projects focus on single upgrading investments in specific slums, with the government investing in upgrading, the ACCA approach links communities together to drive the process on a city-wide level, with communities taking full ownership, and borrowing for improvements. Finally, where slum upgrading has often ignored land tenure issues or awarded individual title, ACCA projects have successfully helped communities negotiate tenure in the form of community-held titles, which helps strengthen the community and provides collective bargaining power.

11. ***In Bangladesh, over a decade of community driven urban poverty programs has prepared urban poor communities for larger housing projects.*** The DfID/UNDP Urban

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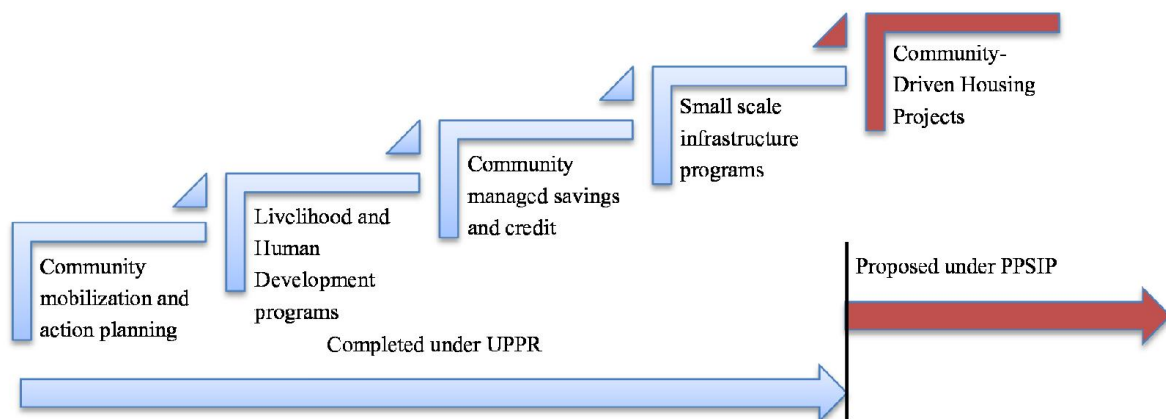
<sup>11</sup> Buckley, Robert and Achilles Kallergis with Chandan Deuskar. "A Review of the Asian Coalition for Community Action Approach to Slum Upgrading," East Asia and Pacific Sustainable Infrastructure Unit, The World Bank (February 2014).



Partnerships for Poverty Reduction Project started in 2000 with community organization and mobilization efforts, savings and livelihoods programs, and awarding small grants for simple infrastructure through community contracting. To date, UPPR has successfully organized 30,000 primary groups into 2,588 community development committees (CDCs), who manage 2,329 community action plans to implement basic services upgrades and livelihood development programs, making it the country’s largest urban poverty reduction program. More than 26,000 community based savings and credit groups have been established, with over US\$5 million in savings rotating among members for short term loans and livelihood development.<sup>12</sup> This engagement across 23 municipalities in Bangladesh provides a strong platform of organized urban poor communities, with demonstrated social cohesion, shared history of savings, and a demonstrated willingness to participate in a larger housing project to improve living conditions.

12. **Key features proposed under PPSIP.** The Pro-Poor Slums Integration Project proposes an incremental and community-driven approach to improvements in living conditions and shelter in the context of Bangladesh. As such, it adopts the main principles of the ACCA approach, building on organized and cohesive community groups from UPPR, with a history of savings, and experience planning and executing small scale infrastructure projects. Housing loans will be channeled through existing institutions and organizations, leveraging the expertise of the Palli Karma-Sahayak Foundation (PKSF) for the development of suitable products. In this way, the project also aims to build a financially viable and sustainable model that could be scaled up eventually to all municipalities. The project advances housing finance for the urban poor through community based lending models, as well as through models that incorporate incremental building. The project also advances building standards appropriate to high density, low income areas, which have been developed during project preparation and now formally adopted by NHA for all low income housing projects. Alongside the community-driven approach, PKSF will introduce a number of tailored products to provide access to credit for housing to qualifying borrowers using different approaches (e.g., personal, joint liability, group guarantee etc). Finally, the project will build in significant monitoring and evaluation, as well as peer to peer learning activities. For a detailed description of the project activities, see Annex 2.

**Figure 2: The ACCA approach in the context of Bangladesh**



<sup>12</sup> Urban Partnerships for Poverty Reduction. Annual Report 2013.

13. ***Policies to address affordable housing.*** The National Housing Policy (1993) outlines several key principles towards the urban poor, including (i) prioritize the urban poor to receive the advantages of housing programs where different prices will be offered at the level of their affordability; (ii) develop suitable financial institutions and associated legal frameworks to mobilize funds for housing through personal savings and other financial inputs; and (iii) develop new strategies, and revisions to existing housing policies, over time to cope with the emerging housing needs in the country. In addition, housing the urban poor has featured in the last four five year plans of the Government of Bangladesh, including the most recent sixth Five Year Plan (2012-15). The Government of Bangladesh has declared a commitment for Housing for All by 2021. Despite these commitments, few Government programs have effectively addressed housing shortages, especially for the urban poor.

14. ***Constraints to affordable housing.*** Currently, multiple agencies and ministries lay claim to overlapping mandates and responsibilities for urban planning and development, municipal service delivery, slum upgrading, and affordable housing. Urban planning and development is undertaken both by development authorities under the Ministry of Housing and Public Works (e.g. Rajuk, Chittagong Development Authority), the Urban Development Directorate, Public Works Department, the Local Government Engineering Department, as well as City Corporations. Municipal services are also provided through national agencies, such as LGED, Public Health Department, locally through Water and Sanitation Authorities (where applicable), as well as municipalities. Nationally, there is no focal agency for slum upgrading, and much of this work has been undertaken by non-government organizations (NGOs) or through donor financing (e.g. UPPR). Affordable housing is the mandate of the National Housing Authority, although most of the units developed remain outside the reach of the urban poor.

15. Continued urban expansion in Bangladesh will necessitate a comprehensive urban strategy for upgrading, including proactive management and planning for land, infrastructure, services and housing. Currently, stakeholders face a series of constraints, specifically:

- *Local Governments face challenges in freeing up buildable land for affordable housing.* Urban local bodies (ULB) remain weak and much of the urban land continues to fall under the purview of national agencies. These institutional complexities challenge municipalities in the continued planning to address urban poverty and affordable housing<sup>13</sup>.
- *Public sector housing programs fall short of the growing demand for affordable housing.* Overall, the size of the combined public housing programs has remained extremely small in relation to housing requirements and new construction. Altogether, the public sector has only been able to develop approximately 1–2% of total urban residential land and housing requirements (not more than 6,000 units per annum) over the past few years.
- *Private sector housing development and housing finance do not meet the needs of the urban poor.* Private developers are increasingly important players in the urban land and housing markets, particularly in the market for apartment buildings. As the higher-income apartment market becomes increasingly saturated, there will be scope for private developers to move down market, as has been done in India. The most serious constraint

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<sup>13</sup> Rashid, Sabina Fai. 2009. "Strategies to Reduce Exclusion among Populations Living in Urban Slum Settlements in Bangladesh." *Journal of Health, Population, and Nutrition* 27(4):574-86.

in doing so is the lack of mortgage financing. However, mortgage financing will not help the urban poor, where incomes remain predominantly informal.

- *The mortgage market in Bangladesh is relatively underdeveloped.* The estimated ratio of housing finance to GDP was less than 3 percent (compared with 7 percent in India and 50-70 percent in developed countries, 2009 figures).<sup>14</sup> Mortgage lenders rely on short-term financing for loans, and, as a result, mortgage finance is available only to higher income level households. Government subsidized housing finance does not succeed in targeting lower and lower-middle income groups, leaving this market completely unaddressed.
- *Micro-Finance Institutions (MFIs) hold some promise to bridge the housing finance gap.* The urban poor have increasing access to micro loans, and many are being used for housing. MFIs currently face challenges including affordability constraints, asset-liability mismatch, and the need to develop new products for urban areas.<sup>15</sup> Much of the current housing microfinance is focused on the rural areas, where the underlying tenure constraints are not present, and land prices are relatively lower.
- *NGOs have demonstrated the scope for community-driven interventions but not at scale, related in part to land shortages.* NGOs are relatively marginal players in the overall housing market in Bangladesh. Several small scale projects in Bangladesh supported by non-government organizations have demonstrated effectively that working with local communities can bring housing benefits to select communities, but these projects have remained localized and have failed to go to scale.

16. Taken together, the urban poor remain an underserved population with respect to access to safe and affordable housing options. The continued proliferation of informal settlements to meet the housing needs of the urban poor further exacerbates urban inequality, undermines service delivery, and threatens continued economic growth.

17. ***Organized communities in Bangladesh present a platform to channel affordable housing solutions.*** Given the current institutional complexity in urban spaces, ongoing efforts to address urban poverty in Bangladesh have focused largely on a bottom-up approach to building community cohesion and capacity for development among the urban poor. Involvement in the provision of small scale infrastructure in UPPR has built the capacity of the urban poor to undertake community contracting. Finally savings and credit groups have provided a valuable source of short term lending and saving within the community, thereby building trust and social cohesion. This platform across 23 municipalities in Bangladesh provides an important platform for larger housing projects. Most notably, UPPR communities have recently partnered with ACCA and local municipalities on a large scale housing project in Gopalganj, and to secure land tenure through a negotiated lease with private landowners. These examples demonstrate the capability and readiness of organized urban poor communities to drive housing development. In addition, the ongoing pilot operations of Community Housing Development Funds (CHDF) have demonstrated the demand for and viability of community based lending products for housing. The project will aim to expand these

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<sup>14</sup> Nenova, Tatiana (2010) *Expanding Housing Finance to the Underserved in South Asia: Market Review and Forward Agenda*, Washington DC: The World Bank

<sup>15</sup> Ibid.

operations and develop financially viable and sustainable community based systems, as well as develop broader products to promote the financial inclusion of the urban poor.

18. ***The project proposes an innovative approach to addressing housing needs among the urban poor in Bangladesh, which presents some risks.*** The World Bank leverages significant global technical experience in the areas of community driven development, slum upgrading and housing finance. However, the project will innovate in the areas of using community-based development in urban areas, and in linking community organizations to financing modalities for housing. Taken together, this is a new approach to be financed, both for the World Bank Group, as well as within the context of Bangladesh. Assessments both of global experiences, and of the preconditions in Bangladesh have indicated that enough capable community organizations are present to build on. However, housing interventions present some complexities, particularly because it is a mix of public and private goods, and necessitates coordination on land, infrastructure and financing. The design of the project recognizes these risks and proposes a limited intervention to start, a phased intervention of investments, and a strong learning and monitoring component to provide real time feedback on performance of the project, and to allow for proactive adjustments to the design as needed.

### **C. Higher Level Objectives to which the Project Contributes**

19. The project is in line with the Bank's Country Partnership Framework (CPF) for Bangladesh (FY16-20). Specifically, this project contributes to the priority area of improved delivery of basic services, which includes provision for piloting innovative approaches for housing improvement and community participation. Promoting the integration and inclusion of informal settlements, and improving shelter conditions for the urban poor directly contributes to the World Bank Group's twin goals of improved growth and shared prosperity.

20. The project is fully in line with Bangladesh's 'Seventh Five Year Plan. Specific priorities of housing development<sup>16</sup> are: (i) enabling land markets to work efficiently; (ii) improving the mechanism for financing housing and (iii) encouraging participation of the private sector, community based organizations, and non-government organizations to participate in service provision, particularly through policies to support inclusion). The Government's *National Housing Policy* (1993/2004) recognizes the rights of the residents of informal settlements and slums, and promotes the development of alternative housing supply mechanisms to address the needs of the poor. The Government's commitment is to provide housing for all by 2021.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

21. The proposed Project Development Objective is to improve shelter and living conditions in selected low income and informal settlements in designated municipalities in Bangladesh.

### **Project Beneficiaries**

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<sup>16</sup> As outlined in Planning Commission: Seventh Five Year Plan (FY16-20) [http://www.plancomm.gov.bd/wp-content/uploads/2015/11/7FYP\\_after-NEC\\_11\\_11\\_2015.pdf](http://www.plancomm.gov.bd/wp-content/uploads/2015/11/7FYP_after-NEC_11_11_2015.pdf)

22. The project will directly benefit around 24,000 urban poor who currently live in informal and low income settlements, who will be able to access technical assistance, infrastructure grants, and housing loans to improve their housing and living conditions. The project will use a community-driven approach, building on urban poor community organizations with a demonstrated history of self-managed projects and a desire for the project's interventions. The general profile of these beneficiaries is that they live in informal settlements, are relatively stable, work together with other households in community development programs, and participate in collective savings programs.<sup>17</sup> The project is also expected to directly benefit around 40,000 beneficiaries who will be able to access housing loans, both through community based and other approaches (e.g. personal, joint liability, group guarantee, etc.).

23. The project will indirectly benefit additional population in the targeted municipalities. First, the project will invest in improving primary and secondary infrastructure, creating indirect beneficiaries of around 120,000, who will gain access to improved roads or benefit from improved drainage. Second, the demonstration nature of the project, and the integrated peer-to-peer learning, as well as technical assistance through Community Support Centers is expected to indirectly benefit the local population through knowledge transfer and capacity building. Learning from this pilot phase will be critical to scaling up the program in the future to further settlements in additional municipalities in Bangladesh.

#### **PDO Level Results Indicators**

24. The key results expected to measure the PDO are:

- a) Increased number of beneficiaries in selected settlements with improved access to and quality of services; and
- b) Increased number of beneficiaries in selected municipalities with improved housing.

### **III. PROJECT DESCRIPTION**

25. ***Project approach.*** This project proposes a community-driven and people centered approach to improving living conditions for the urban poor. As such, it tests an approach and a set of systems that brings together government funding, private sector participation, and community savings to address slum improvement and housing. This builds on over a decade of investments in community-based urban poverty and development programs that have effectively organized the urban poor and developed a savings capability. The objective of this project is to build on existing community organizations and local government partnerships to improve living conditions in selected informal settlements. The integration of informal settlements into broader urban spaces and the improvement of housing options for the urban poor will contribute to improved growth and shared prosperity. In addition, PKSF will test a number of tailored products to provide access to credit for housing to qualifying borrowers using different approaches (e.g., personal, joint liability, group guarantee etc).

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<sup>17</sup> The ultra-poor, street dwellers, frequent migrants and other beneficiaries would likely need other shelter options in the short term, and a community-driven approach to housing improvements would not be appropriate for these categories. As the project will make use of housing loan mechanisms, minimum basic affordability criteria have been used to ensure that the urban poor are not inappropriately indebted for housing.

26. ***Building longer term engagement in the sector.*** The community based approach can serve as one instrument to begin to address the housing needs for the urban poor, in particular where there are opportunities to secure tenure, where community cohesion and commitment is strong, and where basic affordability is present. The project will use a people-centred and community-based approach through this project, while at the same time further examining the broader housing and urban development sectors for more comprehensive and sustainable interventions. Thus, while community-based housing may serve to address the needs of a specific sub-segment of the population, the project will have a view to developing the housing sector over the medium term, through technical support to developing housing policies and building capacity of relevant institutions to bring more substantive changes to the sector.

27. ***Participating Municipalities.*** A multi criteria analysis was developed to guide the choice of municipalities to participate under the project. The analysis relies on: the class and population of towns, the presence of urban poverty programs and organized urban poor communities, levels of community savings in the town, willingness of the municipality and local government to participate in the project, geographical variation, as well as other indicators. Based on this analysis a first priority group of 10 towns was selected. Visits to the towns, further discussions with local government, civil society organization, slum dweller networks, and community leaders led to a further refinement to five pilot towns. Local government commitment and interest were strong factors in the final ranking. This list was further reduced to three pilot towns for a first phase, with an expansion to the priority group of ten expected if the implementation activities go well. The final towns proposed under this pilot phase are: Comilla, Sirajganj, and Narayanganj. In addition to these municipalities, PKSF will select up to ten additional class A pourashavas or city corporations across the country to implement different customized shelter lending products to provide access to credit for qualifying borrowers.

28. ***Role of Municipalities.*** As city-wide engagement is a key feature of the project, the proposed sequencing of the project is to move city by city. Within each city, engagement with the municipality is planned during implementation, with the city to play a key role in ensuring that the proposed investments are fully in line with urban master plans, as well as sector specific master plans. This relationship will be formalized through the establishment of Municipal Committees (MC) to oversee and guide the project's implementation. This will ensure the role of the municipality in planning, tendering and oversight of project activities. For a detailed description of these arrangements, see Annex 3.

29. ***Participating Communities.*** Within each town, the project uses a city-wide approach, convening multiple stakeholders in the discussion and identification of eligible communities for larger housing projects. Minimum eligibility criteria for participation in the project include the presence of a community organization, size (50-300 households), presence of community managed savings and credit programs, and a demonstrated demand for housing and for the project's interventions. Communities that meet minimum eligibility and have formally expressed demand will be further assessed using quantitative and qualitative measures, including social cohesion, financial history of savings and credit, history of implementing communal works projects, underlying tenure status, environmental conditions, and affordability, among others. Final communities will be required to prepare a Community Plan for inclusion of all members and to elect an implementation committee for the project. A detailed overview of this process is presented in Annex 2.

30. **Land and Infrastructure.** As a general principle of the project, investments are only made in settlements with secure tenure. Overall landownership structures are either privately owned by residents themselves, privately owned by another landowner, or Government land. Land verification of eligible communities will be undertaken to ensure that titles are free and clear. If not owned by residents themselves, technical assistance could help to secure some form of tenure security, through long term leases, where feasible and relevant. The project will not finance any land acquisition. Where possible, the Government will contribute land to the project, such as NHA land, or other departmental or *khas* land. Annex 2 lays out this process in more detail. Once tenure is secured, detailed community-based planning will be undertaken to optimize site layout and to improve housing. Where upgraded infrastructure is needed, it would be provided under the project. Should connections to city-level infrastructure be required, the project would finance these connections.

31. **Role of Financial Intermediaries.** Bangladesh has a well-established and robust micro-credit system that provides an important line of credit to the poor. The project will aim to use these existing institutions and their expertise to pilot incremental housing loans for the urban poor. In the designated municipalities under the project, agreements with community groups will be encouraged to leverage social cohesion. Loan products would be made for home improvements and renovations, new construction and cluster development. Piloting of different products and product testing will be done to identify loan modalities that work within the country context. For more details, see Annex 8.

32. **Gender.** This project builds on an existing community engagement on urban poverty that focused on improving livelihoods, infrastructure and community building. During this program, a high priority was paid to examining gender dimensions of community engagement in slums and informal settlements. Many of the community representatives and leaders are women, and gender disaggregated assessments have demonstrated equitable access to project benefits. This project will continue to build on this experience by identifying and prioritizing gender needs during community planning and development, and through the verification of these processes and outcomes differentiated by gender. In addition, any lease benefits, land tenure arrangements and housing documents will be made in a way to mitigate against any gender discrimination.

#### **A. Project Components**

33. The project is divided into five components, designed to cover the key factors of shelter improvement—community driven planning, infrastructure, and shelter lending—and with a strong focus on monitoring and evaluation of the project’s results to better understand the impacts and the potential for scaling up such a program in the future. The National Housing Authority will be the primary implementing agency for components related to technical assistance and services under the project. The Palli Karma-Sahayak Foundation (PKSF) will develop shelter lending under Component C, working through its partner organizations (POs). A detailed description of the project is in Annex 2.

34. The project’s components are as follows:

35. **Component A: Community Mobilization and Planning (US\$11.5 million of which**

**US\$4.5 million IDA Credit and US\$7 million GOB contribution).** The objective of this component is to facilitate community-driven planning for housing projects. It will finance technical assistance in the form of community architects, social mobilizers, engineers, as well as social, environmental, and financial specialists for community organizations to prepare detailed designs and layouts for improved living conditions and shelter improvements. In addition, this component will finance land use surveys and planning for the pilot towns to identify vacant lands. The Government of Bangladesh will donate the value of its land, including NHA's land bank, where available. Finally, this component will also cover costs associated with the implementation of Environment and Social Management Plans for any works undertaken under the project.

36. **Component B: Urban Community Improvements and Upgrading (US\$22.0 million IDA Credit).** This component will finance a multi-sectoral package of tertiary infrastructure and service improvements. This includes a combination of water supply, drainage, paved access, electricity, gas, sanitation services and solid waste management in a single package of upgrading works, depending on the expressed demands and needs of the specific communities. Each participating community will determine improvement and upgrading packages that would be customized based on community preferences and needs. Where connections to municipal level infrastructure are required, this component would also finance select interventions in primary and secondary infrastructure. These investments are likely to be concentrated in terms of roads and drainage links to city level infrastructure. This component will also finance costs associated with inspection and supervision of the construction in order to ensure that the works implemented and goods supplied are in accordance with the designs, specifications and terms and conditions of the relevant contracts and standards, if needed.

37. **Component C: Shelter Component and Lending (US\$18 million IDA Credit).** This component will finance a credit line within PKSF to provide access to Partner Organizations (POs) for investment in shelter in urban areas, and to address the current gap in shelter lending programs among qualified microfinance institutions (MFIs), lenders and/or NGOs. The component will support the development of loans for shelter improvements, new construction and cluster development, and will test different collateral and guarantee mechanisms, including community groups. The structure of the credit line will be divided into two phases, a product development and testing phase, and a rollout phase. The component will finance both the credit line, as well as US\$2 million of technical assistance as a grant to PKSF and to POs to assist in product development and testing, as well as incremental operating costs to PKSF for the administration of the credit line. Shelter loan beneficiaries will contribute a minimum of 20 percent equity. This component will be implemented outside the Annual Development Programme (ADP). More details on this are in Annex 8.

38. **Component D: Monitoring and Evaluation and Learning (US\$1 million IDA Credit).** This component will support independent M&E and learning activities. This will include continuous and ongoing M&E of project implementation and results. In addition, this component will finance peer-to-peer learning programs between community groups, and strengthening community networks at the town level. The monitoring will make strong use of participatory techniques. This component would also finance the independent supervision of any Environment and Social Management Plans, if and when applicable, to ensure compliance with World Bank guidelines. For the implementation of this component, an independent consultant or consultant team would be recruited, so as to mitigate any conflict of interest.



39. **Component E: Project Management, Training, and Capacity Building (US\$4.0 million of which US\$3.5 million IDA Credit and US\$0.5 GOB contribution).** This component will finance the project management costs for NHA, including technical advisors, incremental staff, audits, and expenditures incurred for the project, as well as for any additional costs to implement the Governance and Accountability Action Plan (GAAP). In addition, the component will finance capacity building, technical assistance and training associated with the project. NHA will contribute staff costs, inclusive of all salaries and associated benefits, to the project (around US\$0.5 million). This component will also finance strategic studies that will aim to further develop the policy and institutional support needed for comprehensive reforms to the housing sector.

## B. Project Financing

40. The total project cost is about US\$57.5 million, including taxes and contingencies. The project would be financed by an IDA Credit of US\$50 million and a US\$7.5 million Government contribution. Detailed project costs, including sub-component costs, are provided in Annex 2.

### Project Cost and Financing

41. The total project costs are estimated at about \$57.5 million, which is to be financed through the financing of an IDA Credit of US\$50 million, and contributions from the GOB (US\$7.5 million). These cost estimates are inclusive of taxes, as well as physical and price contingencies, as well as the refinancing of a US\$1 million project preparation advance (Q8180-BD). The Government of Bangladesh will contribute to the project in the form of staff costs (Component E1) and Government land to be made available under the project (Component A2).

Project Components	Project cost	IDA Financing	% Financing
1. Community Mobilization & Planning	11.5	4.5	100%
2. Urban Community Improvements & Upgrading	22.0	22.0	100%
3. Shelter Component & Lending	18.0	18.0	100%
4. M&E and Learning	1.0	1.0	100%
5. Project Management, Training & Capacity Building	4.0	3.5	100%
<b>Total Project Costs</b>	<b>56.5</b>	<b>49.0</b>	
PPF Refinancing	1.0	1.0	
<b>Total Financing Required</b>	<b>57.5</b>	<b>50.0</b>	

## C. Lessons Learned and Reflected in the Project Design

42. Lessons learned and reflected in the project design include:

- **People-centered and demand driven.** The project makes use of the extensive lessons from community-driven housing projects in South and East Asia. Specifically, the demand-driven nature of the project greatly assists in overcoming selection issues. The self-selection of communities into the program ensures that those communities that have a commitment to the proposed outcomes will benefit.
- **Focus on training and capacity building.** With the right motivation and interest, communities are capable of driving their own development solutions. To this end, the project builds in principles of support and facilitation to community groups to identify,

plan and build their own solutions. Community Support Centers will provide important learning centers for communities to network, learn from the experiences of other communities, learn building techniques, get assistance in financial management, etc. Learning and empowerment are expected to drive the development process.

- **Incremental building needs incremental financing.** Most of the urban poor build incrementally. The project builds this incremental approach into the project's design, working with households to identify basic core designs that can be expanded and improved over time. The housing loans also target this incremental building approach, by providing a first set of loans designed to cover the costs of a core house, with the view to take repeater loans for home improvements and expansions. This makes financing more affordable for the urban poor.
- **Affordable housing versus the building code.** National building codes do not often provide adequate provision for low cost or affordable housing materials. To this end, a low cost housing standard has been developed and approved by NHA that would ensure minimum safety standards and durability, but provide greater flexibility on layout and materials requirements. This goes a long way towards making housing construction safe and affordable for the urban poor.

#### IV. IMPLEMENTATION

##### A. Institutional and Implementation Arrangements

43. The project has two implementing agencies. Components A, B, D and E will be implemented by the National Housing Authority (NHA) under the Ministry of Housing and Public Works (MoHPW), the primary requesting entity for the project. With the proceeds of a project advance from the Project Preparation Facility (Q8180-BD), the NHA has set up a Project Management Unit (PMU) to oversee the implementation of the project preparation activities. The PMU is currently staffed with a Project Director, Deputy Project Director, as well as a Procurement Specialist, a Financial Management Specialist, an Environment Specialist and a Social Specialist. This PMU will remain in place for the duration of the project's implementation. The PMU will also hire senior and junior field level engineers to be placed in each municipality, under the supervision of the NHA, to assist with the supervision of works. Component C will be channeled through PKSf and its POs. This component will be managed by a separate PMU that will be staffed by a Project Coordinator, Assistant Project Coordinators (Construction, Housing Finance, Environment, Accounts and Finance). PKSf will make use of its procurement cell for all procurement under the project.

44. Since the project will finance on-site infrastructure upgrades, as well as connecting infrastructure, where needed, the project will necessitate close coordination with relevant municipalities and local governments. The project will formalize this coordination through a committee at the city level that includes relevant stakeholders to ensure that all infrastructure upgrades are fully compliant with urban master plans. In addition, at the community level, community organizations will provide an important interface with local residents. Community organizations will act as the formal organizations for leases, contracting entities for settlement

level infrastructure upgrades, and loan guarantors, where relevant. Annex 3 provides a detailed overview of the implementation arrangements for the project.

## **B. Results Monitoring and Evaluation**

45. Annex 1 provides the detailed Results Framework. NHA will be responsible for the results monitoring of its project interventions, with PKSF responsible for the results monitoring and reporting on its component. As the project proposes a pilot approach to delivering shelter improvements for the urban poor, an evaluation strategy to measure the efficacy of this approach will be developed under Component D. The project will finance an independent M&E Consultant reporting to the PSC.

46. **Project Monitoring Arrangements.** The PMUs under NHA and PKSF will prepare quarterly progress reports, in accordance with a format outlined in their respective Operations Manuals. The purpose of these reports will be to provide GoB and the World Bank with timely and updated information on implementation of project components, highlighting issues and problems. The progress reports will cover: (i) physical progress achieved against agreed indicators; (ii) issues and problem areas, including comments on actions to address identified problems; and, (iii) work programs and cost estimates for the coming quarter, including revised estimates for the current quarter; (iv) lending commitment levels; (v) lending portfolio status, including loan maturities, non-performing loans etc., as relevant to project component activities. A mid-term review of the project will be carried out no later than June 2019, to review overall progress and take necessary actions for restructuring the project, if appropriate.

47. **Governance and Accountability Action Plan (GAAP).** A Governance and Accountability Action Plan has been prepared in order to ensure proper implementation of the project and the use of IDA funds. The key elements of the GAAP are: (i) institutional risks related to capacity; (ii) procurement risks, particularly around governance; (iii) interference around selection; (iv) land risks; (v) risks to social inclusion within communities, and (vi) risks to the credit line. These will be addressed through measures to improve oversight, increase transparency, and strengthen feedback mechanisms. A detailed GAAP is presented in Annex 6.

## **C. Sustainability**

48. *Overall sustainability.* The project design aims to set up a systematic approach to low income settlement improvement in a cost-effective and socially sustainable way in order to help develop and institutionalize a national level community-driven housing development system. Such projects in other parts of the world have demonstrated that the high community investment in time, labor, finances, and organizational participation required increases long-term sustainability by increasing community ownership of improvements.

49. *Infrastructure.* The project will increase the technical and managerial capacities of the communities, for operation and maintenance (O&M). O&M arrangements of tertiary infrastructure will be spelled out in community upgrading plans, and endorsed through a memorandum of understanding (MOU) with the National Housing Authority. Primary and secondary infrastructure will be constructed by the project and handed over to the municipality, as per Government policies and procedures. This infrastructure will primarily be in the form of drainage networks and

connecting roads, and these will be planned and designed through appropriate professional entities who will ensure alignment with city level master plans. Should municipal water and sanitation networks be extended to low income settlements then the tariff system currently in place will apply. Maintenance of public good infrastructure is normally carried out by the city, through its own revenue budget. Several projects, including the World Bank financed Municipal Governance Support Project (Cr. 53390), are working with city governments to better manage the operation and maintenance of city level infrastructure, and the capability building of these officials, as well as of utility companies and line departments, are mostly addressed through other donor financed projects. The project will complement these systems already in place.

50. *Environmental and Social Sustainability.* All subprojects financed under the project will require environmental and social screening. Any sub-project with significant impacts will require further impact assessments and mitigation plans. Plans for upgrading tertiary, secondary or primary infrastructure will, if applicable, include an Environmental Management Plan and include the costs of mitigating measures. Social sustainability of the project will be assured by the strong inclusion and participation of urban poor communities in the design and implementation of upgrading options. The demand-driven nature of subproject selection is expected to build ownership and sustainability of the project. The Environment Management Framework will apply to all housing construction undertaken under the project.

51. *Sustainability of the shelter lending component.* This component has been designed with a view to scaling up in the future, and therefore places emphasis on the viability and sustainability of the lending component. PKSf will carefully select from its existing POs. Capacity building and technical assistance is also being provided to ensure that POs and PKSf receive the necessary support to develop shelter lending.

## V. KEY RISKS AND MITIGATION MEASURES

### A. Risk Ratings Summary Table

<b>Risk Category</b>	<b>Rating</b>
1 Political and Governance	H
2 Macroeconomics	S
3 Sector strategies and policies	H
4 Technical design of project & program	H
5 Institutional capacity for implementation and sustainability	S
6 Fiduciary	S
7 Environment and social	M
8 Stakeholders	H
9 Other	–
Overall	H

### B. Overall Risk Rating Explanation

52. The overall implementation risk is rated as High. This risk rating is based primarily on the current capacity of NHA, the large number of contracts that will be awarded based at the local level, the political economy of land and informal settlements, coordination between government

programs and commercial lending, and the fact that the project will introduce a new approach to housing for the context of Bangladesh. These risks will be mitigated by ensuring adequate support to NHA during implementation, dedicated staff on procurement and contract management, measures to increase transparency and accountability in selection and land activities, frequent coordination meetings between implementing partners, and a monitoring and evaluation system that will provide real time monitoring to capture any potential issues early and to troubleshoot and adjust as needed. These measures are identified further in Annex 4 and Annex 6.

## **VI. APPRAISAL SUMMARY**

### **A. Economic and Financial Analysis**

53. *Economic Analysis.* The economic analysis of the project focuses predominantly on Components A, B, and C, which together comprise about 80 percent of the IDA financing. The project will generate direct benefits to around 24,000 urban poor, with lending for housing to an estimated 40,000 beneficiaries. However, the project also generates indirect benefits to the area surrounding targeted, both through the extension of improved primary and secondary infrastructure connections, as well as through the city wide approach and knowledge sharing that will highlight the approach and possible investment opportunities for other settlements in the designated cities. Based on the findings of the economic analysis, the project's components have an average IRR of 25.1 percent. For a detailed economic assessment of the project, see Annex 7.

### **B. Technical**

54. This project proposes a community-driven approach to improving living conditions for the urban poor. This builds on community organizations already present in the country, developed and strengthened through urban poverty programs undertaken by Development Partners. The project targets those communities where there is a strong level of community cohesion, where there is relative stability and trust within the community organization, where there is a presence of community managed finances, such as savings and credit groups, and where there is a demonstrated demand and capability to afford improved shelter conditions. The project's approach remains demand-driven, where community groups would opt to participate in the program and would contribute to shelter loans and infrastructure upgrades through down payments on loans and O&M funds, respectively.

55. An assessment of the strength and capabilities of urban poor communities in Bangladesh to undertake a community-based program on improving living conditions was undertaken as a part of the project preparation process. The results of these assessments have demonstrated that, while there is significant variation in community strength and capability both by towns, and within towns, there exists today a solid base of urban poor communities with good capacity, community savings, and a demonstrated willingness and capability to participate in a demand driven program around improving living conditions, most notably shelter. Thus, the project can build on the efforts of DP programs around community mobilization, slum mapping and strong networks between communities and city level administration officials. The project will focus its efforts where community capacity is strong, and communities will be able to play a key role in upgrading and improving their settlements. The project will promote improved and further integration of informal and low income settlements into the fabric of the municipalities.

56. An assessment of PKSf and its partner organizations have demonstrated considerable demand for and interest in the development of shelter lending products. Both PKSf and its POs have significant experience with microcredit lending, although the experience of housing microfinance is limited. Assessments at the PO level demonstrate technical capability to extend shelter loans, given experience of micro-enterprise lending in the country, although housing microfinance presents particular challenges around collateralization. A slow rollout, combined with extensive technical support is expected to support the development of housing microfinance products, with most lending focusing on home improvements and renovations, as well as incremental construction approaches to start.

### **C. Fiduciary**

57. The Bank assessed the fiduciary capacity of the implementing agencies NHA and PKSf, and suggested mitigation/improvement measures for efficient fiduciary management of the project. The NHA needs to have dedicated procurement and financial management personnel to handle Project's procurement and FM/ disbursement activities. While the systems in place for internal control, accounting and book keeping, internal and external audits in PKSf are adequate, additional staff (a finance manager and an Accountant) will be recruited to mitigate the risk. The overall risk related to fiduciary has been assessed as "Substantial", however the residual risk will be "Moderate" upon initiation of the proposed mitigation measures.

58. NHA will have the responsibility for the FM arrangements of its components of the project, and this responsibility will lie with the Finance Department of NHA. However, this will be carried out primarily by NHA's PMU, who will follow overall government institutional policies and procedures. NHA's internal controls within the agency have been assessed and found to be satisfactory. The project will utilize off-the-shelf accounting software to record project transactions, to maintain books of records and to generate financial reports. NHA will hire an FM Specialist, an FM associate and an accountant to carry out all FM functions. NHA currently has no overdue audits. Within PKSf, a PMU will be set up, and an Assistant Project Coordinator (Accounts and Finance) will be recruited for the project under this structure.

59. For NHA, significant procurement and financial management assistance is required to improve capacity. PKSf has good procurement capacity due to its implementation experience of World Bank financed projects since 1996. Different risk mitigation measures have been agreed upon with the agencies including: (i) hiring of individual procurement consultant to handle the entire cycle of contract management, including tendering and quality control of goods and services received by vendors and procurement capacity building of the client; (ii) establishment of a credible procurement complaint handling system; (iii) overseeing the implementation of a community procurement manual (NHA part); (iv) overseeing the procurement under commercial practice or well-established private sector procurement methods (PKSf part); and (v) provision of semi-annual report based on an agreed procurement risk mitigation plan (PRMP) covering about 10 key features for better procurement management related to internal control, bid openings, coercive practices, record keeping, publication of award of contracts etc., described in more detail in Annex 3.

60. **Flow of Funds.** The flow of funds for the project will be through two designated accounts (DA) in convertible Taka (CONTASA) to be managed separately by NHA and PKSf. The DA set up under the PPA (Q8180-BD) will continue to be used by NHA under the project. The DA has a balance of around US\$144,000, which is expected to be refinanced. For NHA, the Project will follow SOE based disbursements, while PKSf will follow report based disbursements. Consolidated semi-annual IUFs will be prepared and submitted by NHA within 45 days and within 60 days by PKSf. For PKSf, the funds for Component C will flow through a separate designated account (DA) in the form of Convertible Taka Special Account (CONTASA) to be opened by PKSf in a commercial bank acceptable to the World Bank. PKSf will follow report based disbursements; i.e., advances to the DA will be made on submission of half-yearly Interim Unaudited Financial Reports (IUFs), including a forecast of projected expenditures for the next two calendar quarters. Further advances as required would be made to the DA on the basis updated expenditure forecast for the subsequent two quarters. PKSf's accounts will be audited by an independent and internationally recognized audit firm. PKSf's portion of the project will remain outside the DPP process as it is a non-ADP project.

61. **Disbursement conditions.** Under Component C, the funds will be subject to conditions of effective origination of lending to lower income categories targeted under the project. The proceeds of the credit line will be disbursed in three phases: after the first US\$1.5 million of lending, verification of lending to lower income categories of at least 20 percent of lending volume will be required for continued disbursement of the loan proceeds. After lending of US\$6 million is completed, 30 percent of the lending volume must be originated to lower income categories, and by US\$8.5 million, this figure would need to rise to 40 percent. These figures are in line with the results framework, and the definition of lower income category is referenced in the operations manual.

62. **Retroactive Financing.** Retroactive financing of up to US\$500,000 equivalent for payments made against eligible expenditures in Component C from February 1, 2016 to the Credit signing date shall be allowed provided that the procurement procedures are acceptable to the Bank.

#### **D. Social (including Safeguards)**

63. The project is expected to have significant social benefits for the targeted population, in particular since the project builds on a demand-based approach for improving living conditions of the urban poor communities. The project financing will be used to improve and upgrade urban housing for the urban poor communities providing infrastructure and services improvements like water supply, drainage, paved access, electricity, gas, and sanitation and solid waste management services depending on the expressed demands of the specific communities. Involuntary acquisition and displacement of people will be avoided but temporary displacement of people may be required during upgrading works. In all cases, full consensus for upgrading will be sought, and no involuntary displacement is expected.

64. The project proposes a phased approach to engaging urban poor communities for selection, design and implementation of improvement and upgrading activities in each selected community (subproject). The phased approach allows identification and design of specific subprojects during the course of implementation through an inclusive consultative process with communities. A Social Management Framework (SMF) has, therefore been developed for social development and

safeguard compliance of the project activities. The World Bank's Operational Policy on Involuntary Resettlement (OP/BP 4.12) has been triggered to the project, as a precautionary measure, although no involuntary resettlement is expected. The SMF includes a social screening and assessment facility, a resettlement policy framework, and a social inclusion and gender framework. Social screening and assessment will be conducted for all subprojects and Social Management Plans (SMP) and where required, a Resettlement Action Plan (RAP) will be prepared for each community.

65. NHA will ensure inclusion, participation, transparency, and social accountability in the project cycle. Participation of all community groups including the very poor, women, and other vulnerable groups will be ensured through a Community Upgrading Plan that will outline how the community plans to ensure inclusion of poor and otherwise vulnerable community members. Community leaders will participate in the Municipal Committee at the city level. Community Support Centers (CSC) will be established in each town under the project for technical assistance to selected communities in subproject cycle. NHA will review processes and ensure inclusion and participation of community groups in subproject cycle. Outside of NHA supported areas, PKSF will test a number of tailored products to provide access to credit for housing to qualifying borrowers using different approaches (e.g., personal, joint liability, group guarantee etc.). Social screening will be undertaken at the PO level. NHA has designed a Grievance Redress Mechanism (GRM) for grievance redress under the project. A Grievance Redress Committee (GRC) at each town will be set up for resolving subproject related social and environmental grievances and those on procurement and quality of works.

66. ***Grievance Redress Mechanisms (GRM):*** Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complain to the WB's independent Inspection Panel which determines whether harm occurred, or can occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought director to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

67. An SMF has been prepared based on social assessments, including city level consultation, capacity assessment, review of local laws and the Bank policies on social development and safeguards. The SMF was cleared by the World Bank on July 14, 2014, and disclosed on NHA's website on August 17, 2014 and the World Bank's Infoshop on August 26, 2014.

#### **E. Environment (including Safeguards)**

68. Depending on site situation and stated demands of the selected slums or communities, the Project will support the design and implementation of a multi-sectoral package of infrastructure and services which includes a combination of housing, water supply and sanitation, drainage, paved access and solid waste management. The impacts of slum upgrading interventions to be



piloted in Comilla, Narayanganj, and Sirajganj, by NHA and PKSF are expected to be largely beneficial. Although, no long term or irreversible adverse environmental impacts are envisaged, minor to moderate impacts may occur during the construction phase which are mostly on-site and can be avoided or minimized through concerted efforts. Considering the nature and magnitude of potential environmental impacts from relatively limited scale and magnitude of community level infrastructure development, the project is classified as category 'B'. The environmental safeguard policies triggered are Environmental Assessment (OP4.01) and Physical and Cultural Resources (OP 4.11). However, as a precaution, Natural Habitats (OP/BP 4.04) has also been triggered.

69. The project will use a phased approach that will select communities city by city throughout the implementation period. As settlements have not yet been identified, or details of sub-project activities and interventions that may have environmental impacts are not yet available, a framework approach has been adopted. The NHA developed an Environmental Management Framework (EMF) that provides a tiered approach of environmental screening, tools to identify potential environmental risks in sub-projects, procedures to mitigate any potentially adverse environmental impacts, a mechanism for environmental monitoring as well as a guideline for capacity enhancement. In addition, the EMF included mitigation measures, environmental enhancement measures and a list of relevant environmental codes of practices for constructions/civil works, which would be appended to construction contracts, to avert negative impacts and strengthen positive outcomes expected to be generated from the selected interventions. As the project plans to finance shelter improvements, renovations or self-construction outside the NHA designated project areas by PKSF, an abbreviated EMF has been developed in line with the original EMF and disclosed by the PKSF.

70. Given the nature of the project, the level of development in most of the participating communities is such that the project will not engage in construction or expansion works related to sanitary landfills, large scale water and wastewater treatment plants, river rehabilitation through river training or large scale embankment construction that may affect the natural flow. Most infrastructures will take place in their original space or alignments where primary focus will be on-site and community managed small scale infrastructure. The project's Environmental Management Framework (EMF) includes a negative list of such activities which are not eligible for project financing, to ensure that, as beneficiary municipalities are selected and infrastructure intervention packages are developed, no such works would be included within the project.

71. NHA does not have any prior experience dealing with environmental safeguard issues, as required by Bank policies. Thus, NHA recruited an environmental specialist for the PMU to ensure that project interventions with significant negative impacts are not selected and due diligence to relevant national laws of Bangladesh and IDA's safeguard policies are given throughout the implementation period. In addition, NHA will maintain a database for sub-project specific environmental screening/assessment, EMPs and implementation monitoring of EMPs. The project M&E system will capture that information as well. An independent (third party) environmental audit will be carried out to assess and evaluate the quality of environmental compliance of the construction related subprojects and a Terms of Reference for this activity has been included in the EMF. This will be a part of the third party independent verification and compliance check of the project.

72. PKSF has experience dealing with environment safeguard issues under an existing World Bank managed trust fund—the Community Climate Change Project (TF012721). In NHA supported areas, all environment screening and due diligence will be undertaken by NHA, including construction technical assistance for housing and any environmental screening or management needed. Where PKSF would pilot individual housing loans outside of NHA areas, its POs will follow the same environmental management procedure for housing construction developed in the EMF. Since the POs do not have experience in dealing with environmental safeguards, PKSF will recruit an environmental specialist as an Assistant Project Coordinator (Environment) to ensure due diligence to the Government and IDA’s safeguard policies by the POs to be involved in the housing program.

73. The EMF was cleared by the World Bank on July 14, 2014, and disclosed on NHA’s website on August 17, 2014 and the World Bank’s Infoshop on August 26, 2014. The abbreviated EMF developed by PKSF has been disclosed on PKSF’s website on January 12, 2016.

## Annex 1: Results Framework and Monitoring

**Country: Bangladesh**

**Project Name: Pro-Poor Slums Integration Project (P130710)**

### Results Framework

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#### Project Development Objectives

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PDO Statement

The Project Development Objective is to improve shelter and living conditions in selected low income and informal settlements in designated municipalities in Bangladesh

**These results are at** | Project Level

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#### Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
Number of beneficiaries with improved access to and quality of services (Number)	0.00	0.00	12,500	25,000	70,000	120,000	120,000
Number of beneficiaries in selected municipalities with improved housing (Number)	0.00	0.00	3,000	10,000	20,000	40,000	40,000

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#### Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
Participation rate of settlement members in planning and decision making meetings (percentage)- (Custom)	0.00	At least 70%	At least 70%	At least 70%	At least 70%	At least 70%	At least 70%

Number of beneficiaries of Community Upgrading Plans (Number) - (Custom)	0.00	0.00	2,500	5,000	15,000	24,000	24,0000
Percentage of beneficiary households that feel project investments reflected their needs (percentage) (Percentage) - (Custom)	0.00	0.00	70%	70%	70%	70%	70%
Percentage of infrastructure works evaluated as of good quality (percentage) – (Custom)	0.00	0.00	At least 70%	At least 70%	At least 70%	At least 70%	At least 70%
Volume of Bank Support: Lines of Credit - Microfinance (Amount(USD)) - (Core)	0.00	0.00	1,000,000	3,000,000	6,000,000	16,000,000	16,000,000
Percentage of the housing loan portfolio at risk (percentage) – (Custom)	0.00	Up to 10%	Up to 10%	Up to 10%	Up to 10%	Up to 10%	Up to 10%
Percentage of loans disbursed to lower income categories (percentage) – (Custom)	0.00	0.00	20%	30%	30%	40%	40%

### Indicator Description

#### **Project Development Objective Indicators**

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of beneficiaries in selected settlements with improved access to and quality of services	Number of households benefiting from improved access and quality of water, sanitation, roads, drainage, electricity.	Semi-annual	Semi-annual reports	M&E Consultants
Number of beneficiaries in selected municipalities with improved housing	Number of households that have taken housing loans and have improved or constructed shelter	Bi-annual monitoring	M&E reports	M&E Consultants

#### **Intermediate Results Indicators**

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Participation rate of settlement members in planning and decision making meetings	Participation rate of settlement members (gender disaggregated) in planning and decision making meetings as measured by number of participants per meeting and qualitative assessments of participation	Monthly reports	Minutes of community meetings, reports from CMDSC, audits by M&E consultants	CMD&S consultants, M&E consultants
Number of beneficiaries of Community Upgrading Plans	Number of beneficiaries (gender disaggregated) of CUP, as measured by settlement size and number of members in upgraded area	Monthly reports, quarterly reporting	CMD&SC reports on each settlement and household, Social Screening reports with households and members (baseline)	CMD&S consultants, M&E consultants
Percentage of beneficiary households that feel project investments reflected their needs	Percentage of beneficiary households that feel investments meet their needs	quarterly	CMD&S reports, M&E consultant questionnaires	M&E consultants

Percentage of infrastructure works evaluated as of good quality	Percentage of infrastructure works evaluated as of good quality as measured by assessment questionnaire in supervision reports	quarterly reporting	CMD&S consultants, NHA field engineer assessments	NHA field engineers, M&E consultants
Volume of Bank Support: Lines of Credit - Microfinance	A line of credit is classified "microfinance" if supporting subloans: a) Have an average outstanding balance (gross loan portfolio ÷ number of active borrowers) < 300% of the latest per capita GNI, OR b) Less than \$1,000. EITHER circumstance triggers classification as microfinance. Lines of credit and other funding for retail Microfinance sub-loans by Participating Financial Institutions or Community-Managed Loan Funds. Report the cumulative amounts disbursed as of most recent date available. If a split by micro and SME is not available or possible, please use 50% for each as proxy.	Annual	M&E reports	M&E Consultants, BB
Percentage of the housing loan portfolio at risk	Percentage of the MFI's portfolio dedicated to housing microfinance considered at risk	Annual	MFI reports, PKSf reports	MFIs, PKSf, M&E Consultants
Percentage of loans disbursed to lower income categories	Percentage of loans disbursed to lower income categories as defined by percentage of loan volumes to income category defined as "lower" in operations manual	Annual	Reporting from MFIs and PKSf	PKSf, M&E Consultants

## **Annex 2: Detailed Project Description**

### **BANGLADESH: Pro-Poor Slums Integration Project**

1. **Project Approach.** This project proposes a community-driven and people centered approach to improving living conditions for the urban poor. This approach builds on the success of several Asian initiatives, including the Community Organizations Development Initiative (CODI) in Thailand, the Urban Poor Development Fund in Cambodia, engagement with urban poor communities in the Kampung Improvement Project in Indonesia, Pamoja Trust in Kenya, and city wide development funds in the Philippines, as well as the Asian Coalition for Community Action (ACCA) approach. It also reflects the experience in Latin America where participatory solutions have become the preferred approach in the last fifteen years.

2. **Addressing Urban Poverty in Bangladesh.** Addressing urban poverty is a difficult challenge. The Government of Bangladesh has implemented several programs to improve urban infrastructure services, such as roads, drains, or water supply and sanitation networks, as well as to improve municipal finances and municipal management. However, many of the city's poorest residents remain primarily in the informal sector, which effectively excludes them from the benefits of many urban development programs. Residence in informal sectors or in low income settlements often precludes them from formal service provision. And with livelihoods that lie primarily in the informal economy, they remain outside of the city's tax base. Thus, to effectively reach the urban poor, a bottom up and community based approach is a more effective tool to intervene on urban poverty challenges.

3. **Benefits of Participatory Slum Improvement and Housing Finance.** Improving living and housing conditions has been shown to be one of the most effective ways to improve the urban poor's integration into society. However, most slum upgrading projects in the past have struggled to scale-up, or to reach the urban poor most in need; slum-upgrading projects have been accused of benefiting only a lucky few or promoting gentrification<sup>18</sup>. Likewise, market-based housing finance projects, while expanding mortgage markets to middle income people around the world over the last decades, have failed to reach poorer urban populations<sup>19</sup>. Since the 1990s, participatory approaches have been promoted as a way to more effectively reach the urban poor, as well as to increase the prospect of long-term sustainability. Participatory approaches have helped create projects that better meet the needs of beneficiaries and promote a greater sense of ownership amongst residents, which, in turn, are more likely to lead to long-term sustainability. There is also growing evidence that bottom-up, community-based participatory programs – such as Baan Mankong in Thailand or the Kampung Improvement Programs in Indonesia—are much more likely to be successful in nationwide or citywide scaling up than those instituted from above<sup>20</sup>.

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<sup>18</sup> See, for example: Banes, C. 2001. *Enhancing access of the urban poor and vulnerable groups in Vietnam to basic infrastructure and services: Review of recent and on-going urban upgrading programs*. Assessment report for the Cities Alliance. Sevenoaks, UK: Banes Dawes Associates; and Gulyani, S., and E. M. Bassett. 2007. Retrieving the baby from the bathwater: Slum upgrading in sub-Saharan Africa. *Environment and Planning C: Government and Policy* 25 (4): 486-515.

<sup>19</sup> Buckley, R. M. and J. Kalarickal, Eds. (2006). *Thirty Years of World Bank Shelter Lending: What have we learned?* Directions in Development: Infrastructure. Washington DC, World Bank.

<sup>20</sup> Imparato, I., and J. Ruster. 2003. *Slum upgrading and participation: Lessons from Latin America*. Washington, DC: World Bank. Das, A. K. and L. M. Takahashi (2009). "Evolving Institutional Arrangements, Scaling Up, and

4. **Limitations of the Participatory Approach.** The participatory approach to shelter improvements and settlement upgrading necessitates a strong foundation of urban poor community groups with a certain level of capacity, willingness and organizational capacity. In addition, the approach requires strong partnerships with the local government. As such, it is not a ubiquitous strategy for addressing all housing needs in the sector, nor even appropriate across all informal settlements in Bangladesh. Where the proposed approach can help to address housing shortages are among certain informal settlements and urban poor community groups that are organized and motivated to participate in the program. However, the proposed approach will not address shelter needs of all segments of the housing market, including the extreme poor, homeless, or the urban poor who are not organized, as well as the lower middle class or middle class segments of the housing market. As such, it remains one approach, among a broader set of possible tools, to address the housing stock shortage. The project will advance a comprehensive analysis on the housing sector to better understand the needs of the housing sector and different approaches to addressing those segments.

5. **Lessons Learned incorporated into the Project Design.** A recent paper by the World Bank on community driven development (CDD) in urban areas identified that, despite the benefits from community engagement and participatory development in urban upgrading, several key lessons are important: (i) community mobilization requires greater investment and time in urban spaces; and (ii) local governments must remain important partners in the programs.<sup>21</sup> The project incorporates these lessons in several ways. As a first step, the project builds on sustained engagement with the urban poor that has mobilized urban poor communities over a decade, and has built important partnerships with local government partners. Second, the project uses a strong demand driven approach to overcome issues with beneficiary selection; beneficiaries self-select into the project, and are required to identify action plans for inclusion of more vulnerable community members. As these communities have experiences working together already, these measures are well established.

6. Global experiences have shown that transition to secure housing is best suited to communities where local organizations exist and are active, and where experiences with local contracting and community savings and group lending are present. Thus, significant efforts of community mobilization are a prerequisite to establishing the institutions necessary for participatory approaches to succeed.

7. **Community-based urban poverty programs in Bangladesh.** Over the past fourteen years, the Urban Partnerships for Poverty Reduction (UPPR) project (and its predecessor the Local Partnerships for Urban Poverty Alleviation Project) has effectively intervened in 27 of Bangladesh's municipalities to address urban poverty through a bottom up and community led approach. Working through the Local Government Division, the objective of the program has been to improve livelihoods and living conditions of the urban poor. This was achieved by (i) mobilizing urban poor communities to form representative and inclusive groups for the preparation of community action plans; (ii) improving basic living conditions through small infrastructure works

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Sustainability: Emerging issues in participatory slum upgrading in Ahmedabad, India." *Journal of Planning Education and Research* 29: 213.

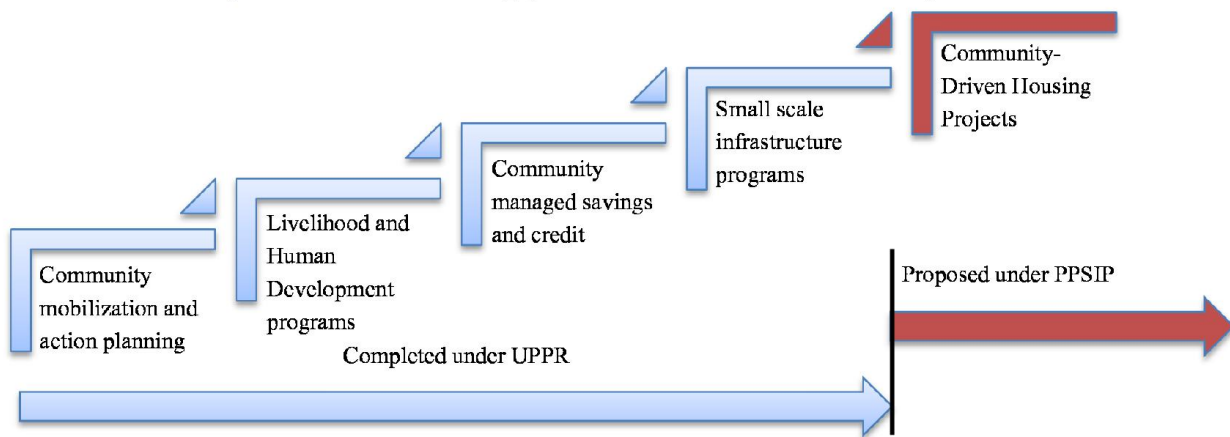
<sup>21</sup> Arnold, Margaret, Victoria Beard, Ellen Hamilton, Heejoo Lee and Kaori Oshima. "Participatory and Community Driven Development in Urban Areas: Lessons from Case Studies" The World Bank Group (draft November 2014).



such as tubewells, latrines, and footpaths; (iii) targeting the poor and extreme poor to develop resources, knowledge, and skills to increase their income and assets; and (iv) building partnerships between urban poor communities, their cities and national policy makers. At the end of 2011, the program reported to have established an effective democratic community governance system, covering around 2.86 million poor and extremely poor people in 685,000 households. Around 71 percent of covered households had joined one of 25,000 primary groups, led by and comprising 98 percent women. Around 319,000 households had joined of the 19,000 savings and credit groups, which had saved about US\$3.5 million and disbursed US\$8.5 million in loans.<sup>22</sup> In addition, a variety of collective savings and loans systems exist in communities throughout informal poor settlements in Bangladesh, many of which have been set up by communities themselves, without the aid of outside NGOs, including Rotating Savings and Credit Associations (RoSCAs), and various microcredit loan schemes developed for specific purposes.

8. **Community-Based Platforms.** The presence of these programs has provided an important foundation upon which to build a program for secure and affordable housing for the urban poor. This foundation has organized communities into groups, mobilized and trained them in important skills, and introduced savings and credit programs that build a foundation of financial management. The project will target those communities where there is a strong level of community organization, where there is relative stability and trust within the community group, where there is a presence of community managed finances, such as savings and credit groups, and where there is a demonstrated demand and capability to afford improved shelter conditions. The project’s approach remains demand-driven, where community groups would opt to participate in the program and would contribute to shelter loans and infrastructure upgrades through down payments on loans and beneficiary contributions, respectively.

**Figure 1: The ACCA approach in the Context of Bangladesh**



9. **A Pilot Program.** Addressing urbanization and the resultant infrastructure deficits is a longer term objective that will necessitate significant investments and institutional shifts in Bangladesh. In light of this, a pilot approach to introduce a community-based approach for urban improvements could serve as a first step towards addressing the growing number of slums and informal settlements. A demonstration of the effectiveness of community-based solutions could

<sup>22</sup> UPPR Annual Progress Report 2011

continue to galvanize support for and attention to the growing issues of shelter for the urban poor. To this end, the project will engage three *pourashavas* or city corporations where longstanding community-driven development programs and local government support have created conditions to resolve land and shelter issues for the urban poor. The program is envisioned as a pilot program, to test the community-based mechanisms proposed to address shelter and living conditions for the urban poor. The project will invest a good deal in evaluation and monitoring, with the aim of creating a sustainable, scalable, demand-driven, nationwide system for slum improvement. Based on the results of the project, expansion to additional towns is envisioned.

10. **Municipality Selection.** A two-step multi criteria analysis was developed to help narrow down the participation of municipalities. As a first step, eligibility for participation in the project was narrowed to ‘Class A’ towns (*pourashavas*) and City Corporations with populations above 100,000. This narrowed the list of eligible towns and city corporations to a shortlist of thirty four. Second, criteria to represent eligibility at the town level were developed, including rates of urbanization, urban development programs (e.g. water and sanitation, municipal development), number of years of community-driven urban poverty programs, volume of savings held by community groups in the town, efficacy of tax collection, economic base of the city, among others. Dhaka City and Chittagong were excluded from this list, since the rapid urbanization, extremely high land prices, and high urban density rates may prove challenging for the pilot phase of the project. Below is the shortlist of *pourashavas* and city corporations:

**Table of Shortlisted Pourashavas and City Corporations (2013)**

1.	Sirajganj Pourashava	6.	Dinajpur Pourashava
2.	Narayanganj City Corporation	7.	Khulna City Corporation
3.	Bogra Pourashava	8.	Rajshahi City Corporation
4.	Barisal City Corporation	9.	Savar Pourashava
5.	Comilla City Corporation	10.	Kushtia Pourashava

11. The shortlist of *pourashavas* and city corporations was presented to representatives from slum dweller federations in the country, which further suggested developing geographic representation from different divisions of the country. Follow up visits and consultations with city and *pourashava* administration representatives and field visits examined the level of willingness to participate and level of support for a community-led slum upgrading program among city administration officials, the presence of a slum improvement fund at the town level, the presence of effective partnerships between slum dweller community organizations and town partners, levels of infrastructure provision (present and planned), own revenue resources, etc.. Consultations with community leaders were also held to determine the levels of interest and demand for improved housing and living conditions among informal and low income settlements in the city. Based on geographic representation, field assessments and consultations, a final list of five pilot cities was presented to the National Housing Authority. After review, the following list of three pilot cities was finalized, with a view to scale up results based on results during the pilot phase:

No.	City Corporation/Pourashava	Division
1.	Comilla	Chittagong
2.	Sirajganj	Rajshahi

3.	Narayanganj	Dhaka
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12. **City-Wide Approach.** The project will use a phased approach and will help to identify participating communities city by city during the project’s implementation period. Engagement with a wide range of stakeholders at the municipal level in the planning process helps to ensure that it takes place in a way that is integrated, and in line with masterplans, as well as with significant community and civil society inputs. City-wide planning will make use of the settlement and land maps (SLM) that were completed in each of the 29 UPPR cities in 2009. These maps will be used as a base from which to draw a list of possible settlements for inclusion in PPSIP. The city-wide approach will also help to build a knowledge sharing platform that will bring communities and different relevant stakeholders together in forums, workshops and sharing meetings throughout the project implementation period.

13. Within each town, the project will target low income and urban communities that meet the following minimum eligibility criteria:

- *Settlement size:* 50 -300 households;
- *Presence of community organization:* presence of a representative community organization or an established history of organized action; and
- *Financial management history:* presence of community managed savings and credit groups.

14. All communities that fulfill these criteria will be deemed eligible. Use of simple and transparent basic eligibility criteria ensures that minimum factors are in place, and that all communities have clarity about what is needed to participate in the program as a first step.

15. A second stage assessment of all communities that fulfill basic eligibility criteria will be undertaken. This will include preliminary social surveys to assess basic demand, social cohesion and trust, community experience working together, coupled with physical surveys, and environmental assessments to further filter communities. Finally underlying land tenure status would be investigated to understand the current ownership and whether the title is clear. Only those communities on land with no current land disputes will be eligible. Finally, a basic financial or affordability assessment will determine those communities to be entered into a long list of possible communities to be selected.

16. **Community Demand.** Communities deemed eligible through this multi-stage analysis will have the opportunity to learn about the project through organized information sessions that will outline the project approach and benefits. Since demand for the project’s interventions is a crucial step, those communities that express interest will inform the project in writing, and will elect a settlement level committee to act as the main interface to the community organization and the project staff. A final assessment of interested communities will examine aspects of social cohesion, affordability, and possibility to secure tenure. Based on this assessment, communities would be prioritized for interventions. To ensure transparency, the process of selection will be made publicly available both within the CSC, the district NHA office, within the municipality, and in NHA’s main office in Dhaka.

17. **Securing tenure.** Some form of tenure security will be required in order for residents to borrow for housing. Thus, tenure security is a prerequisite to investments. The tenure status of settlements varies widely by city. As the table below shows, the majority of existing and organized settlements in the project towns are located on land already owned by the occupants. Narayanganj, located in the outskirts of the Dhaka, is the outlier in this regard. In Narayanganj, 72 percent settlements are on private land, which is leased or rented to the residents. To address this wide variation, the project will take a flexible and practical approach to resolving tenure issues. Under the project, a variety of approaches to securing tenure—from basic right to stay notices to freehold—will be explored, and relevant solutions advanced, leveraging the project’s investments to resolve underlying tenure issues where needed. Leases established under the project will be on a community level, to avoid speculation on the part of residents, lengthy land survey procedures, and possible governance issues in land allocations.

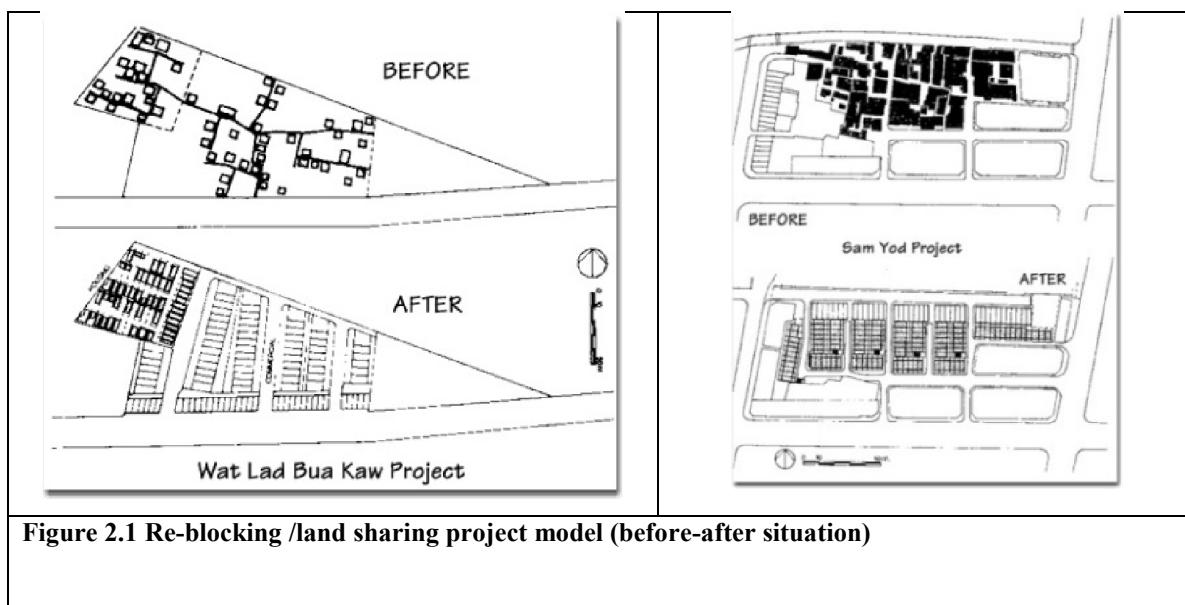
**Table 1: Land ownership and status of tenure by project town**

	Town	ownership of land				status of land tenure				
		private owner's (land lord) land	government owned land	local government owned land	land owned by occupants	squatter and squatter tenant - Illegal	tenant without contract - user right	legal tenant with contract - leasehold right	individual owner - freehold right	
1	Comilla	35%	5%	4%	57%	3%	45%	3%	48%	
2	Narayanganj	72%	14%	2%	12%	17%	65%	3%	15%	
3	Sirajganj	6%	24%	1%	68%	24%	3%	4%	68%	

18. **Community Planning.** In the first set of eligible communities, and where some form of secure tenure exists, community-level planning will be undertaken with the technical support of social mobilizers, community minded architects, engineers, and other specialists, as necessary. The settlement would be planned to take into account all community preferences, and to develop an integrated plan for housing improvements and infrastructure that complies with certain minimum standards for low income and high dense settlements. Where settlement level infrastructure can be linked to city level services, appropriate links will be made. Community architects will work with individual households to develop housing appropriate for affordability levels. Certain standard homes have been developed as basic types, and for costing purposes, but final housing designs and cost estimates will be completed together with households.

19. **Community Development Models.** The project would demonstrate community-based solutions to galvanize support for and attention to the growing issues of shelter for the urban poor. Considering longstanding community engagement and local government support that have created conditions to resolve shelter and land issues for the urban poor in Bangladesh, four different community-based housing approaches would be piloted, depending on local needs and preferences: (i) in-situ upgrading, (ii) re-blocking, (iii) land sharing projects, and (iv) voluntary resettlement *In-situ* upgrading is an effective option for the enhancement of the physical environment and basic community services in slums. It allows residents/communities to stay on

the land they currently occupy and transfers occupancy rights or tenure security to them. With tenure security, residents would be able to invest in improved housing. A second model is re-blocking, where the existing site layout is readjusted in order to improve and enhance the physical condition. Re-blocking occurs when the slum dwellers are granted a right to stay or security of tenure on-site and the existing houses can be adjusted to allow for streets, drainage, canals, or other public infrastructure for an improved layout.



**Figure 2.1 Re-blocking /land sharing project model (before-after situation)**

*Source: Land Sharing as an Alternative to Eviction. Shlomo Angel and SomsookBoonyabanacha. In Third World Planning Review, 10 (2) 1988. Available: <http://web.mit.edu/urbanupgrading/upgrading/issues-tools/tools/Reg-of-land.html> [25 December, 2013]*

20. A third community development model involves land sharing, which is a strategic approach where slum dwellers and private developers and /or government jointly share a given site. In this model, usually compact housing is built rather than scattered built development. All types of community services and utility facilities are also planned in a compact fashion. This model attracts investments in the critical infrastructure, i.e. affordable housing for the urban poor. When done in an existing settlement, scattered housing would be re-arranged in a planned pattern in a land sharing project. Like other design options, community participation is considered pivotal in every step. Finally, voluntary ensures secure housing with land use rights on an alternate site. This model is particularly applicable if the slum is located on legally disputed or environmentally or otherwise risky land. All of these options require strong community participation in the layout plans and designs, as well as in the execution of the site improvements and continued maintenance.

21. **Community Support Centers.** The project will establish Community Support Centers (CSCs) in each of the three towns under the project. The CSC will be a resource library and information point on various aspects of the project, including building standards, construction techniques, training and capacity building, and information sharing. The CSC will provide training and capacity building workshops, financial management planning workshops, training on construction and building techniques, and information on low cost building standards, certification

of local tradesmen, etc. The project will staff the CSC during implementation, and will devise a plan to ensure the sustainability of the CSCs after the project closes.

22. **Innovations in shelter lending.** The project will advance innovations in shelter lending to promote affordable housing for the urban poor. Affordable housing is often constrained by prohibitive cost of land, combined with infrastructure and homes. The project advances a model of incremental lending to complement the incremental approach to construction, expansion and improvement of homes among urban poor communities. In addition, the project will test models of community agreements and community level risk management and mitigation measures to assist the urban poor to access loans for homes. Community savings forms an important basis for these loans, and the project will leverage these to develop financially viable and sustainable products for the urban poor. Technical assistance, both to lenders, as well as to community groups, will be provided under the project.

23. **Phased rollout.** The project will use a phased approach during implementation. This, combined with a strong monitoring and learning component, will help to ensure continued feedback loops to the project design. Project preparation in Comilla's settlements helped to inform and update the process for Sirajganj, and lessons from Sirajganj have helped to further inform the project's design. This phased rollout will continue during the project's implementation. Combined with a strong monitoring and learning component, the continued feedback will assist in the rollout of subsequent cities and will help to guide the project's approach and continue to innovate during implementation. In addition, a phased rollout of housing loans through PKSF will help to identify the most appropriate housing microfinance products for the Bangladesh context.

24. **Pilot approach with the goal of scaling up.** The project is a large-scale pilot to test a community-based approach to housing improvements and settlement upgrades. As such, it tests the demand-driven approach to self-selection for the project, through the use of basic eligibility criteria and assessing community cohesion and other participation prerequisites. The project then tries out a participatory planning approach to improving settlement layout, and experiments with group-based lending models. In order to help understand and develop a scalable program model, monitoring and evaluation is a key component of the pilot project. Communities participating in the project will vary in their levels of poverty, land ownership, environmental conditions, housing and infrastructure conditions, and national location, and this variation will be monitored and evaluated in order to understand the potentials and limits of the project design when scaling up.

25. **Project Components.** The proposed project is divided into five components, designed to cover the three key factors of shelter improvement—community mobilization, infrastructure, and housing loans—and with a strong focus on monitoring and evaluation of the project's results to better understand the impacts and the potential for scaling up such a program in the future. The proposed components are as follows:

26. **Component A: Community Mobilization and Planning (US\$11.5 million, of which US\$4.5 million IDA Credit and US\$7.0 million GOB contribution).** This component will support the planning, and mobilization efforts related to community-driven upgrading, as well as costs associated with securing tenure (financed by the Government), and ensuring environment

and social planning.

(i) ***Subcomponent A.1. Community Mobilization and Planning (US\$4.5 million)***. This sub-component will support community participation, mobilization and layout planning. As a first step, an inclusive and consultative process at the city level will help to identify possible participating community organizations. Once eligible settlements are identified, this component will support a community-driven process of improving site design and layout. The component will finance technical assistance in the form of community architects, social mobilizers, engineers, as well as social, environmental, legal, and financial specialists to assist eligible communities to prepare detailed designs and layouts for improved living conditions and shelter improvements. As a part of this process, the community would be supported to undertake a Community Upgrading Plan, that will outline how the poorer, more vulnerable, women, and renters within the community would be accommodated during the upgrading process. Community organizations will be registered under the Cooperatives Act, where they are not otherwise registered, and will serve as the primary interface for land leases, community contracting, and community guarantees for housing loans, where applicable.

In addition, possible options and solutions around land tenure will be explored under the project. The project will not finance any land acquisition, but will help communities to identify possible avenues for securing tenure, and will provide legal support and guidance to help secure tenure, primarily through long term leases. The project has identified several types of existing land tenure in informal settlements: (i) settlements on land owned by the residents themselves; (ii) settlements on public land (departmentally allocated land, as well as *khas* land), and (iii) settlements on land held by private land owners. For land held by residents, the ownership would be verified before the project would extend infrastructure and housing support. For settlements on public land, long term lease arrangements will be negotiated. NHA is currently one of three Government agencies permitted to enter into direct lease agreements with cooperatives, with the terms and conditions of the lease agreement determined on a case by case basis by the NHA Board. If relevant, NHA will request for a transfer of public land to lease directly to registered community cooperatives. For each of these options, the project will promote collective tenure systems through assistance in registering relevant community organizations under the Cooperatives Act. Collective tenure has been shown to build community cohesion, allow communities to negotiate from a greater position of power, and can safeguard against premature resale and speculation. All land management within the cooperative would be managed by its members. The project would support communities through technical and legal advisors who would help communities to verify land ownership, and to negotiate long term leases with public agencies and with private owners.

This sub-component will also provide technical assistance to Community Housing Development Funds in the targeted project cities. CHDF are run by community members from the CDCs, and are elected to a board. The project would provide technical assistance and support to the CHDF further build capacity of the organizations to improve internal financial controls and audit mechanisms to improve lending.

Finally, this sub-component will help to put in place Community Support Centers (CSCs) with the objective of housing the technical assistance to communities in an accessible fashion. These CSCs will act as resource points for any and all community members to collect information on the project's interventions, as well as technical information in the form of building materials, building standards and methods, information regarding land, and financing. Training for volunteer community members will be undertaken with a view to improving the institutional sustainability of the project. The CSC will also serve as a nodal point for lenders, to provide financial training, awareness raising of lending products, or other services, as needed.

(ii) ***Subcomponent A.2. Enhancing Tenure Security (US\$7 million GOB).*** The estimated value of this land that would be made available under the project is reflected in the subcomponent costs. Within each of the project areas, NHA will assess its existing land bank in the area, and will determine if any land currently allocated to it could be suitable and made available for a voluntary relocation scheme under the project. In addition, the project will prioritize the use of *khas*, municipal and other government land that would be made available under the project through formalized lease agreements with potential beneficiaries. The estimated value of this land is accounted in the sub-component costs.

27. **Component B: Urban Community Improvements and Upgrading (US\$22.0 million IDA Credit).** This component will finance community-led urban upgrading activities. Specifically, it would support:

(i) ***Sub-component B.1. Primary and Secondary Infrastructure (US\$4.5 million).*** Where connections to municipal level infrastructure are required, this component would also finance select interventions in primary and secondary infrastructure. Based on a rapid assessment conducted of the three pilot cities, these investments are most likely to be concentrated on linking drainage systems and roads to the city-level services. The option of extending municipal water supply to informal settlements is constrained by the following factors: (a) some low income settlements are remote from the existing reticulation system; (b) leaks, wastage and illegal connections mean that system pressures are often poor, limiting the possibility of extending reliable piped water services to new areas; and (c) old and leaky pipes allow influx of water into the distribution system during periods of low pressure, with the result that municipal water supplies tend to be heavily polluted. Narayananj offers the most scope for extending improved municipal supplies into settlements. Operation and maintenance of the primary and secondary infrastructure would be turned over to relevant city level administration offices. NHA will develop a memorandum of understanding (MOU) to this effect to be signed prior to the implementation of any works contracts. The location and planning of this infrastructure would be done in close coordination with the relevant municipalities, through the Municipal Committees.

(ii) ***Sub-component B.2. Tertiary infrastructure packages (US\$16.2 million).*** This sub-component will finance a multi-sectoral package of tertiary infrastructure and service improvements. This includes a combination of water supply, drainage, paved access, electricity, gas, sanitation services and solid waste management in a single package of



upgrading works, depending on the expressed demands of the specific communities.

Three types of upgrading packages are anticipated under the project: (a) *In situ* upgrading and reblocking<sup>23</sup>; (b) land-sharing<sup>24</sup>; and (c) voluntary relocation. All of these options can include shelter as well as access to services. The lowest cost which maximizes the well being of the residents of informal settlements allows existing residents to stay on, lease, or purchase land they currently occupy and transfers occupancy rights to them.<sup>25</sup> In the secondary cities of Bangladesh, *in situ* or reblocking are the most likely options that will be pursued. However, given the land shortages in several of the rapidly growing urban centers in Bangladesh land occupied by informal settlements is often of great commercial value and needed for the efficient development of the urban grid. The option of formalizing land tenure of slums close to the urban center is, therefore, not always feasible. The second option of land-sharing, or mixed development, encourages slum dwellers and private developers or the municipality to partner in the development of a given site, with developers being given some benefits from the government as an incentive to include all or part of slum dwellers in a portion of the new plots to be developed. This option has garnered considerable interest in Bangladesh, especially in rapidly urbanizing areas, as a potentially viable solution that would allow for a part of the land to be cleared for critical infrastructure and urban development priorities, while at the same time promoting affordable housing options for the urban poor. This option will be carefully explored only where feasible. Finally, where slums are located on environmentally risky land, or where there are no options to secure tenure on site, voluntary relocation and rehabilitation of slum dwellers is a third option that will be explored under the project. NHA will make its land bank available, where relevant, to encourage voluntary relocation. The project is designed to remain flexible to the needs and demands of local communities, with a menu of options to choose from. All upgrading packages will be constructed in line with the “Guidelines for Planning, Design & Construction of PPSIP Settlements (2015)”<sup>26</sup>.

(iii) ***Subcomponent B.3. Environment and Social Management Plans (US\$1.3 million).*** Once communities are identified and deemed eligible for the project, site specific environment and social assessments would be undertaken. Based on these findings, environment and social impact management plans would be prepared to ensure that negative impacts arising from project investments would be adequately managed. This sub-component would finance off-site impacts that arise from the project’s investments that are

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<sup>23</sup> Re-blocking occurs when the slum dwellers are granted a right to stay or security of tenure on-site and the existing houses need to be shifted or partially destroyed to allow for streets, drainage, canals, or other public infrastructure.

<sup>24</sup> Land sharing is when an agreement is reached between slum dwellers and land owners that the slum dwellers will vacate all but a portion of the land (usually the least economically viable) in exchange for some form of right to stay on location. This allows slum dwellers to remain in their local communities, and usually close to economic opportunities.

<sup>25</sup> UN-HABITAT (2008) “Housing the Poor in Asian Cities: Quick Guide 4” United Nations Economic and Social Commission for Asia and the Pacific and the United Nations Human Settlements Programme.  
[www.unhabitat.org/pmss/getElectronicVersion.asp?nr=2531&alt=1](http://www.unhabitat.org/pmss/getElectronicVersion.asp?nr=2531&alt=1)

<sup>26</sup> The Guidelines for Planning, Design & Construction of PPSIP Settlements (2015) were developed to provide guidance for following building types up to three stories in height to be constructed within community-led reblocking, redevelopments or resettlement under the Pro-Poor Slums Integration Project (PPSIP). They provide minimum requirements for access and service provision to these layouts and encourage innovative use of locally available materials and technologies.

not covered by contractors. This is to ensure that none of the investments will have unintended and far reaching impacts on the surrounding areas.

28. **Component C: Shelter Support and Lending (US\$18 million IDA Credit).** This component will finance costs associated with establishing a program to provide access to credit for qualifying community groups. The objective of this component is to enhance access to financial services to urban poor communities, resulting in improved housing conditions. Specifically, this component will support:

(i) ***Sub-component C.1. Shelter Lending Line of Credit (US\$16 million)*** This sub-component will finance a credit line within PKSF to provide access to financing for investment in housing primarily in urban areas, and to address the current gap in shelter lending programs among qualified microfinance institutions (MFIs) and NGOs. Currently, the urban poor face barriers to accessing affordable credit for shelter improvements. The component will support the development of loans for shelter improvements, new construction and cluster development, and will test different collateral and guarantee mechanisms, including community groups, joint liability mechanisms, and individual guarantees.

Housing microfinance is in nascent stages in Bangladesh, particularly in urban areas, where underlying issues of land tenure and infrastructure development provide challenges to the development of the sector. The NHA funded project interventions are expected to address these issues, and to provide significant technical assistance and support to organized community groups, addressing security of tenure and developing infrastructure in line with community needs and preferences. However, working alongside government financed interventions also poses certain challenges and risks for commercially oriented lending. The component will prioritize an initial product development and testing phase for the first two years of the project, followed by a rollout phase. It is expected that the significant technical assistance dedicated to the product development and testing phase will help PKSF to identify the best set of shelter loans for the Bangladeshi context. PKSF will test different models of housing finance in both NHA and Non-NHA areas.

During preparation, several options for shelter lending were assessed, both assuming the interventions and support to tenure and infrastructure, and assuming the absence of these. Three types of housing loans have been identified: (i) renovation/expansion/improvement loans; (ii) new construction loans; and (iii) cluster development. At present, lending would be capped at three years for renovation loans, and five years for new construction loans, with an emphasis on incremental expansion over a series of repeater loans. Different guarantee and collateral mechanisms will be explored, including community level guarantees, through an MOU with relevant and eligible community groups, and where POs and community groups agree on this modality. Shelter loan beneficiaries will contribute a minimum of 20 percent in equity towards their loans. All housing to be constructed with the proceeds of the project funds will follow the Guidelines for Planning, Design & Construction of PPSIP Settlements (2015)” that provides guidance for building types up to three stories. For a detailed description of this sub-component, including terms and conditions of the on-lending guidelines, see Annex 8.

(ii) ***Sub-component C.2. Technical Assistance (US\$2 million).*** As housing microfinance and shelter lending does not currently exist at a reasonable and successful scale in Bangladesh, additional resources would be made available under this component to provide technical assistance to PKSF and its qualifying POs to develop shelter lending products under the project. This technical assistance will be critical to the product development and testing phase, and will help PKSF and POs develop financially sound and viable products in the local context.

29. ***Component D: M&E, Horizontal Learning and Supervision (US\$1 million IDA Credit).*** This component will support independent M&E and learning activities. This will include continuous and ongoing M&E of project implementation and results. Component activities would provide continuous feedback as to the project progress, results, and lessons learned through implementation that could be integrated into an improved project design and scale up. In addition, this component will finance ongoing learning activities, such as peer-to-peer learning programs between community groups, and strengthening community networks at the town level. Participatory monitoring will also be leveraged through the community groups to capture beneficiary feedback in a constructive and productive way. Given that the project is a pilot approach to shelter improvement for the urban poor, the monitoring and evaluation framework will carefully evaluate the approach for an improved understanding of the efficacy of the approach in delivering housing services to the lower income categories. Some testing of housing microfinance products outside of NHA areas is expected to complement this evaluation to better understand what models work and for which income categories and market segments, for an improved understanding of both the housing and the housing finance sectors. Finally, funds under this component would also be used for the supervision of the Environment and Social Management Plans, if and when applicable, to ensure compliance with World Bank guidelines. For the implementation of this component, an independent consultant or consultant team would be recruited, so as to mitigate any conflict of interest.

30. ***Component E: Project Management, Training and Capacity Building (US\$4.0 million of which US\$3.5 million IDA Credit and US\$ 0.5 GOB contribution).*** This component will include financing for costs associated capacity building, technical assistance and training, project management, and studies to further expand the program. This will include institutional capacity building for the NHA on institutionalizing the community based approach, including training on community engagement and outreach, and consultation in housing programs. In addition, the component would finance costs associated with project management, including incremental staff, audits, and expenditures incurred by the NHA in implementation of the project, as well as for additional costs in implementing the Governance and Accountability Action Plan (GAAP). Finally, the component would finance strategic studies to assess the low income housing sector and develop plans for addressing housing shortages. NHA will contribute staff costs to the project of around US\$0.5 million.

## **Project Costs**

31. The total project costs are estimated to be around US\$57.5 million, which is expected to be financed through an IDA Credit of US\$50 million (inclusive of a US\$1 million refinancing)

and Government contributions of US\$7.5 million in the form of land donations to the project (US\$7 million) and Government of Bangladesh staff costs to the project (US\$0.5 million).

32. The project will finance upgrading packages that will include drainage, roads, water supply, gas, electricity and other improvement works as developed under Community Upgrading Plans. For the purposes of project costing, it was assumed that most packages would be on-site improvements and reblocking with an average cost of around \$2,900 per household. This cost is comparable with upgrading schemes elsewhere, such as in Brazil, and in Thailand. Development for cluster housing improvements, as well as a multi-story land sharing scheme have also been included for costing purposes. Actual costs will depend on the communities selected, and their needs and priorities. Project costing also includes the cost of developing links from on-site (tertiary) infrastructure to primary and secondary connections. All cost estimates are inclusive of physical and price contingencies as well as taxes. For shelter lending, the cost estimates were derived assuming average loan sizes of around BDT1.2 lac, assuming also that in the initial testing phases, upgrading loans would likely prevail. It is expected that after an initial product development and testing period in the project's first 18-24 months, the number and likely the size of loans could be extended rapidly to fully utilize the credit line.

**Table 2: Project Cost by Component and IDA Financing (US\$ million)**

<b>Project Component</b>	<b>IDA</b>	<b>GOB</b>	<b>Total Cost<sup>27</sup></b>
<b>A. Community Mobilization and Participation</b>			
A1. Mobilization and consultation of communities in design	4.5		4.5
A2. Enhancing Security of Tenure		7.0	7.0
Sub-Total A	<b>4.5</b>	<b>7.0</b>	<b>11.5</b>
<b>B. Urban Community Improvements and Upgrading</b>			
B1. Primary and Secondary Infrastructure	4.5		4.5
B2. Tertiary infrastructure	16.2		16.2
B3. Environmental and Social Management Plans (EMP/SMP)	1.3		1.3
Sub-Total B	<b>22.0</b>		<b>22.0</b>
<b>C. Shelter Lending Component</b>			
C1. Credit line for Shelter Lending	16.0		16.0
C2. Technical Assistance for Shelter Lending support	2.0		2.0
Sub-total C	<b>18.0</b>		<b>18.0</b>
<b>D.M&amp;E and supervision of EMP and SMP</b>	1.0		1.0
Sub-total D	<b>1.0</b>		<b>1.0</b>
<b>E. Project Management, TA, Training</b>			
E1 Project Management Support, and audits	2.0	0.5	2.5
E2 Capacity building & Training	1.0		1.0
E3 Strategic studies	0.5		0.5
Sub-total E	<b>3.5</b>	<b>0.5</b>	<b>4.0</b>
<b>Total Cost</b>	<b>49.0</b>	<b>7.5</b>	<b>56.5</b>
PPF Refinancing	1.0		1.0
<b>Total Project Cost</b>	<b>50.0</b>	<b>7.5</b>	<b>57.5</b>

*Costs include taxes, as well as physical and price contingencies*

*Note: The Government of Bangladesh will contribute to the project with in-kind contributions including land costs (US\$7 million) and staff costs (US\$0.5) deputed to the project from the National Housing Authority and the Ministry of Housing and Public Works*

<sup>27</sup> Includes physical and price contingencies and taxes

**Table 3: Indicative Allocation of Credit Proceeds by Expenditure Category (US\$ Million)**

<b>Expenditure Category</b>	<b>IDA Amount</b>	<b>Financing Percentage</b>
1. Works, goods, non-consulting services, consulting services, incremental operating expenditures and training costs for Parts A, B, D and E of the project	28.8	100%
2. Shelter Lending Credit Line		
(a) First phase	1.5	100%
(b) Second phase	6.0	100%
(c) Third phase	8.5	100%
3. Training costs, consulting services, incremental operating expenditures, goods, non-consulting services, and works for Part C of the project	2.0	100%
4. PPF Refinancing	1.0	100%
5. Unallocated	2.2	
<b>Total</b>	<b>50.0</b>	<b>100%</b>

*Note: - Taxes and duties will also be financed from the Credit;*

*The Government will pay for staff costs of civil servants deputed to the project, including staff allowances, as well as for honoraria; and will donate in kind land costs to the project. These expenditures will be included in the DPP.*

### **Different Housing Options for the Urban Poor**

33. **Constraints to affordable housing.** Currently, the urban poor face several constraints to affordable housing. The combination of limited available and buildable land in urban areas, and stringent formal building codes that increase construction costs place housing options outside of the reach of the urban poor. Houses designed and constructed under the project must be safe, affordable and desirable to the client. To ensure that designs remain both affordable and desirable, design work will be undertaken in a collaborative way with architects, engineers and small groups of participating households (up to approx 20 households). Second, even where urban housing is within the means of the urban poor, there are limited housing finance options that can help the poor pay down formal housing in an affordable way.

34. **Incremental approach.** Due to limited resources, the urban poor typically construct housing in an incremental manner, with work progressing as money becomes available. Construction work is typically carried out either by the household themselves or by local individual builders, depending on the complexity of the work. The project will build on this approach by developing a range of options to meet different budgets which use locally available skills and materials. This will range from simple house repairs such as improving the floor or roof, house designs that can be built incrementally and therefore keep the principle loan amount affordable and designs that utilize alternate building materials such as cement stabilized earth blocks.

35. **The PPSIP will address these constraints in a variety of ways.** First, it aims to improve land use efficiency and improve tenure security through developing systems of leases with public agencies and private owners. This is the first step to improving settlements and living conditions.

Second, the project will help to subsidize land and infrastructure costs for housing; by developing affordable lease arrangements and extending services to informal settlements, the project will help in the development of buildable land for affordable housing. Finally, the project has developed an appropriate building standard for affordable and low cost housing. This, combined with accessible and affordable financing options will place housing options within reach of the urban poor.

36. **Guidelines for Planning, Design & Construction of PPSIP Settlements.** The National Housing Authority has developed a Guidelines for Planning, Design & Construction of PPSIP Settlements (2015) These guidelines generally follows the National Building Code, but provide specific guidance to the development of low-rise, low-cost dwellings and includes allowances for alternative materials which can be justified due to the lower design life that these buildings carry. These guidelines are based on certain principles of safety and durability, but recognize certain appropriate alternatives that help to make the layout and building options more flexible to accommodate higher densities and more affordable materials. The guidelines also identify materials with a view to improving the disaster and climate resilience of settlements..

37. **Minimum safety construction.** Ensuring that housing designs are constructed to the correct standard is a difficult task given the numerous sites, clients and contractors, and lack of formal systems and requires a non-traditional approach. Primarily this will involve education to households and local builders on improved construction techniques and maintenance requirements. Field level guidelines will be produced and these will be communicated through practical workshops and the construction of demonstration houses. Secondly, periodic supervision will be undertaken by the D&S consultant at key stages of house construction, e.g before construction of foundations, after completion of walls etc. This will also serve to sign off stages of work so that further tranches of the loan may be offered.

38. It is likely that some settlements may be too dense, for example in the case of Naryanganj, to develop owner built low-rise housing. In situations such as these, multi-story, multi-occupancy buildings may be advantageous (however low rise housing will always be considered preferable due to the opportunities they afford for future expansion, opportunities to use the house for a livelihood purpose, and increased social interaction). These would be built with a traditional contractor model and project managed by the NHA and their consultants. The community committee would be involved in key decisions such as procurement.

39. **Beneficiary needs and preferences.** Whilst some standardization can be beneficial, it is envisaged that houses designed would vary somewhat from town to town and community to community depending on available materials, space limitations and use requirements. Under the project, technical assistance in the form of community-minded architects and engineers will help households to develop houses based on affordability and preferences. All houses designed under the project will be together with the beneficiary households and will reflect individual needs. The project may use demonstration houses that will showcase different designs and allow for communities to visualize possible improvements

**Annex 3: Implementation Arrangements**  
**BANGLADESH: Pro-Poor Slums Integration Project**

**Readiness for Implementation**

1. The project has undertaken detailed planning in five communities, which has served as a foundation for project preparation. Actions to be taken to ensure readiness are described below:

- (a) Actions taken by NHA include: (i) published notification requesting Expressions of Interest from consultant firms to provide services for community mobilization, infrastructure assessments, costing and design, technical assistance and capacity building activities; and (iii) published notification requesting Expression of Interest from consultant firms to provide services for monitoring and evaluation and learning during the project period.
- (b) Actions taken by PKSf include: (i) survey of PO readiness and capacity for implementation; and (ii) selection of first subset of POs to develop and test products in the pilot phase.

**Project Institutional and Implementation Arrangements**

2. There are two implementing agencies for the project. The implementing agency for Components A, B, D, and E of the project will be the National Housing Authority, headed by the Chairman. A Project Management Unit (PMU) has been established within the NHA and will continue through the project implementation period. The PMU is currently staffed with a Project Director, a Deputy Project Director, a Procurement Specialist, a Financial Management Specialist, a Social Specialist, and an Environment Specialist and is being financed through the proceeds of a Project Advance (IDA Credit Q8180-BD). The Shelter Component and Lending (Component C) will be implemented by PKSf through a separate Project Management Unit (PMU). The PMU will be staffed by a Project Coordinator and Assistant Project Coordinators (Construction, Housing Finance, Environment, and Accounts and Finance). PKSf will make use of its procurement cell for all procurement under the project.

3. At the field level, the project will work through existing community organizations, such as community development committees (CDCs) or other established community organizations (Cos). COs will be responsible for long term leases, overseeing community based planning and implementation of settlement improvement plans, community inclusion plans, and community guarantees for housing loans, wherever applicable. COs and community members will be given technical support and training through the Community Support Centers (CSCs). Partnership and coordination with the municipal authorities will be strengthened through participation of an elected community representative on a Municipal Committee. Specific roles and responsibilities during construction are given in subsequent sections.

**Project administration mechanisms**

4. **Project Steering Committee.** A project steering committee headed by the Secretary, Ministry of Housing and Public Works (MOHPW), will provide policy oversight and guidance in



the implementation of the project. Members of the project steering committee will include member representatives of the Planning Commission, Bank and Financial Institutions Division, Finance Division, Ministry of Land, PKSF, Local Government Division, and Economic Relations Division of Ministry of Finance. . The PSC will oversee the project; provide policy-level guidance and inter-agency coordination for the project. The Project Director of the PMU at NHA will act as the member secretary of the PSC.

5. **Implementing Agencies.** The National Housing Authority (NHA), under the Ministry of Housing and Public Works (MoHPW), will be the primary GoB counterpart agency for Components A, B, D, and E of the project, and the main contact point with the Bank for all matters relating to project implementation of its components. For Component C (Shelter Component and Lending), PKSF will be the implementing agency, and will be the counterpart agency for implementation. The implementing agencies will meet on a quarterly basis on a Project Implementation Committee (PIC) to review project progress and implementation.

6. **Project Management Units (PMUs).** Using the proceeds of a Project Preparation Advance (PPA), NHA has set up a Project Management Unit (PMU) for overall management of the project. The PMU is staffed with a Project Director, Deputy Project Director, as well as Procurement, Financial Management Specialist, Environment and Social staff. In addition, to supplement field level staff, the PMU will hire one professional and one diploma engineer to be placed in each town, under the supervision of the NHA, to assist with the supervision of works at the field level. PKSF will be responsible for management and implementation of Component C, and will establish a separate PMU for this component. This PMU will be staffed by a Project Coordinator, Assistant Project Coordinators (Construction, Housing Finance, Legal, Environment, MIS) and an Accounts Officer. PKSF will make use of its procurement cell for all procurement under the project. PKSF's part of the project will remain outside the DPP process, as it is a non-ADP project.

7. **NHA Field Offices.** Local NHA field officers will serve as the first point of contact at the municipal level. Executive Engineers for Dinajpur, Chittagong and Mirpur will oversee the project sites in Comilla, Sirajganj, and Narayanganj.<sup>28</sup> Field offices will be supplemented through the project with one professional engineer and one diploma engineer, who will undertake coordination and oversight for the day to day administration of the project activities. Field offices will also be responsible to monitor project progress and construction quality, although responsibility for supervision will lie with the relevant design and construction consultants. Field offices will be the first point of handling any grievances at the local level and for resolving complaints. All payments will be made from NHA's main office in Dhaka.

8. **Coordination with Municipalities.** Coordination at the municipal level will be formalized through the establishment of a municipal level committee that will jointly oversee all of the project activities at the city level, ensure coordination between different relevant agencies, and to ensure that all project activities are in line with urban and other sector master plans. The committee will be co-chaired by the Executive Engineer from the NHA responsible for that division and a representative of the *pourashava* or city corporation. The committee will include one City

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<sup>28</sup> Executive Engineer Dinajpur covers Sirajganj, under the overall direction of the Superintending Engineer Rajshahi.

Corporation or Pourashava Engineer, one LGED and/or DPHE Engineer, representative from the Design & Supervision consultancy, as well as from the community mobilization and planning consultants, and at least one community leader. The objective of this arrangement is to ensure strong participation from the cities in the project's activities, particularly related to the infrastructure upgrading and development.

### **Project Implementation:**

9. During project implementation, NHA will retain the services of consultants to assist with the preparation, planning and design of infrastructure and housing options at the community level as well as for infrastructure connecting settlements to the town level. This will be done through a Community Mobilization, Design & Supervision Consultancy, who will be responsible for the social engagement, community based planning, infrastructure designs and bidding documents, housing plans, and technical assistance and support. The Consultants will act as the *Engineer* for all works, and all payments will be made against certification by the Consultant. This structure is in place given the capacity constraints within NHA and is in line with experiences on other World Bank financed projects in Bangladesh.

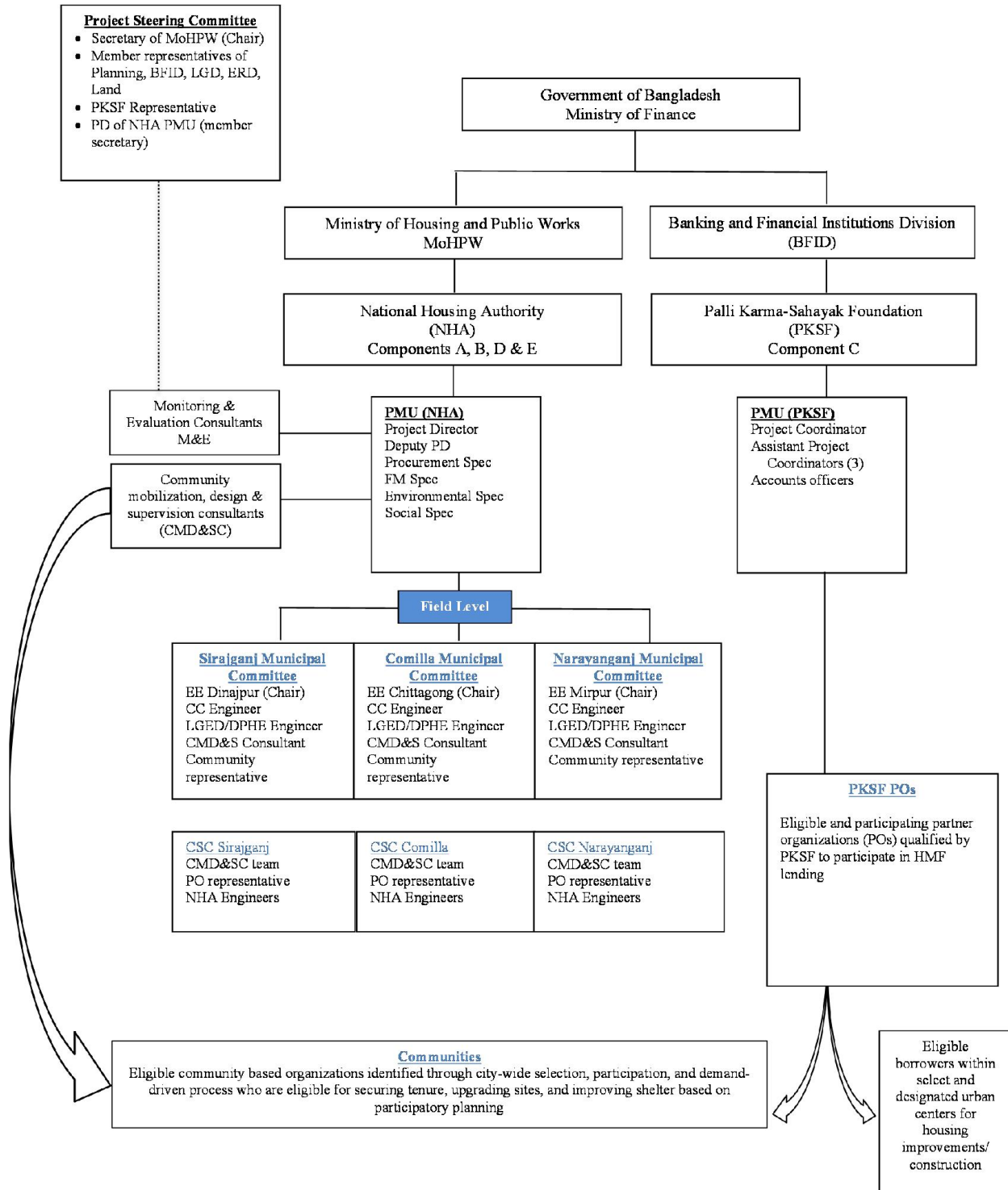
10. **Community Mobilization, Design & Supervision Consultants:** On-site settlement level designs will be undertaken through a consultancy that includes social mobilizers, land specialists, engineers, community architects, environment specialists, legal advisors, and financial specialists. This integrated and multi-disciplinary team will work directly with selected settlements for community-based planning, improved layout design, detailed cost estimates, preparation of any bidding documents for civil works, detailed designs and costing of housing options, construction supervision of all onsite works, construction technical assistance for housing, and all detailed design and construction supervision for any connecting infrastructure. The default mode of contracting on-site (tertiary) works is through community contracting processes, and the team will support the community in ensuring the quality construction and supervision of works. Where the complexity of works is high, or for connecting infrastructure, contracting will be done through NCB. The Consultant will be the *Engineer* for all civil works, providing construction supervision support. Additional supervision and quality control will be undertaken by NHA field offices. The Consultant will also support communities to identify and improve skills to use building techniques for housing that conform to minimum safety standards that have been developed for low income settlements.

11. **Monitoring and Evaluation Consultants.** The project will build in a significant monitoring and learning component, which will be led by a consultant firm. The consultant firm will monitor the results framework for the project, and provide quarterly updates on project progress. In addition, given that the project proposes to pilot a new approach to delivering housing and infrastructure services to the urban poor, the M&E consultancy will be responsible for the design and implementation of an evaluation to better understand the metrics for success of the proposed approach, and the efficiency and outcomes of the community approach. This will be critical to understanding of the advantages, shortcomings and potential for institutionalization and scale up. The M&E consultancy will also be responsible for the design and implementation of a peer-to-peer learning plan that will include facilitating workshops and exchanges between mayors and city officials in the designated project towns, community-to-community exchange and

learning activities, and building networks both within and between towns. Finally, the M&E Consultants will also be responsible for supervising and monitoring the environment and social safeguards for the project. The M&E consultants will report directly to the Chairman of the Project Steering Committee (PSC).

12. **Reporting.** In order to maintain some independence and ensure free and fair reporting of project results, the M&E consultants will report directly to the PSC, rather than to the project director. The Community Mobilization consultants and the D&S Consultants for primary and secondary infrastructure will report to the PMU and specifically the project director.

**Figure 1: Implementation Arrangements**



## Field Level Implementation Arrangements

13. **Community Organizations.** Community organizations remain at the heart of the project's approach, and will form the basic foundational building block for the project. The project remains strongly demand driven, thereby aiming to find appropriate solutions for a wide heterogeneity of local contexts and realities. The basic eligibility criteria to participate in the project will be done at the Community Organization level, since these have elected representatives (leaders) from within the community who manage the community-level savings and credit groups, oversee the community accounts, identify beneficiaries of and supervise the implementation of community level small infrastructure works contracts. Under the project, and where not already registered, Community Organizations will be formally registered under the Cooperatives Act. Support will be provided to the Community Organizations in the form of training in supervision of community works undertaken under the project, assistance in the formation of separate savings funds for housing, peer-to-peer learning and exchanges between communities within and between cities, and other support as deemed necessary.

14. **Community Organizations and Settlements.** Where community organizations cover several settlements, the strongest settlements within the community organization would be prioritized for the purposes of participating in the project, with a view to expand to other settlements within the organization, as appropriate. In these cases, a special and settlement specific implementation committee would be formed. The implementation committee will be made up of three elected representatives from the settlement, and one nominated representative from the broader Community Organization. General planning would be undertaken at the broader Community Organization level to integrate on-site planning with broader infrastructure linkages (most notably for roads and drainage) as well as for the settlement level, with design and bidding documents to be prepared based on the settlement specific designs by the Community Mobilization, Design & Supervision (CMD&S) Consultancy. Community organizations will oversee community contracting, and will supervise the work by employing direct labor, or subcontracting specialists. The CMD&SC will provide training for the community committee to supervise the work, but the Consultants have the overall responsibility for signing off on the work. Contract management and processing bills for payments will be undertaken by the Consultants on behalf of the community, and submitted to NHA. Community organizations will keep simplified financial accounts at the community level, and will submit these financial statements to NHA on a quarterly basis.

15. **Community Organizations and Municipalities.** Under the UPPR program, partnerships between communities, their organizations, ward councilors, and municipal governments was a key focus of the project. While the strength of these relationships vary, assessments during project preparation have demonstrated that several municipal governments and mayors have recognized the value of these partnerships. An important consideration in the selection of municipalities to participate in the project was whether the municipal government and the mayor were willing and had a good history of engagement with UPPR and the community level organizations, or CDCs. Under PPSIP, at least one CDC/CO member will be a part of the municipal coordination committee, although the focus of this committee is primarily to ensure inter-departmental collaboration and coordination at the city level. The relationship between CDCs and the municipality will continue to be facilitated through town managers and CDC federation leaders.

16. **Role of Financial Intermediaries.** The project envisions piloting community based lending models for urban poor settlements in order to construct and improve their own housing. Three types of loans are envisaged: (i) home renovation, expansion and upgrading loans; (ii) new construction loans; and (iii) cluster development loans. Different guarantee mechanisms and collateral will be developed building on the community engagement, where possible. The project will leverage existing financial intermediaries to pilot lending products both alongside NHA selected settlements, as well as outside of these, to explore the development of products. A credit line managed by PKSf will be made available to existing POs. POs will submit relevant loan documents and financial statements to PKSf as per the current reporting requirements at PKSf. PKSf will document these expenditures on receipt of these statements and report to IDA.

17. **Community Support Centers:** During implementation, Community Support Centers (CSCs) will be established in each of the three towns under the project. The primary objective of the CSC is to provide a resource library and information point on various aspects of the project, including building standards, construction techniques, training and capacity building, and information sharing. During implementation, the CSC will serve as the project's office, in order that all consultancies, and NHA Field Officers work closely together and coordinate. This will also serve as the main liaison point with the municipality and through the MC. The Community Mobilization Consultancy will open and operate the CSC, and will provide training and capacity building workshops, financial management planning, construction and building techniques, and information on low cost building standards, certification of local tradesmen, etc. The Consultancy will staff the CSC during implementation, and will devise a plan to ensure the sustainability of the CSCs after the project closes.

### **Roles and responsibilities during construction**

18. Project implementation of civil works contracts and housing construction will require the careful coordination of households, community organizations, the municipality, and NHA. For all civil works contracts, CMD&S Consultants and D&S Consultants will act as the *Engineer* for their respective assignments. However, careful coordination with communities to ensure that preferences are taken into account and incorporated into designs, and that all works are implemented to local or national standards will be very important.

19. **Civil Works.** For on-site (tertiary) civil works contracts pertaining to the package of upgrades to be financed under the project, the designs will be done together with communities to incorporate preferences but to ensure that engineering standards are also fully incorporated. An interdisciplinary team of consultants will work closely with communities to better understand community preferences in an integrated housing and infrastructure upgrading plan. Designs will be presented to and discussed with communities to ensure that it fully reflects preferences. The default contracting method for on-site infrastructure upgrades will be through community-based contracting (CBC), whereby the community organization will be awarded the contract on a sole source basis. The Consultants will supervise the works and sign off on all completed civil works investments. For primary and secondary civil works contracts, the designs will be completed in close consultations with affected communities, as well as with the municipal committee, so as to ensure that all proposed infrastructure investments are fully in line with urban master plans and

other programs and projects ongoing in the city. The CMD&S consultants will prepare detailed designs and bidding documents. The award will be made by the municipal committee, with direct payments to be made by NHA.

20. **Housing.** As housing is the responsibility of the individual household, the client would be the family taking the housing loan. Community-minded architects will work with the household to design housing improvements or upgrades based on affordability and preferences of the household. The household will take a loan based on the cost estimate of the housing improvements. Supervision of adherence to an alternative safety standard for housing construction and improvements will be undertaken by the Community Mobilization Consultants, who will ultimately sign off on the quality of the works. Training and capacity building on construction supervision, as well as certification courses for local contractors (e.g. *mistrys*) will be offered through the CSC so as to strengthen the supervision of housing construction by households themselves.

21. The roles and responsibilities for housing construction are provided below:

**Table 1: Summary or Roles and Responsibilities during implementation**

	Community/Household	CMD&S Consultants	Municipal Committee	NHA
<b>Tertiary infrastructure (CBC)</b>	Input into design; Implement work	Design, Construction supervision	Approve project	Approve project; Monitoring; Payment
<b>Tertiary infrastructure (NBC)</b>	Input into design; Approve contractor	Design; Construction supervision & contract management	Approve project; Approve contractor	Monitoring; Payment; Approve contractor
<b>Housing – low rise, self or community build</b>	Inputs into design; Implement work	Design; Construction supervision (limited) and training		Monitoring
<b>Housing multi-story, multiple occupancy</b>	Inputs into design; Approve contractor	Design, Construction supervision	Approve project; Approve contractor	Monitoring; Payments; Approve contractor
<b>Primary &amp; Secondary Infrastructure</b>		Design, Construction Supervision	Inputs into design; Approve project and contractor	Monitoring; Payments; Approve contractor

## Financial Management, Disbursements and Procurement

### *Fiduciary Capacity*

22. The fiduciary responsibility for project implementation of Components A, B, D and E would be with NHA, with PKSf to retain fiduciary responsibility for its component (Component C). A fiduciary capacity assessment was carried out on NHA and PKSf and overall fiduciary risk (procurement and financial management) is substantial for this project.

23. The finance function within NHA is under the jurisdiction of Member (Admin and Finance). There is a position Director (Admin & Finance), under whom there is a Deputy Director (Finance & Accounts) who mainly heads the finance function. The finance function is overall supported by an Assistant Director (Finance), an Accountant, five Accounts Assistants and a cashier. However, the staffs do not have the requisite FM related educational background nor the technical skills to carry out project financial management work without adequate support. As part of the fiduciary arrangements for the project preparation facility, a Financial Management Specialist has been hired within the NHA PMU. This FMS will be supported by two additional FM consultants with relevant experience. Of this, one consultant should be hired by the time the project becomes effective and the other would be hired at a later stage based on need.

24. The procurement function of NHA is mostly carried out by respective engineering divisions under which mainly goods and works procurement are undertaken. Being experienced in these types of procurement, NHA officers/engineers to be deputed in this project are capable of procuring goods and works packages. Under the on-going preparation activities, financed by a project advance (Q8180-BD), the procurement activities are being carried out by the Deputy Project Director (Superintending Engineer, National Housing Authority) under the supervision of a Project Director (Member, Engineering & Coordination). Under the project advance, there is currently an overdue audit. For the upcoming investment project (PPSIP), extensive training on procurement (both World Bank guidelines and PPA/PPR) will be required to impart sufficient procurement skills to the project officials. Special attention shall be given to train them on service procurement. In addition to the above measures, a Procurement Consultant will be appointed in the PMU on a full time basis for the whole duration of the project. This Procurement Consultant will be supported by one Procurement Associate to be hired full time throughout the project duration

25. PKSf, having long experience in managing projects supported by the Bank and other development partners, has developed efficient FM and internal control systems. PKSf has an established finance division headed by a Deputy Managing Director for Finance and Administration. In order to monitor the activities of its partner organizations, it also has in place properly staffed internal audit cell headed by a General Manager who directly reports to the Managing Director of the organization. PKSf has built up a system and capacity for disbursing fund to POs based on efficient review procedures in coordination with field level monitoring. A private audit firm carries out external audit of PKSf, and will continue to do so for the PKSf's financial management of the PPSIP. The TORs for all the new FM positions in NHA and PKSf will be reviewed by the Bank.

26. PKSf also has adequate procurement capacity due to the existence of a capable procurement cell under the leadership of Deputy Manager (Administration & Finance). Having implemented World Bank financed project since 1996, PKSf has acquired sufficient experience in practicing World Bank guidelines for procurement and their staffs have received adequate



training in procurement. PKSf will arrange adequate procurement staffs in the PMU for smooth implementation of all procurement.

### ***Planning and budgeting***

27. **Procurement Plan:** Procurement plans covering all major procurement packages have been prepared, and have been agreed upon between the Borrower and the Project Team during appraisal. It will also be available in the Project's database and in IDA's external website for this project. The Procurement Plan will be updated in agreement with NHA and PKSf, at least annually, to reflect the actual project implementation needs and adjustments thereof.

28. NHA has its budgeting practices and has experience in planning and budgeting. PKSf also has experience in planning and budgeting as it has had the experience of preparing the plan and budgeting for other World Bank-financed projects including CCCP (TF012721). Thus, the overall planning and budgeting process at the implementing-agency level is considered *satisfactory*, and the assessed associated risk is *low*. However, staff may need further training to sharpen their monitoring skills. A budget will be maintained for the entire term of the project, and detailed budgets for each *fiscal* year will also be produced to provide a framework for financial management purposes. The annual budget will be prepared on the basis of the procurement plan and any other relevant annual work plans. The annual budget will be broken down further by period (at least quarterly) to facilitate effective monitoring of actual expenditures against budgets. The project budget (Component A, B, D and E) will be included under the overall budget of NHA/MoHPW. Whereas, the project budget under Component C will be reflected in the overall budget of PKSf. These budgets will be monitored periodically to ensure that actual expenditures are in line with the budgets and to provide input for necessary revisions.

### ***Internal control (including internal audit)***

29. *Filing and record-keeping:* NHA will preserve all records and documents regarding their public procurement in accordance with provisions of the IDA Credit. These records will be made readily available on request for audit/investigation/review by the Development Partners and the Government. The PMU will maintain copies of supporting documents for all project transactions, and originals of such documents will be maintained within the NHA finance department. PKSf will also maintain copies of relevant supporting documents in relation to its activities. The project related documents will be filed separately to facilitate internal & external audit, and Bank reviews. PKSf will maintain separate accounts for all expenditures under the project.

30. *Internal Controls:* The project will maintain accounting software for the recording and accounting of project transactions. Although the project financial management activities will be primarily carried out through FM consultants within the PMU, all project transactions will follow the government review and approval procedures within NHA. These controls have been reviewed and found satisfactory. The project designated account to be managed by NHA will have dual signatories (one of the signatories being the Project Director who is a government staff). Adequate arrangements for the safe custody of check books will be in place. Reconciliation of project accounting records and the DA bank statements will be done on a monthly basis, and any irregularities will be addressed in a timely manner. Segregation of duties for the FM functions will

be in place. At PKSf, adequate procedures for custody of project petty cash, reconciliation, periodic cash count, acquittal and reporting will be established. All payments for expenditures claimed in IUFR under this Financing must be made using the banking system, except expenditures paid using the petty cash system following the Recipient's existing policy. All of these controls are detailed in the project FM manual.

31. Internal control to address fiduciary risks associated with Community Organizations registered under the Cooperatives Act and beneficiaries operation should be mitigated by clear transparency rules and other methods for empowering and training communities to exercise fiduciary control over their leaders, as well as by suitable internal control procedures. The mitigation system should be simple but effective. Key controls points to consider include;

- a) no individual should be able to initiate, authorize, execute, or record a transaction without the active involvement of someone else (for example, all withdrawals and transactions should be witnessed and countersigned);
- b) risks of loss, leakage, fraud, inaccuracy, or mistake should be identified at all levels, carefully assessed, and measures put in place to eliminate or minimize them;
- c) measures should normally not cost more than the possible loss that could result from their absence;
- d) the measures should not unduly slow the flow of funds or project implementation;
- e) fiduciary management supervision at the community level should be integrated with monitoring and evaluation to ensure a close link between technical/progress reporting and financial reporting, as a way to support the validity of the expenditures;
- f) accountability should be built into the local governance system and at the community level using the many accountability mechanisms already being piloted in a large number of projects (participation, public announcement of community )
- g) activities and funds received and spent, use of local languages for all community records and their communication to the next higher level, election of subproject management committees, putting all information into the public domain in open meetings and posting salient information in public places in the most common local language

32. A project specific Financial Management manual has been prepared by NHA that include the FM arrangements for the project for Components A,B, D,E, and PKSf will do financial management following a separate financial management guideline prepared for this component,, the roles and responsibilities of FM staff, internal control measures, banking arrangement, audit arrangements, etc. so that:

- (a) funds flow smoothly, adequately, regularly, and predictably from those providing them (donors, central/local governments, etc.) to communities, implementing project activities;
- (b) funds are managed properly and efficiently by the bodies receiving funds, and applied only to their intended purposes;
- (c) sufficient and accurate information on project activities including usage of funds flows smoothly and regularly among communities, and stakeholders, including project beneficiaries and financiers, without placing too large a burden on any layer;

- (d) accountability is stimulated through a strong flow of information among all concerned levels of government and the public on public investments and on the performance of relevant local governments, and communities; and
- (e) the capacity of the community and local institutions to own and manage their activities is strengthened

33. *Asset Management:* An asset register will be maintained in the accounting software for all assets purchased using project funds. A proper system for asset management will be in place including for recording of assets purchased, handover of assets, storage, coding of assets and physical inventory. The physical inventory of assets will be part of the TOR for internal audit.

34. *Internal Audit:* There is an internal audit directorate within MoHPW. While this directorate carries out periodic internal audits, there is limited capacity of staff and the scope of this function. The audits most often do not cover foreign-aided projects. Further, the audits do not follow standard internal audit methodologies and do not undertake review of the internal control mechanism, rather they are more in the nature of compliance audits. However, internal audit firm will be hired by NHA using project funds to carry out the internal audit at NHA. The internal audit will be done at least on a bi-annual basis and report will be issued after every audit. This firm should be hired no later than June 30, 2016. The terms of reference will be shared with the Bank.

35. In order to monitor the activities of its POs, PKSf has in place an internal audit cell headed by a general manager, who is supported by three mid-level and nine junior-level officers. PKSf will, in consultation with the World Bank, prepare an annual audit plan to carry out annual internal audit on the project/sub-project activities and expenditures incurred by PKSf itself and the POs to review the compliance, accountability and transparency of the expenditures and the process, and assess the relevance of the expenditures incurred for the purpose intended. The semi-annual internal audit report on the project, comprising observations and recommendations, will be furnished to the Bank not later than 90 days from the end of an audit period.

## **Governance and Oversight Arrangements**

36. **External Audit of Project Financial Statements:** The project will utilize country systems for external audit. The annual external audit will be carried out by the Comptroller and Audit General's Office (Supreme Audit Institution of Bangladesh) through FAPAD (Foreign Aided Projects Audit Directorate of C&AG). The audited financial statements and management report will be submitted to the Bank within six months from the end of GoB fiscal year (i.e. by December 31 for year ended June 30). PKSf will prepare separate project financial statements that will also be audited by the same auditor that audits the PKSf entity financial statements.

37. **Entity Audit:** PKSf appoints a reputed private auditing firm as selected by PKSf's General Body in Annual General Meeting for each financial year, in accordance with the Articles of Association of PKSf. The audit is performed as per approved terms of reference. Financial statements are audited annually in accordance with appropriate auditing standards (ISA) consistently applied by independent auditors. The entity financial statements of PKSf will adequately reflect the project transactions. PKSf will prepare separate project financial statements that will also be audited by the same auditor that audits the PKSf entity financial statements. The

auditor will express its opinion on the truth and fairness of the financial statements of the project. The PKSF will submit the audited financial statements of the entity and the project no later than December 31 of each year.

38. **Technical Audits/Reviews:** Mitigating fraud and corruption, Transparency Accountability and Participation: The proposed mitigation measures have been discussed in following procurement and FM section.

39. **Grievance Redress Mechanisms:** NHA will *establish a system for handling complaints* and a database for recording, monitoring and follow up on all the procurement activities under the project.

***Procurement considerations in the fiduciary assessment:***

40. **Procurement Responsibility:** Both NHA and PKSF will be responsible for their respective procurement. NHA will procure goods, works and services under component A, B, D and E while PKSF will procure mostly services under component C.

41. The total financing for the project is US\$50 million. Total procurement of US\$31.45 million under the project will involve works of US\$20.7 million, consulting and non-consulting services of US\$10.0 million, goods of US\$1.8 million, and credit line of US\$16.0 million.

42. Procurement would be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants" dated January 2011 and revised July 2014 (Procurement Guidelines) and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 revised July 2014 (Consultant Guidelines), as well as the specific provisions stipulated in the financing agreement. Component C2, the shelter lending credit line, is US\$16 million, and any procurement for this component will be carried out following commercial practice. All expected major procurement of works and consultants' services will be announced in the General Procurement Notice (GPN), published in the Bank external website and United Nations Development Business (UNDB). Procurement manuals will be developed by NHA and PKSF acceptable to IDA. These manuals will provide essential information and brief step-by-step procedures for procurement of goods, works and services.

***Procurement under Components A, B, D, and E:***

43. **Methods of Procurement of Goods and Works:** Given the nature of the project it is envisaged that there will probably be no International Competitive Bidding (ICB) for goods and works. Most of the goods supply will be for the project management unit of NHA and will most likely be conducted through National Competitive Bidding (NCB) or in some small scale office supplies it will be shopping (RFQ). Works under the project will include tertiary (on site) infrastructure for settlement improvements, as well as any connecting infrastructure, as well as environment and social mitigation measures. These are expected to be conducted using NCB and Community Based Procurement (CBP).

44. For small scale on-site improvement of tertiary infrastructures procurement will be done through community contracting, to the extent possible and within acceptable limit of cost. The Financing Agreement shall have special provisions for implementing community contracting procedures. Moreover, NHA's Operations Manual will detail out the procurement procedures in a procurement manual. This section will include community contracting procedures describing in sufficient details of all the arrangements, procedures and roles and responsibilities of the community including simplified steps of the procurement acceptable to World Bank. This manual for community contracting part shall include the followings: (i) considering the community driven nature of the project, the procurement responsibilities will be devolved at the community level subject to the formation of appropriate community organizations/ committees within the community. Special attention should be given on community participation for procurement of works for Tertiary infrastructures as well as Primary & Secondary infrastructures. (ii) For community contracting, there will be an arrangement where NHA will enter into a direct contract with organized community organizations (COs), such as Community Development Committees (CDCs). These COs will implement the contract directly or in turn pass on most of the responsibilities to an organized Settlement Improvement Committee (SIC) in a sub-contracting arrangement. The SIC will comprise elected representatives from the settlement, as well as nominated representative from the broader Community Organization.

45. The NCB and RFQ for goods and works will be done following procedures for Open Tendering Method (OTM) and Request for Quotation Method (RFQ) respectively of the GoB's Public Procurement Act 2006 (with 2009 amendment) and Public Procurement Rules 2008 (with August 2009 amendment) using standard bidding documents satisfactory to the Bank.

46. For the purpose of NCB the following shall apply:

- (a) Post bidding negotiations shall not be allowed with the lowest evaluated or any other bidder;
- (b) Bids should be submitted and opened in public in one location immediately after the deadline for submission;
- (c) Lottery in award of contracts shall not be allowed;
- (d) Bidders' qualification / experience requirement shall be mandatory;
- (e) Bids shall not be invited on the basis of percentage above or below the estimated cost and contract award shall be based on the lowest evaluated bid price of compliant bid from eligible and qualified bidder; and
- (f) Single-stage two-envelope procurement system shall not be allowed.

47. **Methods of Procurement of Consultants' Services:** Selection of Consultants will follow the Bank Consultant Guidelines. The following methods will apply for selection of consultants: Quality and Cost-Based Selection (QCBS), Quality-based selection (QBS), Fixed Budget Selection (FBS), Consultants' Qualification (CQ), Least-Cost Selection (LCS), and Single-Source Selection (SSS). Shortlist of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants. The Procurement Plan will specify the circumstances and threshold under which specific methods will be applicable.

***Procurement under Component C:***

48. All procurement under this component undertaken by beneficiaries or Sub Borrowers using the proceeds of IDA or a financial intermediary under the credit facility shall follow procedures in accordance with prevailing commercial practices which are acceptable to the Bank and in line with the provisions of clause 3.13 of the Bank's Procurement Guidelines and clause 3.13 of Bank Consultant Guidelines

49. *Project Operations Manual*: An OM by PKSf will be developed in consultation with POs that is acceptable to the World Bank, which includes detailed processes of established commercial practices for the procurement of goods, services, and works financed under the facility. The OM will clearly describe different methods of commercial practices and the corresponding step-by-step processes. POs will follow this manual. The manual also defines the main responsibilities of PKSf's such as: (1) assessing the capacity of the beneficiaries to carry out procurement efficiently; (2) approving acceptable plans for the procurement of goods, works, and non-consulting services and the selection of consultants as may be applicable; (3) agreeing to supervision and oversight arrangements under each sub-loan (consistently with the provisions under the World Bank loan) for the procurement to be carried out by the beneficiaries to ensure compliance with the agreed private sector methods and commercial practices under the sub-loans; (4) maintaining all relevant records for the World Bank's post review and audits when requested; and (5) satisfying itself with the reasonableness of the price of contracts awarded by the beneficiaries in the particular market through the hiring of an independent entity or auditors, if necessary.

50. *Procurement Check List*: PKSf will develop and follow a procurement checklist as a part of the OM while carrying out procurement under the project.

51. In order to minimize procurement associated risks, the Borrower shall take the following measures. Part of these measures is already in place, while the remaining shall be implemented as the project preparation moves and the project is implemented.

- a) *Identify procurement focal points (PFP)*: NHA/PKSf shall nominate a procurement focal point for this Project. The appointed focal point will take necessary training, both on PPR 2008 and Bank Procurement Guidelines. The focal persons will help the respective agencies in day-to-day procurement follow-up and preparation of periodic procurement reporting. PKSf shall also nominate a procurement focal person to assist with procurement for its component.
- b) *Service of a national procurement consultant*: NHA will appoint a national consultant on a full time basis for the whole project duration. This consultant should have sound knowledge in the Bank Procurement Guidelines and Borrower's Public Procurement Act / Rules, and his/her service will be full time basis. This consultant will be the member of the evaluation committee for all procurements carried out by NHA.
- c) *Service of procurement cell for PKSf procurement*: PKSf will utilize the expertise available in their procurement cell and will depute two or three procurement officers in the PMU to look after all procurement management of the project under PKSf part.

- d) *Establish a functional webpage for NHA with procurement* related information accessible to the public: All information pertaining to bidding and procurement above the specified thresholds, as per PPR, will be published in Central Procurement Technical Unit's (CPTU's) website. In addition, NHA will publish procurement information on its own website. This information will include: invitation to bid, bid documents and RFPs (wherever applicable); latest information on procurement plan/contracts; status of evaluations once completed; contract award information; and information covering the poor performance of contractors, suppliers and consultants, including a list of debarred firms. The website would be accessible to all bidders and interested persons equally and free of charge.
- e) *Introduce a procurement risk mitigation plan (PRMP) by NHA and PKSF* through reports submitted to IDA on a periodic (semi-annual) basis with a set of features as mentioned below. Given the complexity of the project, there will be rigorous risk management and risk mitigation plan to be prepared and maintained by NHA and PKSF. The Procurement Risk Mitigation plan (PRMP) for NHA and/or PKSF (whichever is applicable) will have following features:
- i. *Alert bidders in pre-bid meeting*: NHA/PKSF through a notification will alert bidders during pre-bid meeting on consequences of corrupt practices (fraud and corruption, collusion, coercion, etc.). The alert message, among others, will include that if bidders are found to have adopted such practices, there may be remedial actions including debarment from bidding processes in conformity with the Bank's Guidelines. For national competitive bidding, national bidders debarred, if any, under the PPA will not be able to participate. In addition, in the pre-bid meeting, the bidders will be clarified for preparation of bids correctly.
  - ii. *Alert internal officers/staff*: NHA/PKSF will issue alert letter(s) notifying on the fraud and corruption indicators and the possible consequences of corrupt and similar behavior in procurement practices and action to be taken against the official staff if they are involved in such practices. Moreover, NHA/PKSF will highlight that, in case of noncompliance or material deviation from IDA's Procurement Guidelines, IDA may take remedial actions (i.e., withdrawal of funds, declaration of mis-procurement) for concerned contracts.
  - iii. *Multiple dropping*: Multiple dropping of bids (bids submitted in more than one location and opened in one location) will not be permissible for any procurement under this project.
  - iv. *Bid opening committee (BOC) & Bid Evaluation Committee (BEC)*: A formally structured BOC will be constituted for each contract package. The BEC will have at least five members with two experts from outside the procuring entity with proven track record of experience in procurement; depending on the type of procurement such experts shall be either from public offices and/or from professional bodies/individuals of known probity. Formation of such BEC shall be in conformity with the Bank's Guidelines and be acceptable to the Bank. Individual consultants and/or representatives of the consulting firm may participate as members of the BEC.

- v. *Bid opening minutes*: During the same day of bid opening, photocopies of the Bid Opening Minutes (BOM) with readout bid prices of participating bidders will be submitted by BEC for circulation to all concerned. For prior review packages, such BOM will be shared with IDA.
- vi. *Low competition among bidders and high price of bids*: The case(s) of low competition (not solely based on number of bidders) in ICB and NCB cases, coupled with high-priced bids will be inquired into and further reviewed by NHA/PKSF. The review and decision in this regard would be in the context of qualification criteria, the contract size (too small or too large), location and accessibility of the site, capacity of the contractors, etc.
- vii. *Measures to reduce coercive practices*: Upon receiving allegations of coercive practices resulting in low competition, NHA/PKSF will look into the matter and take appropriate measures. For prior review contracts, observations of NHA/PKSF will be shared with IDA, along with the evaluation reports. NHA/PKSF may seek assistance from law enforcing agencies to provide adequate security for bidders during bid submission. For ICB contracts, provision for bid submission through international/national courier services will be allowed and confirmation of the receipt of the bid will be informed to the bidders through e-mail.
- viii. *Rebidding*: In case of re-bidding, NHA/PKSF will inquire into the matter, record and highlight the grounds of re-bidding (i.e. corruption or similar, high bid prices etc.) along with recommended actions to be taken. For prior review of cases, all such detailed reports will be sent to IDA.
- ix. *Publication of award of contract*: NHA/PKSF will publish contract award information within two weeks of contract award on its website, UNDB online, and CPTU's websites with the following information: identity of contract package, date of advertisement, number of bids sold, number of submitted bids along with names, bid prices as read out at bid opening, name and evaluated price of each bid, number of responsive bids along with name of bidder, name of bidders whose bids were rejected and brief reasons for rejection of bids, name of the winning bidder and the price it offered, proposed completion of date of contract, as well as a brief description of the contract awarded.
- x. *Filing and record-keeping*: NHA/PKSF will preserve all records and documents regarding its public procurement in accordance with provisions of the PA. These records will be made readily available on request for audit/investigation/review by the Development Partners and the Government.

52. The Procurement Risk Mitigation plan (PRMP) for community procurements will have following features:

- a) Adhering all procurement practice strictly to WB procurement guidelines as well as those spelled out in the Procurement section of the Operations Manual;
- b) Provision of involvement of community as an internal control mechanism for ensuring transparency of procurement under the project;



- c) Conducting extensive and intensive training for the stakeholders on the approved community procurement manual;
- d) Extensive and intensive dissemination of sub-project and procurement information among the community, including formation and functions of the Project Implementation Committees (PIC) and Project Supervision Committees (PSC);
- e) Conducting awareness programs among the community about the Pro-Poor Slum Integration Project using most efficient methods of dissemination including the above;
- f) Widespread awareness programs for the community to disseminate pertinent information to them,
- g) Involving beneficiary /community in project monitoring;
- h) Proper recording, maintaining and following up of the decisions and discussions of the meetings.
- i) Collection of data from the community organizations (Cos) and preparation of annual report on procurement performance indicators covering the parameters noted below, by NHA

**Table 3.4: Procurement Indicators**

SL	Procurement Steps / Subjects	Indicators
1.	Receipt, evaluation and contract awarding	<ul style="list-style-type: none"> <li>• Percentage of cases the procurement process have been followed according to the approved procedure</li> </ul>
2.	Delivery within the original schedule	<ul style="list-style-type: none"> <li>• Percentage of works completed within the original deadline as stated in the agreement /work order</li> </ul>
3.	Payments	<ul style="list-style-type: none"> <li>• Average number of days taken for release payment</li> </ul>
4.	Procurement Training	<ul style="list-style-type: none"> <li>• Share of COs obtaining training on procurement</li> </ul>

53. *Review by IDA of Procurement Decisions:* The review by IDA of procurement decisions and selection of consultants will be governed by Appendix 1 of the Bank’s Guidelines. For each contract to be financed by the Credit, threshold for prior review requirements and post review contracts will be identified in the Procurement Plan. During the first 18 months of the project, IDA will carry out prior review of the following contracts. This prior review threshold will be updated annually based on the performance of NHA/PKSF:

- i. For Goods. All the ICB Contracts and Direct Contracts irrespective of estimated cost. The NCB Contracts estimated cost equivalent or more than US\$1,000,000.
- ii. For Works. All the ICB contracts and Direct Contract irrespective of estimated cost. The NCB Contracts estimated cost equivalent or more than US\$10,000,000.
- iii. For Non-consulting service. The Contracts estimated cost equivalent or more than US\$1,000,000; and
- iv. For Consultant’s Services. Prior review will be required for consultants’ services contracts estimated to cost USD 500,000 equivalent or more for firms and USD 200,000 equivalent or more for individuals. All single-source contracts will be subject to prior review by and in agreement with IDA. All Terms of References of the consultants are subject to the IDA’s prior review.

### **Financial Management Consideration in the Fiduciary Assessment**

54. **Accounting and Financial Reporting (FME 2 & 5):** The project will utilize off-the-shelf accounting package for the recording of project transactions using cash basis of accounting. Relevant books of records such as the bank book, cash book (if applicable), fixed assets register, etc. will be maintained in the system. All project transactions will be recorded in the system by project component/ sub-components and categories. Relevant chart of accounts will be used as necessary to facilitate government reporting. Reconciliation of the project's books of records with the bank statement will be carried out on a monthly basis. NHA has prepared an FM manual to be reviewed and approved by the Bank by September 30, 2015. This FM manual includes the FM arrangements for the project, internal controls, processes/ steps for project payments, guidelines for project petty cash, etc. PKSF will do financial management following a separate financial management guideline prepared for Component C

55. Interim Unaudited Financial Reports (IUFs) will be required to be submitted under the project within 45 days from the end of every six months for NHA and within 60 days from the end of every six months for PKSF. The NHA PMU will be responsible to submit IUFs for its components of the project. PKSF will prepare and submit its own IUFs. The semi-annual IUFs will include all reports/ information in line with the formats agreed with the Bank. The accounting software will facilitate generation of required information for preparation of the IUFs. The IUFs will particularly include comparison of actual to budgeted expenditures, and explanation for variances beyond 15 percent will be provided.

56. **Funds Flow (FME4):** Under the project preparation facility, a Designated Account (DA) has already been opened with a commercial Bank(s) in convertible taka account (CONTASA) for NHA. NHA will continue to use this DA for its components of the project. For Component C, PKSF will maintain separate DA in any national commercial bank acceptable to the Bank. To be acceptable to the Bank, the financial institution proposed by the borrower should generally meet all the following requirements: (a) be financially sound; (b) be authorized to maintain the Designated Account in the currency agreed between the Bank and the borrower; (c) be audited regularly, and receive satisfactory audit reports; (d) be able to execute a large number of transactions promptly; (e) be able to perform a wide range of banking services satisfactorily; (f) be able to provide a detailed statement of the Designated Account; (g) be part of a satisfactory correspondent banking network; and (h) charge reasonable fees for its services.

57. These DAs will continue to be used for the duration of the project. The Project can also make direct payments to beneficiaries in line with the monetary limits specified in the disbursement letter. Government's institutional procedures will be followed for operation and maintenance of the account. All FM staff hired under the project will receive training.

58. **Disbursement arrangements:** The project will follow traditional SOE-based disbursement method. i.e. on the basis of advances and replenishments for NHA. After one year of implementation, the Bank would review the quality of financial management performance and may convert the disbursement modality to one based on interim unaudited financial reports (IUFs) including a six-monthly forecast of fund requirements. For PKSF, the disbursement will be report based; i.e., advances to the DA will be made on submission of quarterly Interim Unaudited Financial Reports (IUFs), including a forecast of projected expenditures for the next two calendar quarters. Further advances as required would be made to the DA on the basis of

updated expenditure forecasts for the subsequent two quarters. The amounts spent from the DA on eligible expenditures will be documented as project expenditures on the basis of claims for documentation in the IUFRRs, and the advances to the DA will be adjusted accordingly.

59. **Disbursement categories.** The disbursement categories will include an unallocated category of the equivalent of US\$2.2 million, which can be allocated to any of the project categories based on project needs during implementation. The proceeds of the Credit will be disbursed over a period of five years under the following categories:

**Indicative Allocation of Credit Proceeds (US\$ Million)**

Expenditure Category	IDA Amount	Financing Percentage
1. Works, goods, non-consulting services, consulting services, incremental operating expenditures and training costs for Parts A, B, D and E of the project	28.8	100%
2. Training costs, consulting services, incremental operating expenditures, goods, and non-consulting services, for Part C of the project	2.0	100%
3. Shelter Lending Credit Line		
(a) First phase	1.5	100%
(b) Second phase	6.0	100%
(c) Third phase	8.5	100%
4. PPF Refinancing	1.0	100%
5. Unallocated	2.2	
<b>Total</b>	<b>50.0</b>	<b>100%</b>

*Note: - Taxes and duties will also be financed from the Credit;*

*The Government will pay for staff costs of civil servants deputed to the project, including staff allowances, as well as for honoraria; and will donate in kind land costs to the project. These expenditures will be included in the DPP. Unallocated category may be reallocated to categories 1, 2, or 3 during project implementation according to project needs*

### **Environmental Safeguards**

60. **Applicable Environmental Category and Safeguard Polices.** The project is classified as a Category B project since no significant and/or irreversible adverse environmental issues in the rehabilitation/new construction of basic urban infrastructures financed under the project. The policy on Environment Assessment (OP4.01) and Physical and Cultural Resources (OP 4.11) have been triggered for the proposed operation, with Natural Habitats (OP/BP 4.04) having been triggered as a precaution. These policies have been triggered to ensure that the project design and implementation will be focused on reducing adverse impacts and enhancing positive impacts.

61. Under the proposed project, NHA will finance three different types of sub-projects in three city corporations or pourashavas: (i) on site upgrading, including reblocking; (ii) voluntary relocation and greenfield development; and (iii) land sharing and/or multistory development. The

type of sub-project is an important determinant with regard to the requirements of its environmental assessment. The sub-projects to be implemented under the PPSIP include a package of tertiary infrastructure investments including: (i) water supply; (ii) sanitation; (iii) internal drains; (iv) roads; (v) waste management; and (vi) gas and/or electricity. In addition, a credit line will assist target beneficiaries to improve and upgrade their housing. Where applicable, the project will also finance links from the tertiary infrastructure investments to the primary and secondary levels in the town. The environmental impacts of these sub-projects can be managed effectively with known mitigation measures.

62. While the bulk of the environmental issues would likely stem from civil works related to settlement upgrading and the construction of connecting infrastructure, some environmental impacts may arise from the construction of housing. Three kinds of housing loans are envisaged under the project: (i) home renovation/expansion/upgrading loans; (ii) new construction; and (iii) cluster development.

63. **Approach to Address Environmental Safeguard Issues.** The proposed project will be implemented over a period of five years. NHA intends to ensure that the proposed infrastructure takes environmental concerns into account. Details of the sub-projects to be implemented under PPSIP will be finalized during project implementation phase and therefore, the exact locations, size and extent of the sub-projects will remain unknown at the project appraisal stage. As such, an Environmental Management Framework (EMF) has been prepared by the borrower describing the general baseline condition and typical environmental impacts from different types of subprojects during preconstruction, construction and operation.

64. Under the proposed project, the Project Consultants will work closely with community groups for the identification of sub-projects, preparation of sub-project description and subproject specific environment screening/assessment. The EMF is intended to provide the guidelines to comply with national legislation and World Bank safeguards policies, and defines the environmental requirements needed for processing the financing of each sub-component. In addition, the EMF has laid out the procedures for screening each subproject for potential environmental impacts, and how to determine the scope of appropriate Environmental Impact Assessment (EIA).

65. The screening will help to determine whether a proposed subproject needs the environmental assessment or whether it would be required to follow the Environmental Code of Practices (ECoP) to mitigate or avoid adverse impacts. The Environmental Code of Practice (ECoP) for different types of urban services appropriate at various stages (pre-construction, construction and operation) of project implementation has been prepared in the EMF.

66. According to EMF, subproject specific Environmental Management Plans (EMP) need to be prepared for all subprojects having environmental impacts and EMP will be an integral part of the Bill of Quantities (BOQ). The EMF also provides the Environmental Code of Practice (ECoP), which will be included in all subproject civil works contracts through a set of special environmental clauses (SECs) included in the Technical Specification of the bidding documents.

67. Although it is highly unlikely that any designated physical cultural resources will be affected by the subprojects, the EMF has provision of ‘Chance find’ procedures conforming to applicable legislations on heritage. For cultural property issues, there are three possibilities: (i) a subproject located in a ‘designated’ area with known property of cultural interest; and (ii) a subproject is carried out in a non-designated area, and encounters a chance find during construction; or (iii) civil works are carried out on a structure with cultural significance. In such cases, the executing agency is responsible for application of World Bank safeguard policy OP/BP 4.11: Physical Cultural Resources to implement the sub-projects.

68. NHA will be responsible for ensuring compliance with all environmental safeguards in its project areas. Where PKSf will make housing loans outside of the NHA areas, PKSf will ensure that environmental screening is done through its POs.

69. In addition to EMF, the relevant Environmental, Health and Safety Guidelines of the World Bank Group/International Finance Corporation (IFC) will be applicable to the project.

70. **Borrower’s capacity on environmental safeguard.** The National Housing Authority (NHA) has limited institutional capacity on environmental management for IDA funded projects. The proceeds of a project advance have supported NHA in capacity in preparation for an IDA financed projects. NHA has hired a part-time Environmental Specialist to integrate environmental issues and concerns in the preparation of proposed PPSIP. However, NHA will employ a full-time Environment Specialist to ensure implementation of the EMF vis-à-vis environmental sustainability of PPSIP interventions in Comilla, Sirajganj and Narayanganj. In all areas where civil works is to take place, NHA will oversee compliance with the EMF through its Project Consultants, as well as through third party audits. Outside of the designated project areas and where NHA supported investments are not present, PKSf will undertake environmental screening through its POs in line with the format provided for housing construction in the EMF. PKSf has experience implementing IDA financed projects, and will employ a full time Environmental Specialist to ensure compliance on all environmental safeguards outside of NHA towns.

71. **Environmental Safeguard Supervision and Monitoring.** Project consultants are responsible for the design and preparation of sub-projects for upgrading layouts and housing designs in close consultation with the communities. The Consultants will be responsible for preparation of an adequate description of each sub-project (in accordance to the format provided in the EMF), including sub-project layout and other relevant information, and will also be responsible for carrying out “environmental screening” and “analysis of alternatives” of each sub-project in accordance to the formats provided in the EMF.

72. The sub-project description, “environmental screening”, and “analysis of alternatives” prepared by the Project Consultants (in prescribed formats provided in the EMF), will be forwarded to NHA for review. Based on review of these and other relevant information, the NHA will assess the need for additional environmental assessment (IEE/ EIA/ EMP) for these sub-projects. If additional environmental assessment is necessary, NHA will take necessary steps for carrying out the assessment (e.g., through hiring a Consultant). The EMF presented in this report provides detail guideline for carrying out IEE/ EIA (including preparation of EMP). The environmental assessment will be carried out following the EMF presented in this report. The

NHA will also be responsible for getting necessary environmental clearance from the Department of Environment (DoE).

73. **“Third Party” Environmental Audit:** The NHA will carry out an external or third party environmental audit to assess effectiveness of the sub-project wise environmental assessment and implementation of the environmental management plan (EMP) including mitigation and monitoring measures. The ToR for third party audit has been presented in the EMF.

74. **Grievance Redress System.** Environmental issues will be integrated into the project Suggestions and Complaints Mechanism (SCM) referred in Social Management Framework.

75. **Consultation and Disclosure.** The EMF was prepared in consultation with the key stakeholders including the NHA field level staffs, contractors and communities. A national consultation workshop was organized by NHA in 2014 to share the draft EMF and SMF with all the stakeholders. Consultation with communities has been made mandatory for environmental screening/assessment of each subproject. The EMF along with Bangla version has been disclosed by the NHA on their website and hardcopies have been also available at NHA headquarters and will be made available at the Community Support Centers (CSCs) within each town. Advertisement requesting public comments has been published in two daily Newspapers (English and Bangla). The EMF has also been disclosed in the Bank’s Infoshop. The subproject/site specific EMP will be shared with the local community before contract mobilization.

### **Social Development and Safeguards**

76. Social development concerns and safeguard compliance issues are related to the proposed interventions for rehabilitation and new construction of tertiary infrastructure services such as roads, footpaths, water supply, sanitation, drains, gas and electricity. Where applicable, additional works would be undertaken to link these infrastructure services with those at the city level. These interventions would take place at the settlement level within municipal areas and involve inclusion, participation, transparency, accountability and social safeguard compliance issues. Selection of the project interventions in each settlement (subproject) will be done through a community-based approach. This approach will also include mechanisms to ensure equitable benefits to all community groups, especially to the very poor, women and vulnerable groups through community action plans. Subproject activities will be carried out on existing and available public lands without any encumbrances. However, additional land may be required to accommodate civil works. Land will be obtained through voluntary donation, direct purchase, exchange or contribution against compensation. In cases where such methods will not be feasible, but the proposed basic urban services are critical amenities, involuntary acquisition can be last a resort to obtain lands. The project is expected to trigger World Bank policies on involuntary resettlement (OP 4.12).

77. **Planning approach.** Considering the framework approach for the project planning and design, NHA has developed a Social Management Framework (SMF) to guide the planning and design of subprojects in compliance with social development and safeguard requirements during the course of project implementation. Subproject designs will be carried out in each city on an annual basis. When subproject activities will be selected and designed for financing under the project, social screening/assessment (SA) will be carried out as part of the subproject design and

include a social impact assessment, where social safeguard compliance issues are involved. Based on results of SA, social management plan (SMP) will be prepared for each subproject. The SMP will include a resettlement action plan (RAP), where necessary. The SMPs will be forwarded to World Bank for review and clearance before the subprojects are accepted for financing under the project. SMPs for annual construction programs will be disclosed in country and in Bank Infoshop before contract mobilization after Bank review.

78. **Social Management Framework (SMF).** The SMF includes social screening and assessment facility, a resettlement policy framework, and a social inclusion and gender framework. Among other issues, the SMF provides (a) a legal framework outlining the principles and guidelines which will be used to acquire lands and mitigate the adverse impacts, including those on indigenous peoples; (b) facility for screening of social development and safeguard issues related to involuntary resettlement; (c) mitigation principles and planning guideline; (d) a grievance redress procedure for the beneficiary communities and affected persons; (e) stakeholder consultation and participation framework; and (f) arrangement for implementation as well as M&E of the SMPs.

79. **Institutional arrangement and capacity building.** NHA does not have any recent experience in implementing infrastructure projects under financing from the World Bank where Bank guidelines on social safeguards, community participation and gender empowerment have been applied and exercised. However, to oversee and manage social management and safeguard issues in the project process, additional professional resources with expertise in social management and social safeguards compliance have been proposed for NHA. The PMU in NHA will employ a full time Social Development Specialist. In addition, workshops, trainings and capacity building initiatives will be planned to assist in building capacity within NHA to undertake community-based housing programs. NHA will oversee all social safeguards in its project areas.

80. **Social inclusion and gender mainstreaming.** Subprojects will be designed to ensure that the vulnerable section of the communities including the very poor, women, minority communities, disabled and children get access to benefits. Selected communities will be engaged in project cycle from identification to design and implementation and each of the communities will prepare plans to present how poor and vulnerable populations will be included during the implementation of the subproject. Subproject information will be disclosed in public domain including the social management framework and any subsequent SMP and RAP. Specific measures will be designed on (i) consultation, feedback and grievance-redress mechanisms to alert project staff to problems identified by beneficiaries, affected people, and other stakeholders; (ii) participatory planning to ensure the project meets the needs of the target beneficiaries; and (iii) participatory monitoring to identify problems. The project will facilitate establishment of Community Support Centers (CSCs) for empowerment of the communities through training and technical support.

81. **Community Driven Approach.** Community mobilization and organization will be carried out with communities to undertake subproject identification, planning and implementation. NHA will prepare a Bangla translation of the SMF and an operational guideline for SMF implementation, and will ensure that copies of the translated documents are available at their headquarters, at the selected and participating CSC offices and other local places accessible to the

general public. The entitlement matrix for the any subproject will be made available to all affected persons in Bangla before bidding process starts.

82. **Grievance Response Mechanism.** The project will establish a grievance response mechanism (GRM) to answer to queries, receive suggestions and address complaints and grievances about any irregularities in application of the guidelines adopted in this framework for inclusive project design, and assessment and mitigation of social and environmental impacts. Based on consensus, the procedure will help to resolve issues/conflicts amicably and quickly, saving the aggrieved persons from having to resort to expensive, time-consuming legal action. The procedure will however not pre-empt a person's right to go to the courts of law. Grievance response focal points will be available at the CSCs, NHA field offices and at the project level within NHA in Dhaka. A Grievance Redress Committee (GRC) will be formed for each city. The CSC will be the first focal point on project GRM and the GRC at the city or *pourashava* level will be authorized to deal with all suggestions and complaints at the subproject level. GRCs will ensure proper presentation of complaints and grievances as well as impartial hearings and investigations, and transparent resolutions. The GRCs will include women councilors to attend grievances from female complainants.

### **Monitoring & Evaluation**

83. Annex 1 provides the full results framework. The project level indicators are selected to measure the performance of the Project in three main areas: improving land tenure, upgrading informal settlements, and facilitating access to credit for shelter improvements, in support of its PDO. Intermediate indicators were chosen to assess the effectiveness of Component A: Community Mobilization; Component B: Urban Upgrading; and Component C: Shelter Lending.

84. The NHA is the nodal technical agency under the MOHPW to undertake housing programs for low income populations. It has the overall responsibility for PPSIP Components A, B, D, and E. For Component C, PKSf will be the main implementing agency. Data to measure the project outcome and results indicators will mostly come from the annual performance assessment results, an integral part of the design of the project.

85. **Project Monitoring Arrangements.** The PMU under NHA will prepare quarterly progress reports, in accordance with a format outlined in the Project Implementation Plan. The purpose of these reports will be to provide authorities and the World Bank with timely and updated information on implementation of project components, highlighting issues and problems. The progress reports will cover: (a) physical progress achieved against agreed implementation and disbursement indicators; (b) issues and problem areas, including comments on actions to address identified problems; and, (c) work programs and cost estimates for the coming quarter, including revised estimates for the current quarter. Similarly, the PKSf will submit quarterly progress reports which will include lending commitment levels, lending portfolio status, loan maturities, non-performing loans etc. Performance and monitoring indicators will also be required from each QFI borrowing from the PKSf.

86. The Project will be supervised jointly by World Bank staff and GOB at least three times during the first two years. Annual implementation reviews and a mid-term review at the end of the



second phase will be carried out to assess progress. Within six months of the closing of the project, NHA and the PKSf will prepare an Implementation Completion and Results Report (ICR) for submission to the World Bank and GOB.

## Annex 4: Systematic Operational Risk Rating Tool (SORT)

### BANGLADESH: Pro-Poor Slums Integration Project

1. The following matrix describes the rationale for the proposed rating for each risk and the mitigation plans.

<b>1. Political and Governance</b>	<b>Rating</b>	<b>High</b>
<b>Description</b>	<b>Risk Management</b>	
<p>Bangladesh is a high-risk environment in terms of political and governance risks due to</p> <p>(1) Weak implementation of Bangladesh’s Right to Information Act 2009, poor records, lack of public awareness, and weak capacity.</p> <p>(2) Political uncertainties and parties working in their own interests; there are challenges in terms of ownership and accountability.</p> <p>(3) Weak legal framework for corporate governance and public sector regulation, poor performance, and taking advantage of office are common in the public sector, including state-owned enterprises.</p>	<p>The following are considered for risk mitigation:</p> <p>(1) Project will emphasize information dissemination and transparency through disclosure of project documents according to the Bank’s Policy on Access to Information and the GoB’s Right to Information Act.</p> <p>(2) Regular dialogue with government and officials from the MoHPW, BFID, and Economic Relations Division to ensure client ownership, transparency, and accountability.</p> <p>(3) The PMUs will ensure compliance with the GAAP to minimize adverse outcomes of political uncertainties and any ‘early warning’ indicators of governance and accountability risks will be monitored regularly so that corrective measures could be carried out promptly.</p>	
<b>2. Macroeconomic</b>	<b>Rating</b>	<b>Substantial</b>
<b>Description</b>	<b>Risk Management</b>	
<p>(a) While the current macroeconomic position of the GoB is good with sustained GDP growth, the overall political tensions that exist domestically present <b>substantial</b> risks to the macroeconomic stability.</p>	<p>(a) Sustained public engagement is planned throughout the project to ensure proactive provision of information and enhance transparency.</p>	
<b>3. Sector strategies and policies</b>	<b>Rating</b>	<b>High</b>
<b>Description</b>	<b>Risk Management</b>	
<p>(a) Weakness in implementation of sector policies</p> <p>(b) Significant governance risks in housing and housing programs</p> <p>(c) Limited experience to date on housing finance or housing microfinance</p>	<p>(a) Support through project interventions to develop and improve sector policies, most notably on updating housing policies, as well as reviewing housing finance sector options</p> <p>(b) Approach advanced in the project places NHA in a facilitating role, thereby bypassing internal governance concerns; third party monitoring, frequent supervision, and full transparency are expected to help mitigate governance concerns</p> <p>(c) Support through project interventions on technical assistance and support to PKSF and POs, combined with pilot and testing phase to help support development experience.</p>	

<b>4. Technical design of project or program</b>	<b>Rating</b>	<b>High</b>
<b>Description</b>	<b>Risk Management</b>	
(a) The project design is rated substantial, as it pilots a new approach for community based housing developments in slums and informal settlements.	(a) Design risk is minimized (i) a slow roll out and testing of all project interventions; (ii) a flexible design and approach to the project; (iii) a strong M&E component that will provide real time monitoring of project interventions; and (iv) significant planned supervision on the part of the Bank.	
<b>5. Institutional capacity for implementation and sustainability</b>	<b>Rating</b>	<b>Substantial</b>
<b>Description</b>	<b>Risk Management</b>	
(a) Capacity constraints and risks of F&C during implementation with NHA.	(a) Project implementation will be supported by a dedicated PMU that will receive technical assistance, training and adequate budget to implement the project. The PMU will not only retain adequate levels of FM and Procurement staff, but will also bring in an urban adviser and other relevant short term inputs. Capacity of field level offices will also be improved through additional engineering staff. Project implementation will be undertaken by dedicated project consultants.	
(b) For PKSF, the main risks are delays in NHA areas, and the capacity of POs to manage HMF risks in the designated areas.	(b) For PKSF, dedicated TA support will be provided both to PKSF to develop implementation and supervisory capacity in oversight of HMF, as well as to participating POs. Number of POs limited to start, to provide for targeted support to develop viable products	
<b>1. Fiduciary</b>	<b>Rating</b>	<b>Substantial</b>
<b>Description</b>	<b>Risk Management</b>	
(a) This project draws on lessons learned from similar urban poverty projects and community contracting with organized communities. There are risks to adequately monitoring many small contracts, and the capacity of communities to execute quality works.	(a) To mitigate this risk, the project will have a dedicated consultancy to support communities in the preparation and detailed planning phases, as well as through community contracting or contract supervision activities. Independent M&E consultants, reporting directly to the PSC, will further monitor and report on project progress and works.	
(b) Financial management capacity and internal audit function of NHA have improved through the establishment of PMU and dedicated FM support in the preparatory phase. This will need to be further strengthened during implementation with dedicated staff and training.	(b) NHA will continue to retain the services of dedicated FM support throughout the project. All FM staff will undergo training and frequent Bank supervision during the early implementation phases of the project will provide a continuous assessment of performance	
<b>7. Environment and social</b>	<b>Rating</b>	<b>Moderate</b>
<b>Description</b>	<b>Risk Management</b>	
(a) The project is expected to bring positive social and environmental benefits to targeted beneficiaries through	(a) For community based planning and full site development activities, community agreement is expected to be provided in writing, to ensure that all social risks would be	

<p>improvements in living conditions and shelter improvements. Some social risks could emerge from the community based approach and seeking consensus among communities for community based planning. Some environmental risks exist from construction activities.</p>	<p>adequately addressed. All community plans would go through environmental screening. NHA has prepared an EMF and SMF to guide the process of selection and participation with a view to enhance positive social and environmental benefits, while at the same time mitigating any adverse risks.</p>	
<p><b>8. Stakeholders</b></p>	<p><b>Rating</b></p>	<p><b>Substantial</b></p>
<p><b>Description</b></p>	<p><b>Risk Management</b></p>	
<p>(a) Project interventions will require the coordination of several stakeholders, including NHA, PKSf, the municipalities, district officials, elected officials, and community organizations.</p> <p>(b) <i>Donors.</i> This intervention builds on an existing DFID/UNDP urban poverty program through LGD. The donors are supportive of the project, and an MOU already exists between NHA and UPPR on the proposed project interventions.</p>	<p>(a) The project will focus its interventions at the community level, and build partnerships and stakeholder engagement from there. Significant work has already been undertaken to build partnerships with municipalities, and the project has prioritized areas where those partnerships are strong. Active engagement of all stakeholders was present in the preparatory phases of the project and is expected to continue during implementation. A committee at the local level is expected to institutionalize coordination for the project.</p> <p>(b) Continued consultations and coordination meetings will occur between all development partners on urban poverty interventions. LGD and MoHPW expected to sign an MOU in the development of a national program on urban poverty.</p>	

**Annex 5: Implementation Support Plan**  
**BANGLADESH: Pro-Poor Slums Integration Project**

**Strategy and Approach for Implementation Support**

1. The strategy for implementation support plan has been developed based on the risk assessment through the SORT process. The project is considered a high risk project, based mainly on (i) political and governance realities; (ii) sector and sector policies; and (iii) technical design of project. The strategies incorporated in the project design to mitigate these risks are summarized below.

2. **Sector and sector policies.** Past interventions in affordable housing have lacked political will and follow up, and local stakeholders may view the project interventions as a one off investment in housing for carefully selected and politically appropriate sites. Additional interference from local intermediaries or political representatives also may distort the project's objectives. To date, NHA has not involved or worked with local communities in the delivery of shelter options for the urban poor and may lack the capacity to effectively engage local communities.

3. **Capacity.** This represents the first project for NHA with the World Bank. Significant capacity gaps exist with respect to knowledge of the Bank's procedures and policies. The project also introduces a new mechanism for housing delivery, with institutional changes necessary to sustain this approach. While PKSF has significant capacity in microcredit, this will present the first approach in housing microfinance, which will require support in developing the appropriate and relevant housing microfinance models.

4. **Design.** The project introduces new modalities for shelter that rely on the active participation of urban poor communities that could face unexpected challenges during implementation. The design draws heavily on international experience and expertise, which is verified locally with experts and with potential beneficiary communities themselves. However, given the complexity of the proposed interventions, and the necessary sequencing of these interventions, it is possible that unexpected challenges could arise. Housing and infrastructure professionals are trained to deal with formal development and have little experience of the complexities involved in dealing with pre-existing informal development. These complexities relate to norms and standards, difficult site conditions, lack of connectivity to city-wide networks and the need to ground formal proposals in informal realities. In many situations, the need will be to find the least bad way through these complexities, accepting that a perfect solution to problems is not possible. This will require judgment, which in turn requires relevant experience. Sector professionals involved with the project will require training to help them to deal with such circumstances.

5. **Social and Environmental.** The project is expected to significantly improve social and environmental outcomes for urban poor populations. On the social side, the project incorporates a strong community based approach. Continued commitment to working closely with organized community groups in planning and execution of the project's activities will need to continue, so

as to ensure that full social benefits of the project are realized. In addition, consistent monitoring of many small sub projects to ensure that environmental issues are adequately mitigated will require significant follow up.

6. **Delivery Monitoring and Sustainability.** The Ministry of Housing and Public Works and the NHA have indicated a strong commitment to exploring alternate modalities of shelter, especially through the community-based approach. However, the efficacy of the approach will depend on continued commitment to the project. In addition, NHA and MoHPW must continue to demonstrate commitment to PKSF’s independence in the implementation of its components, so as to ensure that lending will be done in a manner that reflects prudent financial standards.

7. The Project will be supervised jointly by World Bank staff, PKSF and the GoB at least three times a year during the first two years. Annual implementation reviews will be carried out jointly by the GoB, PKSF and the Bank. A Mid-Term Review will be carried out in late 2019 to evaluate progress and make necessary adjustments. Within six months of the closing of the project, NHA and PKSF will prepare an Implementation Completion Report (ICR) for submission to the World Bank and GoB.

## Implementation Support Plan

### *Primary Focus of Implementation Support*

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>	<i>Partner Role</i>
<i>First twelve months</i>	<ul style="list-style-type: none"> <li>• Selection of all consultants (M&amp;E, PMU, infrastructure)</li> <li>• Subproject design preparation &amp; implementation</li> <li>• Shelter lending modalities</li> <li>• Procurement</li> <li>• FM</li> <li>• Safeguards</li> </ul>	<ul style="list-style-type: none"> <li>• Technical (social, engineering, housing finance, etc.)</li> <li>• Safeguards</li> <li>• Financial management</li> <li>• Procurement</li> </ul>	Country office staff (safeguards, procurement, and financial management, finance and markets) engages with NHA and PKSF as needed, with formal reviews about two times. Headquarters team (TTL, engineer, housing finance) visit three times	
<i>12-24 months</i>	<ul style="list-style-type: none"> <li>• Assessment of selection, design, and implementation of sub-projects</li> <li>• Shelter lending product testing</li> <li>• Procurement</li> <li>• Project implementation</li> <li>• Monitoring and supervision</li> </ul>	<ul style="list-style-type: none"> <li>• Technical (social, engineering, housing finance)</li> <li>• Safeguards</li> <li>• Financial management</li> <li>• Procurement</li> <li>• M&amp;E</li> </ul>	Full team supervision three times a year	

<i>24-36 months</i>	<ul style="list-style-type: none"> <li>• Assessment of selection, design, and implementation of sub-projects</li> <li>• Roll out of shelter lending program</li> <li>• Procurement</li> <li>• Project implementation</li> <li>• Monitoring and supervision</li> <li>• Mid-term review</li> </ul>	<ul style="list-style-type: none"> <li>• Technical (social, engineering, finance, housing finance)</li> <li>• Safeguards</li> <li>• Financial management</li> <li>• Procurement</li> <li>• M&amp;E</li> </ul>	Full team supervision three times a year	
<i>36-60 months</i>	<ul style="list-style-type: none"> <li>• Implementation of sub-projects in final city</li> <li>• Assessment of shelter lending</li> <li>• Draft ICR</li> </ul>	<ul style="list-style-type: none"> <li>• Technical (social, engineering, finance, housing finance)</li> <li>• Safeguards</li> <li>• Financial management</li> <li>• Procurement</li> <li>• M&amp;E</li> </ul>	Full team supervision twice a year	

### *Skills Mix Required*

<b><i>Skills Needed</i></b>	<b><i>Number of Staff Weeks</i></b>	<b><i>Number of Trips</i></b>	<b><i>Comments</i></b>
Social Development Specialist (TTL)	1 staff member: 20 weeks	6	3 trips + 3 weeks per project year + 2 extra weeks in the first two years.
Social Development Specialist (co-TTL)	1 staff member: 15 weeks	6	3 trips + 3 weeks per project year + 2 extra weeks in the first two years
Senior Urban Specialist	1 staff member: 10 weeks	2	1 trip + 2 weeks per project year + extra week in the first year
Municipal Engineer	2 staff members: 20 weeks	6	3 trips + 2 weeks per project year + 2 extra weeks in the first two years.
Housing/Finance Specialist	2 staff members: 20 weeks	6	3 trips + 4 weeks per project year

**Annex 6: Governance and Accountability Action Plan (GAAP)**  
**BANGLADESH: Pro-Poor Slums Integration Project**

**Introduction**

1. Improving governance and fighting corruption are central to the Government of Bangladesh's development agenda set forth in the 7<sup>th</sup> Five Year Plan and the Bank's mission of promoting sustainable growth and reducing poverty. This Governance and Accountability Action Plan (GAAP) for the Pro-Poor Slums Integration Project (PPSIP) contributes to these efforts by outlining a framework for actions, institutional arrangements, and additional specific measures to minimize governance and corruption risks in the project. This GAAP is designed to reflect the specific responsibilities of the implementing agencies, the National Housing Authority (NHA) and the Palli Karma-Sahayak Foundation (PKSF), and the World Bank, to facilitate effective and appropriate use of the funds for the project, preclude the incidence of corruption and enhance good governance.

2. This plan is based on an assessment of the governance risks, particularly fraud and corruption, the context for addressing Governance and Anti-Corruption (GAC) issues in Bangladesh and specifically for the entities involved in PPSIP. It also is based on Bank experience in addressing governance and anticorruption issues, and, in particular, the Bank's experience in having financed operations with several government departments and agencies as implementing partners. The GAAP will be adjusted as necessary during implementation to reflect governance issues which may emerge and/or to strengthen or add actions. It will be monitored regularly through indicators and reflected in monthly progress reports by the implementing agency, as well as in World Bank implementation supervision reports and aide memoires for supervision missions.

**Country Context and Background**

3. Bangladesh faces some governance challenges. For example, the implementation of Bangladesh's Right to Information Act 2009 has been slow, partly because of poor records, lack of public awareness, and weak capacity. Despite some attempts to enhance accountability in the legal framework for corporate governance and public sector regulation, poor performance and abuse of office are common in the public sector including state-owned enterprises. The Bank's Country Assistance Strategy (FY11-14) for Bangladesh has also defined weak governance as a binding constraint to inclusive growth and committed the Bank to embedding more systematic approaches to governance challenges across the portfolio.

4. Governance in the housing and urban sectors faces particular challenges. The sector also remains affected by political considerations, short term planning horizons of successive governments, and poor incentive structures. The proposed project will be implemented by NHA and PKSF, with respective roles for implementation divided by components of the project. Specifically, NHA will implement components related to (i) Community Mobilization & Participation (\$11.5 million); (ii) Urban community upgrading (\$22 million); (iii) Monitoring and Evaluation (\$1 million); and (iv) Project Management, TA, Training and Strategic Studies (\$4 million). PKSF will implement Component C of the project, namely Shelter Component and Lending (US\$18 million).



5. The project represents the first Bank-financed operation for the NHA. The implementing agency has received a US\$1 million advance from the Project Preparation Facility (Q8180-BD). With the proceeds of this advance, NHA has set up a Project Management Unit, staffed with a procurement specialist, FM specialist, social, and environmental specialist. To date, project management has been rated satisfactory. Because of this ongoing engagement, some institutional weaknesses and governance challenges for the proposed project are known which has contributed to the detailed risk assessment and design of the mitigation measures in this GAAP. Other risks have been identified with a proposed design of mitigation measures presented in the sections below, as well as in the attached matrix.

6. PKSF has implemented several Bank financed operations, and has been assessed to have significant institutional capacity related to microcredit operations. This project will be the first foray for PKSF into the housing microfinance market. General risks associated with credit programs have been identified, and mitigation measures related to these risks proposed in the GAAP.

### **Governance and Corruption Risks**

7. The governance and corruption risks related to NHA fall into four major categories: (i) Institutional Risks; (ii) Procurement Risks; (iii) Targeting risks; and (iv) Social Inclusion Risks. For PKSF, the governance and corruption risks relate to possible fraud and mismanagement of credit line proceeds at the lender level or among borrowers.

#### *National Housing Authority*

8. **Institutional Risks.** NHA suffers from systemic issues involving the civil service which affect efficiency and performance. Civil service staff is regularly rotated, which can affect the knowledge built up in the department, and compromise technical expertise needed in the project. In addition, there are weak internal controls and a very weak internal audit function to address fraud and corruption. Systems for provision of information to the public and handling complaints or feedback from third parties on performance are nascent.

9. **Procurement Risks:** NHA faces possible governance issues, most notably in procurement administration with a risk of inappropriate bidding practices including mis-procurement. One major component of the project will be for urban upgrading. These contracts are expected to be executed through community contracting or awarded locally through National Competitive Bidding, at the city level, to ensure the inclusion of key stakeholders in the city administration. This presents a high risk to the project's procurement process, as a large number of contracts will be awarded through a decentralized process. Possible risks include fraud, collusion, and coercion amongst parties involved in the procurement process. For example: collusion among the bidders; collusion involving bidders and government officials; fraudulent documents; and other possible fraud and corruption risks between bidders, the engineer and the approving authority. Conflicts of interest may present a serious problem, most notably through relationships with government officials, whether direct or indirect, including through companies and/or relatives of officials.

10. **Selection risks.** The project relies on the selection of urban poor community groups that present strong cohesion and community savings as pre-requisites to participation in the project. These criteria are essential to preserve the demand-driven nature of the project's design, and to ensure that those communities who really are ready and willing to transition to secure and affordable housing are selected for the project's investments. There is a risk of interference in the selection process at the city level to prioritize urban poor communities or low income settlements for political or other purposes. In addition, there are risks that PKSf and its partner organizations would be expected to lend to pre-identified communities in NHA areas, where the motivations for selection are driven by political or other considerations.

11. **Land risks.** Land is a highly contentious and difficult issue in Bangladesh, and increasing pressures from rapid in-migration to urban centers has seen rising land values and land prices in urban areas. Informal settlements may be located on high value land with vested interests that could attract political intermediaries or political pressures on urban poor communities.

12. **Social inclusion risks.** The project advocates for a strong pro-poor element, relying on community groups to promote social inclusion of the poor and vulnerable populations. There is a risk that internal group dynamics within certain urban poor communities could serve to exclude the poor and vulnerable populations from the project's benefits. This could lead to the displacement of the poor and vulnerable slum population out of settlements targeted for improvements, and the capture of benefits by urban slumlords or the relatively more affluent group members.

#### *PKSF*

13. **F&C on the Credit Line.** PKSf was set up in 1990, and has been working as an apex microcredit funding and capacity building organization for eradicating poverty by providing microcredit to the poor through its Partner Organizations (POs). While considered unlikely, fraud and mismanagement at financial institutions are an inherent risk in any credit program. In addition, the credit line could be at risk from fraud by customers and staff.

#### **Actions to Mitigate Governance and Corruption Risks**

14. GAC concerns will be addressed through a combination of project design and special measures to reflect three basic principles: maximum transparency and provision of information about every step or action undertaken including the individuals or entities involved; ensuring that multiple parties are in place to provide external assessment of the actions that are undertaken in order to have a robust system of scrutiny and checks; and enhanced use of mechanisms for feedback from individuals outside the implementation of the project, particularly through use of social accountability. Below is a summary of the actions to be undertaken followed by a matrix summarizing the actions, responsible entities, timelines, and warning signs to trigger additional review through Bank supervision and/or investigation.

15. **Institutional risks.** The Project Management Unit will be staffed by core staff within NHA, and will be strengthened with externally-hired staff to be responsible for day-to-day implementation within the NHA. Specifically, there will be dedicated staff in the Project

Management Unit for engineering construction supervision by an internationally recruited Construction Supervision Consultants who would be the “engineer” for the civil works contracts, additional engineering support at the field level for the NHA, consultant support for environment and social aspects, and an independent M&E consultancy to monitor progress and supervise the Environmental Management Plan (EMP) and Social Action Plan (SAP) activities.

16. Multiple oversight entities will scrutinize NHA’s performance, particularly on governance. First, NHA’s performance will be overseen by a Project Steering Committee. Second, the Monitoring and Evaluation Consultants (M&EC), which reports to NHA and the Project Steering Committee, will provide an independent assessment of project performance, including of financial management. Third, the project will establish municipal committees to oversee procurement of civil works contracts, which will be chaired by an NHA engineer, and will include a city corporation or pourashava engineer, an LGED engineer, and a community leader.

17. **Procurement Risks.** Procurement risks will be addressed through an agreed set of actions designed to enhance the transparency of the procurement process. First, NHA shall nominate a procurement focal point for this Project. The appointed focal point will take necessary training, both on Public Procurement Rule 2008 and Bank Procurement Guidelines. The focal person will help the respective agencies in day-to-day procurement follow-up and preparation of periodic procurement reporting. Second, all procurement packages will make use of e-Government Procurement (e-GP). The Central Procurement Technical Unit (CPTU) of Bangladesh has introduced a web-based central e-GP system. It has been agreed that NHA will use this e-GP system in a phased approach. Third, NHA will prepare procurement training plans for the project which will include (a) One/two day procurement orientation training for procurement staff of municipalities; (b) 21 days procurement certification training arranged by Central Procurement Technical Unit (CPTU); (c) e-GP training for staff and bidders and (d) contract management training. Fourth, NHA will hire a qualified procurement consultant on a full time basis for the duration of the project, based on a competitive selection, and according to terms of reference agreed with the World Bank. This procurement consultant will be a member of each bid evaluation committee for goods and service contracts under this project where tendering takes place in Dhaka. Fifth, NHA will establish a functional webpage with procurement related information accessible to the public. Finally, NHA will implement a Procurement Risk Mitigation Plan (PRMP) through reports submitted to IDA on a periodic (semi-annual) basis with a set of agreed features.

18. In addition, civil works construction will be outsourced through competitive bidding to reputable and experienced contractors. The tendering, bid evaluation and award will be undertaken through a committee established at the city level, co-chaired by the Executive Engineer from the NHA responsible for that division, and a representative from the *Pourashava*. The committee will include one City Corporation or Pourashava Engineer, one LGED and/or DPHE Engineer, representatives from the design & supervision and community mobilization consultancy, and at least one representative from relevant communities. Tendering would be done through e-tendering, with a copy of the tenders received in the Deputy Commissioner’s office in each of the towns. NHA recruited engineers (2 per city, one professional engineer and one diploma engineer) will assist NHA to supervise the construction quality, with verification to be undertaken by the interagency committee. Payments are to be made directly from NHA in Dhaka, upon verification and certification of the works. Technical assistance will be provided to community groups to

supervise the quality of construction, so as to promote high levels of participation. For tertiary (on-site) works, community contracting will be the default modality. All civil works will be supervised by Consultants, who will be the *Engineer* for the project, with NHA field offices providing additional supervisory support.

19. All officials of the Ministry of Housing and Public Works and the NHA who are involved with the process of procurement for the project, including issuance of recommendations for contract awards shall be required to submit declarations of no conflict of interest in these procurements. These declarations shall specify that there is no conflict of interest between bidding organizations and their personnel and (a) district committee procurement members or their close relatives, or (b) other officials of the Ministry of Housing and Public Works and NHA involved with the procurement process or their close relatives. The declarations will be submitted prior to the commencement of evaluation of bids. NHA will maintain these declarations on file as well as provide them to the Bank. If during the procurement process any member of a procurement committee is found by any Project oversight entity or by the Bank to have concealed a conflict of interest, that individual shall be immediately replaced. The GoB is aware that if such information is revealed following the conclusion of the procurement process the Bank will consider appropriate remedies.

20. Bidding documents including the Request for Proposal, instructions to bidders/consultants, and model contracts would include measures to mitigate misconduct. For instance, bidders would be required to: disclose in full any agents used by the bidders during the procurement process, along with the terms on which those agents were hired (both scope of work and remuneration); and certify any conflict of interest most notably relationships with government officials, whether direct or indirect (e.g., via direct relationships with the officials related to the subject tender, or via companies and/or relatives of officials). These documents would also define the scope of the Bank's audit rights.

21. An enhanced complaints receipt and response unit will be established in NHA to operate throughout the life of the project, including during the procurement stage. There will be one such unit established at the field office level, and one such unit established in Dhaka. NHA's website and newsletters will state clearly how to file complaints. NHA will maintain a log of complaints which will track the status of response or follow-up. Depending on the nature of the complaint, the unit will assign the review of complaints to internal auditors or third party auditors, or may transfer the investigation of complaints to other appropriate investigative bodies such as the police or the Anti-Corruption Commission. All complaints received shall be responded to within five days of receipt, with a copy to the PSC and the World Bank. Recording and appropriate referral of all incoming complaints will be undertaken by the NHA, with each case generating an automatic, standard format report including the full text of the original complaint to the Bank. In addition a monthly report tracking the status of complaints and measures taken will be provided to the Project Steering Committee and the Bank. Reports summarizing complaint cases which have been resolved will be published on the website. At all times and in all documents the anonymity of the complainant will be maintained.

22. **Risks in the selection of communities.** The selection of communities within each city would be undertaken in a manner to ensure transparency and accountability. Specifically, the

project uses simplified minimum eligibility criteria that are easy to assess as a first stage selection. All eligible communities will be listed in local municipal and NHA offices to ensure transparency and accountability. Demand for the project must be made in writing from the community group and must represent the results of a community level vote to indicate demand for the project. Results of additional assessments and ranking exercises and prioritization will also be made publicly available and will allow for participatory feedback from potential beneficiaries. In this way, the political interference in the selection is expected to be mitigated. In addition, a complaint center established locally would be made available for any concerns in the selection process.

23. **Land risks.** Land is a highly contentious issue in Bangladesh, and disputes over land ownership are common. The project will require, as a prerequisite, some form of tenure security for the project's investments, so as to safeguard the financing of the project. The project will prioritize an approach of identifying locations where titles are clean, and where there is possibility to address tenure in the short term. A broad Land Assessment was undertaken of all three project towns, and found that many settlements outside of Dhaka are owned by the residents themselves. Within Comilla and Sirajganj, a mix of communities has been identified on public and on private land, and if tenure cannot be addressed in some sites, then other communities will be taken under the project. The project will also use frequent monitoring and supervision of social mobilizers, NHA field staff, and Bank missions to understand underlying land issues of particular sites and to assess potential risks to communities from political interference around land issues, particularly with respect to lease arrangements that would be facilitated under the project.

24. **Social inclusion risks.** The project will work to proactively include all poor and vulnerable populations through several means. First, as soon as a low income settlement is selected, a full census of the community will be undertaken, with an enumeration of all households, including pictures of residents. The project will make a particular note of extreme poor, vulnerable or other marginalized populations in this process. Community mobilization to build cohesion and joint planning will include action planning for including the poor and vulnerable populations, including plans for financial inclusion in access to credit for housing. This will make note of affordability of these residents, and demonstrate mechanisms through group lending to ensure, to the greatest extent possible, that poor residents gain access to credit within their affordability levels. The community will form a legal entity registered under the societies and cooperatives act with full legal inclusion of all members within the community. This housing cooperative will have joint legal rights over land leases. The implementation of inclusive planning will be closely monitored by the local Community Support Center, staffed by social mobilization specialists and issues will be addressed first at the CSC. If community cohesion and inclusion faces additional issues, social mobilization specialists from the implementation consultant team will be deployed to address specific issues within the community. Should measures to promote inclusion be violated by the community group, corrective measures will be taken, including the suspension of all investments to the group.

25. **Credit Line risks.** PKSf, the credit-line implementing entity, was set up in 1990, has been working as an apex microcredit funding and capacity building organization for eradicating poverty by providing microcredit to the poor through its Partner Organizations (POs). PKSf will come up with qualifying criteria which will include compliance with laws and prudential norms and regulations, maintenance of a healthy financial status and sound lending policies and procedures.

POs with the support PKSF and other experts in the sector will develop processes in order to mitigate these risks. They will also use their rich experience in the micro-credit sector to overcome such frauds. Their existing practices in hiring and client identification and sourcing will be employed to engage with clients and staff.

26. The Bank will apply sanctions as per its guidelines if it determines incidences of fraud, corruption, collusion and coercive practices. These sanctions may include fines, blacklisting, suspension of disbursements, or ultimately cancellation with respect to that contract. The Bank will seek first to remedy cases of corruption through cooperation with the implementing agencies. Any entity that is found to have misused funds may be excluded from subsequent funding. Information regarding such cases, where lessons are learnt and funds are retrieved, will be widely disseminated.

27. The GAAP matrix proposes actions for each of these issues, timeline for each action, and responsible agency for implementation. There are also some “early warning indicators” which, if monitored properly, would enable timely actions for course correction.

#### **Monitoring arrangements:**

28. GAAP will be monitored regularly through indicators and reflected in progress reports by the implementing agencies, as well as in World Bank implementation supervision reports and aide memoires for supervision missions. The GAAP matrix will be used widely for monitoring purposes. Any ‘early warning’ indicators of governance and accountability risks will be monitored regularly so that corrective measures could be carried out promptly.

#### **Bank Supervision and Surveillance:**

29. The project will require intensive supervision by Bank staff. Bank supervision missions will be more frequent at the start of the project and would involve qualified staff in all disciplines, including procurement and financial management, as well as social specialists, and engineers. The Bank will also conduct regular monitoring between supervision missions.

30. The GAAP will be adjusted as necessary during implementation to reflect governance issues which may emerge and/or to add actions.

**Matrix of Actions**  
**PPSIP Governance and Accountability Action Plan**

Issues/Risks/ Objective	Actions	Agency responsible	Timeline	Early Warning Indicators to Trigger Additional Action
<b>Institutional Risks</b>				
Need to strengthen capacity in procurement, financial management, contract management, communications, and monitoring functions	Establish PMU with NHA and externally hired staff and consultants.	NHA	Key staff recruited prior to start	Delays in conduct of procurement, execution of contracts, processing of payments, filing reports
	Retain independent consultants for design, construction supervision (CSC)	NHA	Ongoing	
	Contract out M&E functions through M&E Consultant	NHA	Contracted in 1 <sup>st</sup> year; quarterly reports	
	Increase frequency of full Bank supervision missions to review operations, including more intensive supervision early in the project.	Task team/IDA		
<b>Procurement Risks</b>				
Reduce risk of corruption in procurement.	Establish district committee in each of the project towns, with relevant stakeholder representation, including community members	NHA	Ongoing	Procurement red flags in ex ante and ex post review
	Publish/agree detailed mapping of procurement processes, including finite list of who has access to documents when in the process	NHA	Ongoing	Inconsistencies with ‘need to know’ principles in procurement mapping, evidence of unauthorized access to information
	Follow agreed Procurement Risks Management Plan, including e-GP	NHA	Ongoing	
	Designate Information Officer in line with RTI ACT and develop and implement plan for <i>suo moto</i> disclosure of information and full	NHA	Ongoing	

	<p>complains with the RTI Act. IOs to undergo sensitivity training on their responsibilities. Communities to undergo awareness workshops on their rights under the Act.</p> <p>Establish and maintain website</p> <p>Establish multi-level grievance redress mechanism with reporting established and follow up guidelines.</p>	<p>NHA</p> <p>NHA, Bank (reviewing)</p>	<p>Ongoing</p> <p>Ongoing</p>	<p>Delays in suo moto disclosure plan issuance/implementation</p> <p>Website and newsletter are delayed or not updated.</p> <p>Nature and frequency of complaints</p>
Potential for or reduce risks of conflict of interest among participants in procurement	<p>Declarations of no conflict of interest by NHA personnel, including members of procurement panel members, and bidders</p> <p>Require bidders' statements concerning agents and other possible connections to persons involved with procurement.</p>	<p>NHA</p> <p>NHA</p>	<p>NHA personnel by effectiveness; bidders at submission</p> <p>At bidding stage</p>	
<b>Community Selection Risks</b>				
Potential for interference in selection process	<p>Independent and simple eligibility criteria that is publicly consulted and disclosed in project cities.</p> <p>Publish selection criteria and ranking of settlements</p> <p>Establish grievance redressal mechanism at Community Support Center (URC) within each city</p> <p>Ensure third Party monitoring by M&amp;E consultants performing oversight function.</p>	<p>CMD&amp;SC, NHA</p> <p>CMD&amp;SC, NHA</p> <p>CMD&amp;SC, NHA</p> <p>M&amp;EC</p>	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing upon appointment</p>	<p>Nature and frequency of complaints</p> <p>Monitoring reports identify anomalies</p>



Need for greater capacity in PMU to exercise oversight	Disseminate information dissemination measures (website, etc.)	NHA	Launched within 3 months of effectiveness	
	Establish enhanced complaints mechanism, including ICT	NHA	By project effectiveness	
	Ensure third Party monitoring and reports	M&EC	Ongoing	
<b>Land Risks</b>				
Potential for political interference around measures to secure tenure	Verification of underlying land records for settlements deemed eligible under the project	CMD&SC	Ongoing	
	Frequent engagement and monitoring of communities securing tenure	CMD&SC; NHA; M&EC	By project effectiveness Ongoing	
<b>Social Inclusion Risks</b>				
Potential exclusion of extreme poor or vulnerable beneficiaries and/or false delivery	Baseline census survey to identify all community members at identification and the development of community inclusion plan (CIP)	NHA, CSC	Contracts in place	Reviewers (BWDB, WB) receive plausible complaints borne out by frequency or other corroboration
	Ensure third party monitoring by the M&EC	M&EC	Occur upon selection of the M&EC	
	Conduct survey among beneficiaries	M&EC	Unit in place by effectiveness or before	Survey results identify improprieties
	Enhance complaints mechanism, including use of ICT	NHA, WB supervise		
Suo moto disclosure of information	NHA	Designated CSC office in place by effectiveness, begin		

			implementing expanded disclosure plan three months after effectiveness	
<b>Credit Line Risks</b>				
Potential for fraud and corruption are inherent in any credit line program	PKSF will use only existing POs and will apply qualifying criteria to those participating in the project, based on an assessment of capacity. Frequent follow up to ensure that F&C are mitigated	PKSF	Ongoing	
	Supervision and periodic assessments of borrowers to ensure that intended beneficiaries of housing loans are receiving them	PKSF	Ongoing	

## Annex 7: Economic Analysis

### BANGLADESH: Pro-Poor Slums Integration Project

1. The economic analysis of the project focuses predominantly on Components A, B, and C, which comprise about 80 percent of the IDA financing. A thorough economic analysis with different measurement tools like finding Internal Rate of Return and sensitivity analysis have been carried out to assess the economic viability of the project.

2. In the process of economic analysis of the project, the benefits appear through the following classifications: a) quantifiable and unquantifiable in economic terms; b) private (to the households) and public benefits. Both quantifiable and unquantifiable benefits in public level and household level are identified as follows:

#### Private benefits of PPSIP

Private benefits	Used in CBA	Not used in CBA
Quantifiable	-Increased property values/house rents.	-Improved access to utilities like gas, electricity etc. -Improved road access -Reduction in medical cost for low water-borne diseases -Avoided flood damage
Unquantifiable		-Improved health -Improved access for emergency vehicles -Improved safety -Improved overall amenities -Improved social esteem

#### Public benefits of PPSIP

Public benefits	Used in CBA	Not used in CBA
Quantifiable		-Increased efficiency in economic activity -Increased productivity for reduced flood/water logging
Unquantifiable		-Enhanced investment climate of the city -Higher revenue potential -Improved environmental condition

#### Data Collection

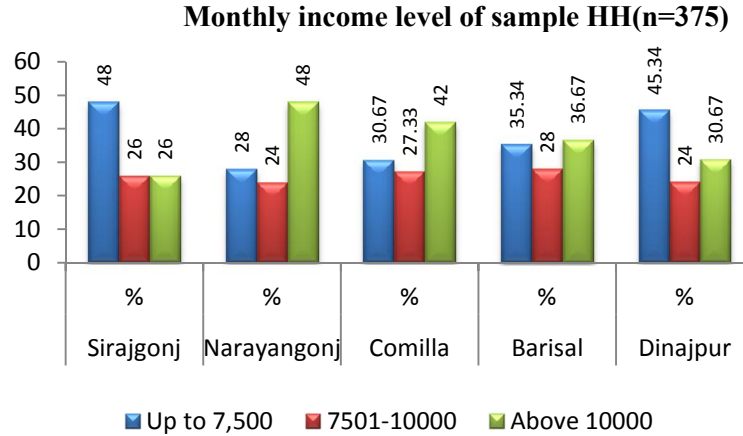
3. A survey was conducted in five cities preliminarily identified in the project preparation phase, namely Comilla, Sirajganj, Narayanganj, Barisal and Dinajpur. The latter two cities were eventually dropped in this phase of the project. One census was conducted in the selected communities of Comilla. The survey and census were implemented in December, 2013 and May-June, 2014 respectively.

4. **The survey:** A detailed survey was conducted across city corporations/municipalities selected into the project. The survey randomly selected two wards that contain communities with more than 50 households from each cities and 15 households were selected randomly from 2 randomly selected communities from each ward. In order to identify indirect impact and understand community structure in details, the survey team also used various qualitative methods like Key Informant Interview, Focus Group Discussions and Consultation meetings. In each community one consultation meeting were conducted in order to notify all community people about the projects. The description of the project and associated positive and negative impacts were shared with the people in an open forum. The quantitative survey was conducted on 375 households and captured a wide range of socio-economic information. The occupation and income distribution of the surveyed households of selected cities are as follows:

Table: Occupation of the heads of households(n=375)												
Occupation	Sirajgonj		Narayangonj		Comilla		Barisal		Dinajpur		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
<b>Farming/ Agriculture</b>	0	0	1.33	0.00	0.00	0.00	0.67	0.00	0.00	0.00	0.40	0.00
<b>Business</b>	20.00	2.00	13.33	1.33	11.33	0.00	18.67	0.67	22.00	2.00	17.00	1.20
<b>Service</b>	8.67	1.33	34.00	2.00	16.67	4.00	20.00	1.33	13.33	0.00	18.50	1.73
<b>Technical Worker</b>	13.33	0.67	6.00	0.00	14.67	2.67	12.00	0.67	15.33	0.67	12.20	0.93
<b>Transport Worker</b>	26.67	0	12.67	0.00	22.67	0.00	18.67	0.00	23.33	0.00	20.80	0.00
<b>Social Leader</b>	0	0	0.00	0.00	0.67	0.00	0.00	0.00	0.00	0.00	0.13	0.00
<b>Self Employed</b>	2.00	0	0.67	0.00	0.67	0.00	0.00	0.00	0.00	0.00	0.67	0.00
<b>Expatriate</b>	0	0	1.33	0.00	0.67	0.00	0.00	0.00	0.00	0.00	0.40	0.00
<b>Housewife</b>	0	4.00	0.00	2.67	0.00	4.00	0.00	0.67	0.00	2.00	0.00	2.67
<b>unemployed / retired/ disable/child</b>	2.67	0	6.67	2.67	6.67	0.67	6.00	1.33	2.67	0.67	4.93	1.07
<b>Day Labor</b>	14.67	4.00	15.33	0.00	11.33	3.33	16.67	2.67	16.00	2.00	14.80	2.40
<b>Total</b>	88.00	12.00	91.33	8.67	85.33	14.67	92.67	7.33	92.67	7.33	90.00	10.00

*Source: Socioeconomic survey BRACU-KMC, December 2013*

5. The table shows the largest of the occupational group is engaged with transport work (20.80%) of which, Sirajganj (26.67%), Comilla (22.67%) and Dinajpur (23.33%). Next to the transport work, service holders (20.26%) and businessmen (18.27%) are more prominent, where Narayanganj (36%) and Dinajpur (24%) are leading respectively. Day laborers come next to the list with 17.20% of male and female dependent on various unskilled works for their livelihood. Interestingly, Comilla has the least number of people (14.66%) dependent on unskilled work and more people of the city are engaged with technical (17.2%) or transport (22.67%) sector that can be considered as skilled work. This reflects that most probably low income households in Comilla have relatively stable sources of income compared to other cities that would make the households able and willing to invest in secure housing.



Source: Socioeconomic survey BRACU-KMC, December 2013

6. The survey also captured data on the household income. Considering the upper poverty line to be BDT 7,500/month<sup>29</sup> for the respective urban areas, the figure represents that a higher percentage of population is living under poverty line in Sirajgonj (48%) and Dinajpur (45.34%). The population living just above the poverty line is on an average 24-28 percent for the selected areas. On the other hand the highest number of people with HH income level more than BDT 10,000/month were found in Narayangonj (48%) and then in Comilla (42%), Barisal (36.67%), Dinajpur (30.67%) respectively.

### The Census:

7. A census on the households of the targeted communities in Comilla- selected for year-1 intervention, has also been carried out in May-June, 2014 with a more detailed questionnaire. The data were collected from all the households (except for few refused to participate in the census) of the selected communities in Comilla. The census collected 308 household data from 5 selected communities in Comilla.

Findings of the community census in Comilla (N=308)		
Characteristics	Mean	S.D
Age: Male(n=767)	26.6	18.62
Age: Female(n=732)	27.13	18.36
Educational grade: Male	4.85	3.79
Educational grade: Female	5.07	5.87
Yearly income	213490	258283
Monthly house rent	1804.02	1235.19
<i>Source: Comilla community census: BRACU-KMC, May-June, 2014</i>		

8. As the census data suggest, targeted communities in Comilla has 51 percent male residents with average age of 26.6; age of females in the communities is 27.1 on average. In the selected communities, females not only have higher average age, they also have higher educational level than males. One average, females are fifth

<sup>29</sup> According to Bangladesh Bureau of Statistics (BBS) the upper poverty line for HH size of 4.72 in 2011 for (surrounded area of Dhaka city, considered for selected cities) was Tk 6,458.86 per HH/month. Acknowledging the national inflation rates by BBS based on consumer price for the country (8.69% for 2011-2012 and 6.78% for 2012-2013) and an average HH size for the affected population being 4.65, Tk 7284.44 income per HH/month has been adopted (round figure 7500/month or average yearly income up to BDT 90,000 are considered to be living under poverty line).

graders with a standard deviation of 5.87; males, on the other hand, have 4.85 grade education on average (S.D 3.79). Households' average yearly income is BDT 213,490 (US\$ 2,772.5 @77Tk) with standard deviation 258,283 BDT. The monthly average rental income is accounted for BDT1804 (US\$ 3) per room with standard deviation of BDT 1235.1.

**9. Component A: Community Mobilization and Planning (US\$11.5 million with 4.5 million IDA credit)** This component will cover three issues: firstly, it will provide technical assistance in the form of community architects, social mobilizers, engineers, as well as social, environmental, and financial specialists for eligible community organizations to prepare detailed designs and layouts for improved living conditions and shelter improvements. Secondly, this component will finance land use surveys and planning for the pilot towns, as well as to finance costs associated with securing tenure for communities, including improving public land management. Where NHA's existing land bank is available for development, these sites would be donated as a GOB contribution to the project..

10. The detailed planning and designing for the housing facilities in this component will have benefits like: securing land tenure, reduced flood damage; reduced travel times; increased land and property values; improved quality of life for the urban poor, particularly women and children; and the creation of better conditions for investment and economic development in the city. Some of the benefits of Component A are as follows:

- (a) **Securing land tenure:** Securing land tenure may have diversified economic benefits. Firstly, well defined property rights will reduce eviction threat and increase incentive for land related investment. Studies show that an effort to enhance tenure security in urban areas leads to increased investment in housing<sup>30</sup>. Securing land tenure also enhances female empowerment<sup>31</sup>. It also allows female to join formal labor market instead of staying at home to guard their land; thereby increasing their income and reducing child labor<sup>32</sup>. Securing land tenure also helps improving educational outcomes<sup>33</sup>.
- (b) **Reduced flood damage:** The significant reduction in flooding/water logging as a result of the proper drainage planning/improvements which will reduce damage to houses and private industry and generate cost savings from avoided private flood protection. In Bangladesh, 16 percent of household income on average per year is lost due to flooding, with roughly 89 percent of the loss in property and assets<sup>34</sup>. There is also a cost arising from mitigation measures that individual household takes to avoid flood damage such as raising the level of properties, modifying ground slopes and constructing small drainage

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<sup>30</sup> Galiani, S., & Schargrodsy, E. (2005). *Property Rights for the Poor: Effects of Land Titling*. Buenos Aires: Universidad Torcuato Di Tella, Centro de Investigacion en Finanzas.

<sup>31</sup> Field, E. (2005). Property Rights and Investment in Urban Slums. *Journal of the European Economic Association* 3 (2-3), 279-290.

<sup>32</sup> Field, E. (2007). Entitled to Work: Urban Property Rights and Labor Supply in Peru. *Quarterly Journal of Economics* 122(4), 1561-1602.

<sup>33</sup> Field, E. (2005). Property Rights and Investment in Urban Slums. *Journal of the European Economic Association* 3 (2-3), 279-290.

<sup>34</sup> Brouwer, R. A. (2007). Socioeconomic Vulnerability and Adaptation to Environmental Risk: A Case Study of Climate Change and Flooding in Bangladesh. *Risk Analysis*, 313-326

channels. It assumed from FGDs that 40 percent of households would invest in private flood protection measures in the “without” project case.

- (c) **Reduced travel times:** Traffic disruption, and therefore travel times, will be reduced because: (a) a well-planned drainage system will significantly reduce the frequency and severity of flooding; (b) roads constructed in conjunction with major canal improvements will improve access and reduce congestion, (c) more rationalized and well planned roads will access. For the existing and planned roads, benefits will arise from: (i) reductions in journey length and thus costs and time through diversion of traffic to the new, shorter routes; (ii) reduced maintenance cost of the roads due to less frequent or no flood/water logging. Road safety will also be improved but again the benefits could not be quantified since basic information on accidents is not available.
- (d) **Increased land and property values:** The provision of wider roads and walkways, drainage and other improved amenities is expected to result in better living condition and increased commercial development opportunities. This will increase the value of land and properties. Equivalent investments on a similar project carried out by NHA in 2011 and 2012 in Gopalganj and Madaripur resulted in land values rising nearly 1.5 times than the base price<sup>35</sup>. Surveys on land prices were carried out in the cities to compare and this has helped to establish an empirical relationship between unit land values in upgraded and unimproved areas. On average, land values in upgraded areas are 50 to 60 percent higher.

## **Economic Analysis for Component A**

11. The economic analysis of Component A comprises two major sub-components- securing tenure for the communities living on the government lands (US\$7 million) and planning/designing for all targeted communities living in both private and public lands (US\$ 4.5 million). Total cost for the planning/securing tenure will be US\$11.5 million. The economic analysis for the component is based on the following assumptions:

- With securing land tenure, a well-planned housing land price will be higher than the base land price at least by 30 percent (a conservative assumption in comparison to the other NHA projects’ outcome).
- The exchange rate is 77 Tk per dollar and the inflation rate is zero so the amounts are estimated in real terms.
- A rise in the land price will be accounted just after securing land tenure/planned housing and the land price will be assumed to be constant in real terms for the rest of the time.

12. The census suggests that average per decimal homestead land price in the targeted areas in Comilla is BDT 920,712 (US\$11,957 at 77/\$) with standard deviation of BDT 940,287. According to the project planning, the beneficiaries will have about 1 decimal/household on average and project will be implemented in four years. Therefore, Component A will upgrade 1500 decimals per year; totaling 4,500 decimals of land at the end of the project.

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<sup>35</sup> This information is gathered from the FGDs during the visit to Gopalganj project and consultation with NHA project implementation personnel.





### Calculation of IRR for the component-1

	IRR (approx.)	Sensitivity Test		
		Cost increase 15%	Benefit decrease 15%	Both cases
The land price increases by 30%	46%	28%	21%	12%

### 13. **Component B: Urban Community Improvements and Upgrading (US \$22.0 million).**

This component will finance a multi-sectoral package of tertiary infrastructure and service improvements. This includes a combination of water supply, drainage, paved access, electricity, sanitation services and solid waste management in a single package of upgrading works, depending on the expressed demands of the specific communities. Where connections to municipal level infrastructure are required, this component would also finance select interventions in primary and secondary infrastructure. This component, therefore, will improve the utility connections, roads and drainage/sewerage system of the houses in each targeted communities.

14. The benefits of Component B will come through the output of the component and some of the benefits will surface as outcomes. The benefits that affect the beneficiaries as project outputs are as follows:

- (a) **Access to improved electricity services:** The project will carry out endeavors to improved access to electricity of each household of the communities. The new electricity transmission network will facilitate safer connections than before and new connections will be provided to the households that did not have access to electricity without the project. Access to electricity and a better accessibility have many benefits including an increase in income and improved education<sup>36</sup>.
- (b) **Improvement in water and sanitation:** At present, there is no sewerage system in the selected communities and there is inadequate access to safe drinking water. The component will improve access to safe water and better sanitation system to the households. The safe water will either be availed through on site deep tube-well or supplied from city central water supply facilities. It is well evident that improved water and sanitation result in low rate of child diarrhea and child mortality<sup>37</sup>.
- (c) **Improved environment:** The environment management plan will be implemented at household level with appropriate waste management system. The component will also provide gas supply to the households. Most of the households in the communities use wood for cooking now and the supplied gas will result in low consumption wood and fuel for cooking.

<sup>36</sup> Lipscomb, M., Mobarak, A., & Barham, T. (2011). *Development effects of electrification: Evidence from the geologic placement of hydropower plants in Brazil*. Working Paper.

<sup>37</sup> Galdo, V., & Briceño, B. (2005). *Evaluating the Impact on Child Mortality of a Water Supply and Sewerage Expansion in Quito: Is Water Enough?* Washington, D.C.: Office of Evaluation and Oversight Working Paper OVE/WP-01, Inter-American Development Bank.

## **Benefits as outcomes:**

- (a) **Improvements in public health:** Benefits will arise through the reduction in waterborne and water-related diseases associated with inadequate waste water collection and disposal, and polluted open drains and canals. Reported incidence of waterborne and water-related diseases in the flood-prone areas is quite serious. This project provides the first step in reducing such health risks by removing wastewater more effectively from residential areas. The above mentioned measures will contribute significantly to mitigate health risks.

Although the health benefits are significant, it is very hard to quantify them with sufficient confidence without extensive and very costly epidemiological studies which are beyond the resources available for project preparation.

- (b) **Reduction of flood damage:** Most of the household in the selected communities are in direct threat of flood each year; especially for the communities in Sirajganj. The drainage system constructed at household level will reduce the proximity to be affected by flood. Reductions in property damage and loss of life resulting from a reduction in the incidence of flooding. Less exposure to the flood will result in less water-borne diseases among the target community people.
- (c) **Improved road access:** due to improved roads within the communities, benefits will incur through: (i) reduced vehicle operating costs because of improved quality of road infrastructure; (ii) generated traffic flow as the lower costs encourage journeys that would otherwise not be made; (iii) reduced transport costs and travel times and (iv) improve public safety as a result of better access for emergency vehicles such as fire trucks and ambulances. This will also improve access to education/workplace and other social and community facilities.
- (d) **Improved health conditions:** The health condition of the targeted community people will improve due the better water and sanitation facilities, better environmental condition and waste management system, less exposure to the flood.
- (e) **Improved quality of life, poverty and gender impact:** In the project cities, poor households live in unhealthy condition and these families will be key project beneficiaries. The project will particularly enhance the lives of women and children who suffer most from the degraded environment. There is also a long-term impact on social esteem of the project beneficiaries because of the upgradation to better living conditions.
- (f) **Encouraging new investments and economic development:** Improving the environment in the project cities will provide a better impression of the city to potential investors and therefore help to promote general economic development. Within the areas that will directly benefit from the project, new business opportunities, such as office development, restaurants, retail stores and other entertainment activities, will open up. Similarly, housing development in the areas will become more attractive because of the improved environment.

- (g) **Increased rental income:** The Component B will improve overall amenities ranging from improved access to utilities, better water and sanitation system, improved road access and less flood prone houses. The improved amenities will attract house renters and will have positive impact on house rent income of households of the selected communities.

**The economic analysis (EA) of Component B:**

15. The data used for the economic analysis for this component are taken from the household census conducted in Comilla in the communities selected for year-1 intervention. A detailed household data including the room rent/month has been collected and analysed. The assumptions for the analysis were:

- The observable and non-observable benefits of the improved amenities of the households in the target communities will reflect in the increased room rent/month;
- The room rent/month is assumed to increase 1.5-2 times after the amenities improvements;
- The exchange rate is BDT 77 per dollar;
- The inflation rate is zero and the project will benefit the households for the next 30 years from the implantation year.

16. From the census conducted in the targeted communities of Comilla, it is evident that the average house rent is BDT 1804 (Std. Dev. BDT 1235.19) per room per month. The project aims at building a three-room house for each of the 4500 households. Therefore, a three room house rent should be BDT 5412 (US\$ 70.28)/month on average. The estimated cost of improving the amenities under Component B is nearly US \$18.5 million.

**Calculation of IRR for the house rent increment**

	IRR (approx.)	Sensitivity Test		
		Cost increase 15%	Benefit decrease 15%	Both cases
House rents increase 1.5 times from the base case	16%	14%	13%	11%
House rent increases by 2 times of the base case	31%	28%	27%	24%

Source: House rent calculated from the census conducted in communities of Comilla

17. **Component C: Shelter Component and Lending (\$18 million).** This component will provide technical assistance to qualifying financial intermediaries to help develop a shelter lending program. This component will also finance seed funding to a Housing Fund within PKSf that would act as a credit line to qualifying financial intermediaries (MFIs/NGOs). This fund will benefit poor households who do not have access to medium-term financing. The economic rate of return would be at least the equivalent full market interest rate for the micro-finance loans, which ranges from 12 to 20 percent per year.

18. The major benefits of Component C would be:

- The project will benefit the households those are substantially disadvantaged relative to richer urban households.
- The poor households face high borrowing costs. The project will facilitate the poor to access low cost borrowing for housing.
- The project will help the poor to have increased access to the formal source of finance
- Financing under the project will create incentives for lenders to focus on lower income households.

19. **Component D: M&E, Horizontal Learning and Supervision (US\$1 million).** This component will support independent M&E and learning activities. This will include continuous and ongoing M&E of project results, as well as an impact evaluation of the project’s interventions that will collect independent baseline information through surveys. In addition, this component will finance ongoing learning activities, such as peer-to-peer learning programs between community groups, and strengthening community networks at the town level. Funds under this component would also help the supervision of the Environment and Social Management Plans.

20. **Component E: Project Management, Training and Capacity Building (US\$4.0 million)** This component will finance the project management costs for NHA, including technical advisors, incremental staff, audits, and expenditures incurred by each of the implementing agencies for the project, as well as for any additional costs to implement the Governance and Accountability Action Plan (GAAP). In addition, the component will finance capacity building, technical assistance and training associated with the project. NHA inclusive of all salaries and associated benefits, to the project (around US\$0.5 million).

**Overall IRR and Conclusion**

21. The component wise IRR weighed by the components’ costs indicate the overall IRR 25 percent; that is more than double of the acceptable threshold (12%). Therefore, it can be concluded that the project is economically viable.

**Calculation of overall IRR weighted by the cost: (for Component A, B and C)**

	IRR	Sensitivity Test		
		Cost increase 15%	Benefit decrease 15%	Both cases
Assumed increments: a. 30% land price rise by Comp.-A b. 50% house rent rise by Comp.-B c. 12% rate of return by Comp.-C	25%	18%	15%	3%

**Rationale for Public Sector Engagement**

22. Public sector engagement in the housing sector is well established in many economies, particularly to support affordable housing options for the poor. Global experience shows that investment in housing has broader economic benefits, such as increased tax revenues, VAT on construction materials, property tax, and land leases, as well as increased revenues from land. In order for this economic growth to be realized, the public sector has a role to play. The role of the

public sector in housing takes many different forms, from public housing, assisted self help programs, enabling approaches, community based approaches, and mobilizing the domestic financial sector. Regardless of the approach, the public sector has played an important role in ensuring the growth of the housing sector, particularly for the bottom market segments, where affordability challenges remain.

23. **Value added of World Bank.** The World Bank provides significant value added to the proposed project, since the project will test a set of interventions to address a key socio-economic challenge in the country. In this context, the World Bank brings significant technical capability, global expertise, and financing to test the approach in the context of Bangladesh.

**Annex 8: Financial Intermediary Lending**  
**BANGLADESH: Pro-Poor Slums Integration Project**

## **I. GENERAL PROJECT OVERVIEW**

### **1.1 Project Summary**

1. The project proposes a community-driven and people centered approach to improving living conditions for the urban poor. As such, it aims to test the approach and a set of systems that brings together government funding, private sector participation, and community savings to address slum improvement and housing. This builds on over a decade of investments in community-based urban poverty and development programs that have effectively organized the urban poor and developed a savings capability. The objective of this pilot program is to build on these efforts to improve living conditions among selected communities.

2. The project is divided into five components, designed to cover the key factors of shelter improvement—community driven planning, infrastructure, and housing loans—and with a strong focus on monitoring and evaluation of the project’s results to better understand the impacts and the potential for scaling up such a program in the future. The project’s components are as follows: (i) **Component A: Community Mobilization and Planning.** The objective of this component is to facilitate community-driven planning for housing projects. It will finance technical assistance in the form of community architects, social mobilizers, engineers, as well as social, environmental, and financial specialists for community organizations to prepare detailed designs and layouts for improved living conditions and shelter improvements. In addition, this component will finance land use surveys and planning for the pilot towns to identify vacant lands. (ii) **Component B: Urban Community Improvements and Upgrading.** This component will finance a multi-sectoral package of tertiary infrastructure and service improvements, including water supply, drainage, paved access, electricity, gas, sanitation services and solid waste management in a single package of upgrading works, depending on the expressed demands of the specific communities. (iii) **Component C: Shelter Component and Lending.** This component will finance technical assistance to and a credit line within PKSF to provide access to longer-term financing to target communities for investment in housing, and to address the current gap in shelter lending programs among qualified partner organizations (POs) (iv) **Component D: Monitoring and Evaluation and Learning.** This component will support independent M&E and learning activities, as well as the independent supervision of any Environment and Social Management Plans; and (v) **Component E: Project Management, Capacity Building & Training.**

3. The total financing of the project is US\$50 million, of which US\$18 million are for Component C: Shelter Component and Lending. Of the US\$18 million, US\$16 million have been allocated for the credit line, and US\$2 million for technical assistance and support to PKSF and Partner Organizations (POs). The Credit Line will be implemented by PKSF, with around half of the credit line designated to be packaged together with the grants and technical assistance provided by the National Housing Authority, and the other half to test independent housing microfinance (HMF) products in urban areas.

## 1.2 Objectives of the project and the component

4. The project development objective is to improve shelter and living conditions in selected low income and informal settlements in designated municipalities in Bangladesh. The objective of the component is to test a more sustainable mechanism for providing access to housing for the urban poor through the development of incremental and community based shelter lending products.

### 1.2 Flow of funds

5. For the purposes of the Credit Line, the World Bank loan funds will be channeled through the Economic Relations Divisions of the Ministry of Finance (MOF) as the Borrower's representative. Further, the World Bank credit funds will be passed on to the Project Management Unit (PMU) located at the PKSf. PKSf will sign Subsidiary Loan Agreements for up to 6 years with each qualified microfinance institution (Partner Organizations – POs) for the purposes of implementing the project's credit line. Separate Operational Procedures for the Credit Line will determine the criteria, eligible activities, detailed withdrawal procedures, and responsibilities of all parties implementing the Credit Line. The POs, in turn, will on-lend the Credit Line funds to eligible borrowers in accordance with the Operational Procedures and their banking considerations.

### 1.4 Additional information

6. **Project Beneficiaries:** The credit line will primarily target beneficiaries in urban poor settlements that are characterized by poor housing conditions who are interested in (i) home improvements, renovations or expansions; (ii) new construction using an incremental building approach; and (iii) cluster housing redevelopment. The beneficiaries (i) are expected to be within a certain income bracket generally considered to be in the lower income categories<sup>38</sup>; (ii) will invest in housing that meets the requirements of the Bangladesh National Building Code, or alternative minimum standards provided by the project; (iii) demonstrate compliance with a set of agreed criteria set forth for credit line beneficiaries<sup>39</sup>; (iv) demonstrate savings behavior of the amounts equivalent up to six months of anticipated monthly installments; (v) be eligible to receive technical support for housing design and establishment through the project, and (vi) have the ability to repay the housing loan within five years. Borrowers will qualify for housing loans based on the banking considerations of the POs. Loans for housing upgrades are expected to be shorter in term than those for housing construction (e.g. 3 versus 5 years).

7. **Approach.** The component serves as a catalyst to, on the one hand, enhance access to financial services to the urban lower middle and lower income categories for housing; and on the other hand, introduce the microfinance sector to a new set of products and potential clients for housing, and demonstrating the viability for shelter lending to these income segments. The component will thus finance costs associated with establishing a housing loan program with a number of tailored products to provide access to credit for qualifying borrowers, using different

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<sup>38</sup> Indicative assessments for these categories has identified broadly that the target income categories are between BDT10,000-40,000 per month.

<sup>39</sup> Such detailed criteria will be set forth in the operational manual for the credit line.

collateral approaches (e.g. personal, joint liability, group guarantees, etc.). In addition, it will provide longer-term<sup>40</sup> financing to partner organizations (POs) to pilot housing microfinance for the urban poor.

8. **Alignment with Twin Goals.** The component will contribute to the twin goals of the World Bank Group of growth and shared prosperity. Studies show that poor living conditions undermine continued economic growth and poverty reduction efforts. In Bangladesh, the poor are increasingly more urbanized, as they search for better employment and income generating activities. While national poverty rates saw a reduction from 56.8 percent to 31.5 percent, the share of urban poor rose by 7 percent between 1990 and 2010. The urban poor are more vulnerable than the rural poor in particular to economic fluctuations, higher costs of living, underlying insecurity of tenure, and rising land prices. Without secure tenure, the urban poor remain largely in inferior dwellings for fear of evictions. Global studies have shown that investments in housing improve household health and education, and lead to increased access to employment and reductions in crime.<sup>41</sup> Lack of accessible housing finance has been identified by the Bangladesh Government as one of the basic impediments holding up improvement in the housing condition for middle and lower-income households.

9. **The main aspects of the credit line include:** (i) partner organizations (POs) are subject to strict eligibility criteria to ensure their soundness and reduce the risk to the government's funding; (ii) once the POs are selected, lending decisions are left to the financial institutions, including establishment of on-lending rates; and (iii) financing is available for a broad range of housing-related activities, including minor repair or renovation, incremental improvements and upgrades to existing housing, as well as for housing construction. The credit line will be subject to certain restrictions, such as (i) urban areas only; (ii) housing loans only; (iii) for construction quality and standards outlined in the Guidelines for Planning Design and Construction for PPSIP and (iv) subject to IDA's social and environmental safeguards.

10. **Technical Assistance to Financial Intermediaries.** As housing microfinance and shelter lending is currently extremely limited in Bangladesh, additional resources would be made available under this component to provide technical assistance to relevant stakeholders in the further development of housing microfinance products under the project (e.g. shelter improvement loans, home construction loans, and cluster housing development). Resident advisor(s) and technical expert(s) will be placed in POs to support the implementation of this pilot credit line, as well as help develop the individual housing product and provide technical support to the borrowing households in their housing related activities (e.g. minor repair or renovation, incremental improvements and upgrades to existing housing, as well as housing construction). The resident advisors and technical experts are expected to be competitively selected with solid experience in the housing microfinance field and civil construction/engineering area. Assistance will also be

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<sup>40</sup> Currently, in most cases the financial institutions are only able to raise funding with maximum maturity of 3 years.

<sup>41</sup> Vlahov et al 2007 ("Urban as a Determinant of Health") and WHO. *A Billion Voices: Listening and Responding to the Health Needs of Slum Dwellers and Informal Settlers in the New Settings*. WHO Kobe Center: Kobe; 2005. Krieger J, Higgins D. Housing and health: time again for public health action. *Am J Public Health*. 2002;92(5):758–768.



provided to PKSF to help develop the housing microfinance sector, and to support training and technical assistance required for the component.

11. **Expected project-related outcomes.** Project financed activities are expected to lead to, among other things: (i) improved shelter conditions and well-being of the urban poor; and (ii) strengthened capacity of Partner Organizations (POs) to lend to the urban low income categories for housing.

## **II. COORDINATION BETWEEN THE BANK AND IFC**

### **2.1 Collaboration with IFC**

12. The project design draws on studies financed and carried out by IFC, in particular, *Development of Housing Finance and its Impact on Socio-economic Uplift in the Emerging Economy in Bangladesh (Rahman, 2009)*. In the future, the project is expected to collaborate with IFC, in particular in designing a sustainable housing finance program for the poor, based on the results of the pilot under the PPSIP. This work will be carried out during the project implementation.

## **III. POLICY FRAMEWORK**

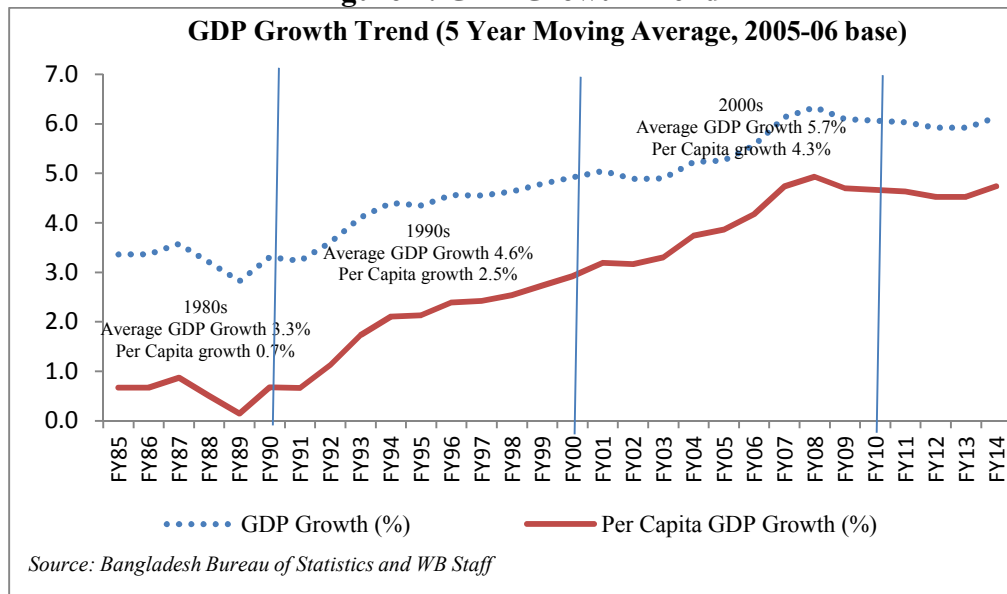
### **3.1 Macroeconomic Environment<sup>42</sup>**

13. Over the past twenty years, Bangladesh has made significant gains in economic growth, development and poverty reduction. Average annual GDP growth has risen steadily over the past three decades (see figure below), and grew by more than 6 percent a year on average during the past 5 years despite the adverse impacts of the global recession, oil price rise, and unrest in the Middle East (an important destination for migrants) and natural disasters. As indicated in section I, several factors explain its resilience to global and domestic shocks so far, including good macroeconomic fundamentals, resilience of exports and remittances, relatively under-developed and insulated financial markets, and a pre-emptive policy posture.

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<sup>42</sup> Includes data from the websites of Bangladesh Bank and IMF.

**Figure 1: GDP Growth Trend**



14. Growth however remains below potential. It remains below what is needed for Bangladesh to comfortably achieve middle-income status by 2021.

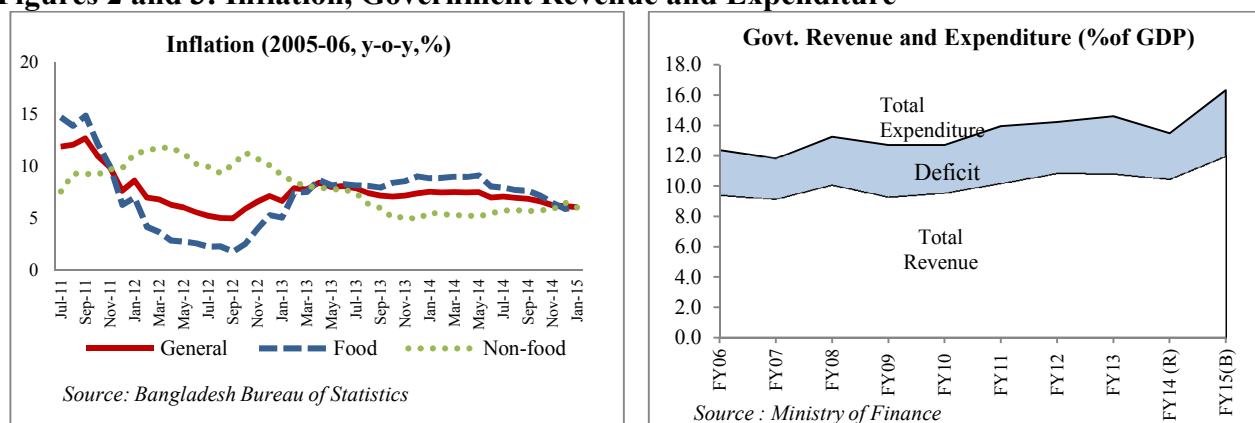
15. FY15 growth is expected to inch up to 6.2 percent. Bangladesh’s growth resilience in recent years has been tested by political turmoil in the last half of 2013 and its recurrence since early January 2015. Stagnating private investment, remittances slowdown in FY14 and export slowdown in the first half of FY15 contributed further to diffuse the growth momentum. The political unrest in the beginning of 2015 has taken a heavy toll on economic activity, in particular the services sector, agriculture, exports, and non-formal sector businesses.

16. External balances remain comfortable despite weak export growth and strong imports. Rebound in remittance growth partially offset the impact of increased trade and services account deficit on the current account, which moved to a \$1.3 billion deficit during July-November 2014 compared to a \$1.13 billion surplus during the same period of the preceding year. This deterioration is the result of 0.9 percent export decline along with 16.6 percent import growth. Growth in import payments is likely to slow down because of the sustained decline in international oil prices and the ongoing political turmoil. Foreign exchange reserves continued to set records, surpassing the \$22 billion level by end-January 2015, equivalent to 6.4 months of prospective FY15 merchandise imports.

17. Favorable international commodity price trends, a stable nominal exchange rate and prudent monetary policy have helped contain inflation. Inflation has been under control, reaching 6.04 percent in January 2015, partly because of favorable international price trends. But credit is also due to the monetary policy framework which pursued price and external stability. A sizable surplus in the overall balance of payment continued to boost official foreign exchange reserves as the BB (BB) intervened to smoothen volatility in the nominal exchange rate. The conduct of monetary policy continued to be a source of strength for the economy, notwithstanding shortfalls in financial regulation. BB’s Monetary Policy Statement for January-June 2015 has kept policy

rates unchanged. BB plans to limit broad money growth to 16.5 percent, has set a private credit growth target of 15.5 percent (sufficient to accommodate any substantial rise in investment and trade-financing), and has maintained government borrowing from the banking system within the FY15 budget target of Tk 312 billion (around US\$4 billion).

**Figures 2 and 3: Inflation, Government Revenue and Expenditure**



18. Fiscal policy has remained consistent with macroeconomic stability. Fiscal deficit was held in check at 3.1 percent of GDP in FY14. The shortfall in tax revenue collection due to the adverse impact of political turmoil on the economy was offset by better control of recurrent expenditures, particularly subsidies. The FY14 subsidy bill was budgeted to decline to 2.2 percent of GDP, compared with 3.2 percent in FY13, while actual expenditure was even lower (1.7 percent).

19. The Government of Bangladesh has adopted a Perspective Plan 2010-21<sup>43</sup> to attain its “Vision 2021” targeting annual real GDP growth rate to rise to 10.0 per cent by 2021, significantly improving living standards of the population by drastically reducing unemployment and poverty, riding on substantially higher output and export growth. Per capita annual income is projected to rise to about USD 2,000 (at constant 2013 dollars) by 2021, thus crossing the middle income threshold. Among others, a prudent macroeconomic policy will be required to ensure internal and external stability, low inflation and high economic growth through increase in the investment rate in the economy.

20. Along with pursuing a high growth strategy, measures has been identified and taken to ensure that fast growth does not lead to serious imbalances in fiscal operations, inflation, or balance of payments. The private sector has been identified as the leading agent in raising economic growth, and public investment is restructured to become more effective in promoting growth and development. It has been emphasized by the GOB that the high growth needs to be inclusive and pro-poor so that its benefits reach all sections of the population.

<sup>43</sup> Perspective Plan Of Bangladesh 2010-2021, Making Vision 2021 A Reality, General Economics Division, Planning Commission, Government Of The People’s Republic Of Bangladesh, April 2012

21. Growth experiences in Bangladesh (and elsewhere) also demonstrate both a tendency towards urbanization as well as uneven regional growth. With rapid urbanization during the last few decades, poverty has increasingly been urbanized by way of transfer of the rural poor to urban areas. But manifestation of urban poverty is often more appalling than that of rural poverty. Urban poverty is invariably associated with poor quality housing. Most of the urban poor live in slums and squatter settlements characterized by substandard living conditions. Slums and squatter settlements are found in all major cities in Bangladesh although their concentrations may vary depending on the size of cities. Despite the challenges, urban areas demonstrate immense economic potential to generate growth in the country and can be instrumental in enhancing prosperity and increasing per capita income.

22. The GOB in its Sixth 5-year Plan has made specific efforts to address both these dimensions of growth. On the urbanization front the strategy has emphasized a more balanced growth of urban centers across the entire country through proper institutional reforms that involves the establishment of locally elected and accountable municipalities and city corporations. Special emphasis has been given to improving land administration and management to arrest the spiraling urban land prices that is becoming a binding constraint to the expansion of manufacturing and modern services as well as limiting the ability to provide affordable housing.

23. On the inclusive growth front, the GOB has identified reform of the financial system to provide easy access of rural population and small savers to formal financial institutions; and low inflation to facilitate more savings as one of its key priorities. The lack of available and accessible housing finance has been identified as one of the important hurdles in improving housing conditions for middle- and lower-income households. Although several potential sources of housing finance for mid- and high-income consumers exist, most of the low-income families' needs are still unmet.

### **3.2 Financial Sector Framework**

24. The financial system in Bangladesh is comprised of comprised of three broad fragmented sectors, Formal Sector, Semi-Formal Sector and the Informal Sector. The *formal financial sector*, in Bangladesh is mainly comprised of the money market, stock market, bond market, insurance market, foreign exchange market and micro-financial market. This includes:

- a. 56 banks and 31 non-bank financial institutions regulated by Bangladesh Bank;
- b. 599 micro-finance institutions regulated by Microcredit Regulatory Authority;
- c. Life insurance companies regulated by Insurance Development and Regulatory Authority;
- d. Capital market intermediaries regulated by the Securities and Exchange Commission.

25. The current size of the respective sectors measured in terms of their asset base is shown in Table below.

**Table 1: Size of Different Components of Financial System as Share of Total Assets of the Formal Financial Sector and as Percentage of GDP, June 2013**

	Percentage Share in Total Assets of the Formal Financial Market	Size as Percentage of GDP
Banking Sector	63	60
Stock Market	20	19
Bond Market	16	15
Insurance Market*	3	3
<i>Source: Bangladesh Bank, DSE and BBS</i>		

26. The *semi/quasi formal sector* includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Bangladesh Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by *Specialized Financial Institutions* like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay (Cooperative) Bank, Grameen Bank, and financial activities/programs (lending and deposit taking) of various Non-Governmental Microcredit Organizations.

27. The *informal financial sector* includes private intermediaries (e.g. vSavings and credit associations, private moneylenders ) which are completely unregulated and sometimes engage in financial transactions not legally permitted.

#### IV. DEMAND AND SUPPLY OF HOUSING FINANCE

##### 4.1 Rapid Urbanization and Demand for Housing in Bangladesh

28. In Bangladesh, urban population as a percentage of total population increased from around 8 percent to nearly 23 percent during 1974-2001 periods<sup>44</sup>. With 147.9 million people (Bangladesh Economic Review, 2011), Bangladesh is one of the most densely populated countries in the world. Land prices are high and permanent housing is rare—barely 2 percent in rural areas and 23 percent in urban centers<sup>45</sup>. Estimates suggest a shortage of about 5 million houses in Bangladesh, with as many as 500,000 houses added annually in urban areas and 3.5 million added in rural regions (World Bank, 2010).

29. Rural ‘push’ factors including landlessness, unemployment, and vulnerability to natural hazards, and urban ‘pull’ factors such as better employment opportunities, continue to encourage the migration of the rural poor to the cities (especially to Dhaka), despite declining standards of living quality and standards. Currently 34 percent of the population lives in urban areas, and the urban population is projected to reach 112 million or 55 percent of total population by 2050 and would still be growing (UNDESA 2014). In effect, this suggests that all future population growth in Bangladesh will be urban.

<sup>44</sup> SIXTH FIVE YEAR PLAN, FY2011-FY2015

<sup>45</sup> A Comprehensive Study On The Real Estate Sector Of Bangladesh, REHAB 2012

30. The urban population growth rate of 4.4 percent, well above the national population growth rate of 2.6 percent per annum (or the rural population growth rate of 1.3 percent), places severe pressure on urban land, utility facilities, and services. The cities and towns of Bangladesh, numbering more than 525, suffer from acute problems of deteriorating infrastructure in the form of poor housing, inadequate availability of drinking water, paucity of drainage and sewerage facilities, logjam of urban transport, and pollution<sup>46</sup>. Homeless population in most cities is on the rise and the slums and squatter settlements have become integral part of urban life in the country. Statistics show that Bangladesh will need to construct approximately 4 million new houses annually to meet the future demand of housing, urban and rural, in the next twenty years. Estimates for annual requirements for housing in urban areas vary from 0.3 to 0.55 million units. Roughly 400,000 units are delivered per year by the formal sector, and one estimate shows that the current shortage is about 146,000 housing units in the urban areas (Islam et al., 2006).

31. Bangladesh's urban life is dominated by the lower-middle and low-income people<sup>47</sup> and the majority of them are employed in the informal sector (Islam et al., 2009). In the current housing market, it is considered<sup>48</sup> impossible for these low-income people to own affordable houses. Hence, the only accommodation choice left to them is to rent houses that are supplied by individual landowners in different low-income areas. As can be seen in the table below, in the six city corporations<sup>49</sup> of Bangladesh one million plus households (expectedly low-income) live in 9000 plus densely populated slum settlements in substandard physical and social conditions. Only 14.5 percent of them have any land tenure security or rights. But 87 percent of the slums are on private land plots. nearly 90 percent live in small single-room accommodation, in deplorable living conditions, for which many pay high rents (Rahman, 2009). In such slums, tenure security is precarious and tenants live with the constant threat of evictions from the government, landowners, or from the slum lords who control those slums (Islam, 2006).

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<sup>46</sup> Accelerating Growth and Reducing Poverty (SIXTH FIVE YEAR PLAN, FY2011-FY2015), General Economics Division, Planning Commission, Ministry of Planning

<sup>47</sup> It is estimated that around 48 percent of the total population lives below the poverty line, with 32 percent below the hardcore poverty line in the mega city Dhaka only, and about 6 million people therefore live below the poverty line (DAP, 2008).

<sup>48</sup> In Urban areas, land prices are high, and the gap between cost of new construction and incomes forces the private sector build houses only for those who can afford to pay. In addition, high land prices in urban areas have caused multi-family units to become the predominant house-type. This type of housing makes it difficult for urban middle and lower-income households to use traditional incremental land acquisition and house-construction methods.

<sup>49</sup> Dhaka, Sylhet, Chittagong, Rajshahi, Barishal, Khulna

<b>Table 2: Population, Land Ownership and Tenure in Six City Corporations</b>	
<b>Slum Population</b>	
2001 Population six City Corporations	11,210,617
2005 Population six City Corporations	15,447,046
2005 Slum Population	5,438,165
2005 Slum Population as % of total pop	35.2%
Number of slum clusters	9,048
Number of slum households	1,043,329
<b>Slum land ownership</b>	
Slums on government land	9.2%
Slums on private land	88.6%
Slums on “other” land	2.2%
<b>Slum population by ownership</b>	
Population on government land	27.1%
Population on private land	66.7%
Population on “other” land	6.2%
<b>Tenure</b>	
Households claiming ownership	14.5%
Households paying rent	73.8%
Household living rent free	11.7%
<i>Source: Draft Strategy for Improvement of Tenure Security of Poor in UPPR Towns in Bangladesh, 2009</i>	

32. In urban areas, approximately 35 percent of the low-income housing units are in slums, informal settlements areas that include both private rental and private ownership housing, built on either privately owned land or illegally occupied public land. Conventional tenement slums (rental and owner occupied) take up another quarter of the low-income sector. Overcrowding in these buildings has increased over the last years due to an influx of rural migrants to work in the expanding garment industry. Other categories of low-income housing include: government-provided squatter resettlement camps, plots of land with basic services that are provided on a leasehold basis; employee housing consisting mostly of small apartments in high-rise complexes provided by the government; squatters who have built makeshift houses on illegally occupied public or private land; and pavement dwellers.<sup>50</sup>

#### **4.2 Demand for Low Income Housing Finance**

33. A household’s demand for housing finance and its decision to invest in housing is influenced by its perception of housing. Theory leads us to think of low income housing from three vantage points<sup>51</sup>. First, *housing is most commonly thought of as Shelter*: housing is a basic right, necessary for safety, health and dignity. Second, *housing can also be a Commodity*: about 60 percent of a poor person’s assets are represented by her/his home. The investment in housing can thus be a significant gauge of social and economic status for a poor person. Third, *housing is also an investment* as is apparent in the case of home-based micro-enterprises. Home improvements

<sup>50</sup> Rahman, Khandaker Khalidur: Development of housing finance and its impact on socio-economic uplift in the emerging economy in Bangladesh

<sup>51</sup> Serageldin, Mona (1993). Use of Land and Infrastructure in the Self Improvement Strategies of Urban Lower Income Families. Working Paper. Office of Housing and Urban Programs. U.S. Agency for International Development.

provide the opportunity for higher productivity and thus, higher income. For instance, SEWA reports a 35 percent average increase in small enterprise weekly earnings as a result of the Parivartan slum upgrading program<sup>52</sup> in India.

34. Another aspect of low-income housing is the central importance of the neighborhood which the beneficiary currently inhabits to her/his life and livelihood. Poor people in rural and urban areas prefer to make improvements to their existing house rather than move to a new unit. This preference ultimately underscores the importance of the economic and social networks which are rooted in their neighborhood.

35. However, poor households will not spend more than 15 percent<sup>53</sup> of their income on housing without some assurance of their ability to exercise authority as owners or renters. Thus, government policies must seek to increase security of land and home tenure if poor households are to be motivated to seek housing loans.

### 4.3 Supply of Finance for Low Income Housing

36. The supply of low income housing finance is constrained mainly because of banks' inability to accurately assess credit risk associated with low income borrowers, lower profit margins, lack of land titles, and uncertainty of repossession. While the penetration of traditional mortgage finance market in Bangladesh is already miniscule, as can be seen in the table, the penetration of low income housing is even smaller. In Bangladesh, the mortgage to GDP ratio is estimated at 2 percent<sup>54</sup>. This mortgage to GDP ratio compares poorly to that of over 51 percent in USA and between 15-20 percent in South East Asian countries. There is also no special mortgage finance prudential regulation in Bangladesh, although all housing finance institutions are subject to Bangladesh Bank regulations. At present, housing finance issues are covered under the prudential regulations for consumer finance. This generalized arrangement missed out on important rules suited exclusively to housing finance activities, such as a regulatory ceiling on the "mortgage debt-to-advances" ratio on the mortgage lending of commercial banks.

**Table 3: Outstanding Housing Loans and Overview of the Housing Credit Market, 2012-2014**

<b>a. Outstanding Housing Loans</b>						
<b>Lenders</b>	<b>Amount Outstanding</b>					
	June 2014		June 2013		June 2012	
	BDT billion	% of Total	BDT billion	% of Total	BDT billion	% of Total
<b>a. Specialized housing finance providers</b>	<b>59.7</b>	<b>13.14</b>	<b>55.7</b>	<b>13.09</b>	<b>59.7</b>	<b>13.14</b>
i) HBFC	29.6	6.52	28	6.58	29.6	6.96
ii) Delta-Brac Housing Finance	26.8	5.90	24.9	5.85	26.8	6.30
iii) National Housing Finance	3.3	0.73	2.8	0.66	3.3	0.78

<sup>52</sup> Gujarat Manila Housing SEWA Trust Website. <http://www.sewahousing.org>

<sup>53</sup> The Center for Urban Development Studies, Harvard University. "Housing Microfinance Initiatives." Microenterprise Best Practices (2000).

<sup>54</sup> "International Housing Finance Program 2008." Wharton - University of Pennsylvania. June-July 2008.



<b>b. Banks</b>	<b>366.8</b>	<b>80.76</b>	<b>349</b>	<b>82.02</b>	<b>366.8</b>	<b>86.20</b>
i) PCBs	235.6	51.87	229.8	54.01	235.6	55.37
ii) SCBs	100.1	22.04	73.1	17.18	100.1	23.53
iii) Other banks (foreign and specialized)	31.1	6.85	46.1	10.83	31.1	7.31
<b>c. Other financial institutions</b>	<b>27.7</b>	<b>6.10</b>	<b>20.8</b>	<b>4.89</b>	<b>27.7</b>	<b>6.51</b>
<b>d. Micro-credit lenders</b>		<b>0.00</b>		<b>0.00</b>		<b>0.00</b>
Grameen Bank	0.04	0.01	0.04	0.01	0.04	0.01
<b>Total</b>	<b>454.2</b>	<b>100.00</b>	<b>425.5</b>	<b>100.00</b>	<b>454.2</b>	<b>106.75</b>
<b>Sources: Department of Financial Institutions and Markets, Statistics Department, Bangladesh Bank, and Grameen Bank</b>						

### b. Housing Credit Market Overview

<b>Total amount of loan disbursed on the Real Estate sector from the Banking sector (BDT in Lac)</b>						
Real Estate Sector	<b>June, 2006</b>	<b>June, 2007</b>	<b>June, 2008</b>	<b>June, 2009</b>	<b>June, 2010</b>	<b>June, 2011</b>
Housing Society/Company	136,034	157,973	172,262	242,461	369,470	623,134
Urban Housing	416,528	520,845	567,748	684,000	837,173	985,242
Rural Housing	12,600	18,997	43,192	29,091	46,596	71,735
Apartment/Housing Renovation	20,582	37,529	46,465	100,829	113,033	172,660
Flat Purchase	37,796	111,629	160,883	145,995	213,009	310,878
Land Purchase	16,016	13,537	19,561	34,243	45,898	42,186
<b>Total</b>	<b>639,556</b>	<b>860,510</b>	<b>1,010,111</b>	<b>1,236,619</b>	<b>1,625,179</b>	<b>2,205,835</b>
<i>Source: Scheduled Bank Statistics</i>						

37. Much of the funds for house construction in Bangladesh come from informal sources that include cash savings by households; loans and gifts from relatives, moneylenders, shopkeepers, landlords; and so forth. This sourcing can be attributed to the inadequacies of the existing formal financing system. In the urban areas, MFIs currently provide small, short-maturity loans (BDT 10,000–1,000,000 loans for six months to two years) for livelihood generation and consumption; loans for housing are restricted to small amounts for incremental construction or home repair. Commercial banks and housing finance NBFIs provide majority of formal housing finance to the creditworthy borrowers.

38. Total outstanding housing loans from banks and financial institutions as of end June 2014 amounted to BDT 454.2 billion (Table 3), which was 9.7 percent of total credit to the private sector. In recent years, significant changes have taken place in total housing loan portfolios. Of the total, private banks with ample deposit resources have been expanding their housing loan portfolios, and now have dominant market position (Table 3) with the largest share of BDT 235.6 billion in outstanding housing loans as of end June 2014. The State-owned Commercial Banks (SOCBs) have the second largest share of BDT 100.1 billion and other banks BDT 31.1 billion in outstanding housing loans as of end June 2014. Besides, two private sector specialized housing

finance companies also provide a significant amount of loan. They supply fund for their operations by taking long term deposits including some contractual deposit schemes.

39. The main public player in housing finance in Bangladesh is *House Building Finance Corporation (HBFC)* which remains outside the ambit of Bangladesh Bank and is solely regulated by the Ministry of Finance. The HBFC has the third largest, after the banking sector and NBFIs, share of BDT 29.6 billion in outstanding housing loans as of end June 2014. The sources of Corporation's fund are paid-up capital by the Government and the proceeds as received by selling Government guaranteed interest bearing debentures to different organizations. The second mode of funding has been unavailable in recent years. In the past the HBFC funded its housing loans by issuing low interest debentures bought by the SOCBs and the Bangladesh Bank. The HBFC has been constrained to rely on recoveries of past loans for new lending after defraying operating and debt servicing costs. Consequently, its new lending amount has declined. In FY13 and FY14 BDT 4.3 billion and BDT 3.9 billion were disbursed out of recoveries of BDT 4.5 billion and BDT 4.6 billion respectively.

40. In general, housing loans by banks/NBFIs in Bangladesh have a maturity of 10–20 years. Lending criteria reflect a great cautiousness, particularly through restrictive loan-to-cost maximums (generally capped at 70 percent, but averaging 50 percent in practice) and relatively limited maximum BDT amounts (BDT 2.5–3.0 million for many lenders). Interest rates are fixed at 14 to 20 percent (Table 13), but loan agreements typically stipulate that the lenders can change the rates at their discretion during the life of the loan.

41. Credit risk is not particularly problematic for private specialized housing institutions, as revealed by their 5 percent nonperforming loan rate. Commercial banks have limited their credit risk by maintaining trivially small exposure to the housing sector. In contrast, the BHBFC has a large nonperforming loan portfolio (about 47 percent, if reclassified on the basis of international prudential loan classification standards). It has more than Tk 10 billion as interest receivable from the problematic portfolio, partly because of the imprudent policy of interest deferment. This unrealized interest has a sizable opportunity cost (Tk 500–1,000 million). These portfolio weaknesses have not been adequately provisioned for, creating a sustainability risk for the BHBFC.

42. **Government Schemes for pro-poor and/or affordable housing:** There are several government programs in support of low-income housing. In 1998, the Bangladesh government started *Grihayan Tahabil*, a housing fund at 2 percent interest rate for homeless and low-income groups. Up to June 2014, the *Grihayan Tahbil* has been released BDT 1.7 billion against allocation of BDT 2.6 billion through 513 NGOs for rural housing programme which have covered 450 upazilas of 64 districts of the country and 58797 houses have already been constructed. In addition, for the target people those are adversely affected by different natural calamities, BDT 0.1 billion has been released as grant as per decision by the authority concerned. As on June 2014, *Tahbil* has recovered BDT 1.1 billion against the total recoverable amount of BDT 1.3 billion and the recovery rate is 86.6 percent.

43. A similar government program in rural areas, *Asrayan*, is intended to fund and provide the construction of low-income barrack-type houses. Government programs, however, are not as

efficient as could be achieved under a commercially based approach; and they have been known to be poorly targeted in certain cases to households with incomes higher than the lower-income groups, or to be excessively directed at civil-force staff. In July 2007, Bangladesh Bank started a refinance scheme to help middle-income people buy homes in cities and to encourage banks and NBFIs to lower their interest rates on home loans. Initially, a fund of Tk 3 billion was created for this scheme; later, it was enhanced to Tk 5 billion. Middle-income people earning less than Tk 50,000 a month are eligible to get loans from any participating financial institutions (up to a maximum of Tk 20 lakh). The loan is for purchase of an apartment no larger than 1,250 square feet, located in one of six divisional cities or in Gazipur, Narayanganj, Savar, or Tongi. The loan period is up to 20 years (with a 1-year grace period) at an interest rate of 9 percent. These scheme are untenable over the long term, and Bangladesh Bank cannot be expected to provide development finance at concessionary rates to further the creation and growth of a vibrant housing finance market. Bangladesh Bank is also not equipped to monitor the efficiency and targeting of the concessionary credit line, and may not efficiently ensure that the liquidity goes to low-income groups. In general, this program has not been considered successful because of a few reasons: (i) while cost of capital is low, the onlending rate is capped at 7-8 percent, making the effective spread 5-6 percent, well be the operational costs for MFIs to run this program; (ii) the total loan is capped at BDT50,000, which is barely enough to construct a low quality house, meaning that the term often exceeded the durability of the constructed house; and (iii) the target population for the scheme is the ultra poor, which is a category at high risk for non-repayment.

44. The multiplicity and diversity of players has not translated into a vibrant and competitive housing finance market. The primary mortgage market is characterized by (i) funding distortions that handicap the most dynamic and efficient actors, (ii) the legacy of a high level of nonperforming loans among SOCBs, and (iii) an uneven playing field between the state-owned BHBFC and other lenders. All of those factors result in allocating the cheapest financial resources to the least efficient players and pushing up intermediation costs. Therefore, interest rates continue to show the fragmentation of the market between the HBFC (which lends at as little as 9 percent) and the other institutions (which lend at rates between 13 and 16 percent), without taking into account various add-ons.

45. The present housing finance system is extremely small and highly segmented. Formal mortgage finance is available only to households with monthly incomes above BDT 25,000 (well above the 10th percentile of the urban income distribution), and is restricted to selected housing submarkets in Dhaka. Within this section of the market, government-subsidized housing finance through the Bangladesh House Building Finance Corporation (HBFC) is most prevalent; at the same time, the state-owned commercial banks (SOCBs) are decreasing their housing loan portfolios. Expansion of the sector has to come through private sector mortgage lenders who recently have started to operate in this market. With existing capital constraints in the financial sector, the competition by government savings and lending institutions, and the weak debt market, new housing finance institutions face a challenge in mobilizing funds; and it is unlikely that the cost of longer-term funds will come down in the short term. In addition, the housing finance sector has to convince these new housing finance institutions that it can be a profitable investment sector with long-term potential. The markets need balanced funding models and a diversified toolbox of instruments for different lenders. Complicating factors include the rapid increase of land prices over the past decade; poor legal infrastructure; deficient financial systems; a dearth of long-term

funding at fixed rates; limited developer finance; and problematic access to housing finance for low-income, rural, and informal population groups.

#### **4.4 Microfinance for Low Income Housing:**

46. The formal housing financial market is limited to upper-income groups in Bangladesh. However, market outreach can be stretched down the income scale through innovation and enabling regulation. Mortgage services could be offered to the middle-class population and even to lower-middle-income groups. But there will be some income groups at the bottom of the scale for whom mortgages and new home purchases will remain unaffordable, even in developed housing finance markets. There are examples in many countries, such as India, Peru, Nicaragua, Chile, etc. where microfinance institutions (MFIs) target some of these clients for home improvement, incremental construction, and repair loans as well.

47. MFIs have made progressive forays into servicing the housing finance market. In 1987, Grameen introduced its first housing loan following a devastating flood. Currently, the Grameen housing portfolio is at \$3.3 million, with 89 percent repayment rates. So far, it has financed 674,435 homes. Some of PKSF's<sup>55</sup> Partner Organizations have participated in the *Grihayan Tahibil* scheme but PKSF itself does not have a housing product. In addition to Grameen Bank, several other MFIs, such as Proshika, Delta Brac, and ASA Bangladesh, now provide long- and short-term credit for housing in Bangladesh. Loans are made on the basis of established membership in lending programs instead of collateral, and on a sound track record of repayments on previous loans. Group pressure and mutual support are used as guarantees for loan repayment. The financial institution's only recourse in the case of nonpayment are the persuasive and legal ways to recover the loan and future exclusion of the borrower from the credit program. The challenges facing housing microfinance programs include affordability constraints, especially for rural households; high land prices, in the case of urban clients; commercial viability of the microfinance lenders; and the need for new products, including savings-for-housing instruments and mechanisms limiting disaster and disability/death risk in housing lending. Careful blending of government policies, smart subsidies, planning, public-private partnerships, and technical assistance for housing micro-lending are required to further develop the low-income housing and housing finance market. Success stories, such as the new low-income housing lending mechanisms in India, would be useful in the endeavors in Bangladesh.

48. Among potential finance providers, microfinance institutions have several comparative advantages in serving low-income clients, including experience with and knowledge of their borrowers (Table 4). Even so, several conditions need to be met to ensure effectiveness in extending informal housing loans: detailed knowledge of the housing microfinance market, capacity building in loan appraisal techniques, effective guarantee mechanisms to limit risks from lending for housing, lending methodologies and policies designed for high-risk areas, and cost-effective ways to reach rural/informal sector clients. In addition, microfinance institutions need to provide loans to women to promote their homeownership.

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<sup>55</sup> Palli Karma Sahayak Foundation (PKSF) is government's apex microcredit funding and capacity building organization for eradicating poverty by providing microcredit to the poor through its Partner Organizations (POs).

49. Microfinance institutions have few funding mechanisms at their disposal, including their own funding and funding mobilized from donors. When housing finance activity expands, however, there will be a need for commercial sources of longer-term (three- to five-year) funding so that microfinance institutions can make the larger loans needed for construction and major renovations, without causing asset-liability mismatches. Market-based funding sources should be encouraged, to promote the commercial sustainability of microfinance institutions.

**Table 4: Comparative Advantages of MFIs**

Provider	Advantages	Disadvantages
<b>Microfinance institutions</b>	<ul style="list-style-type: none"> <li>• Experience in lending to low income families</li> <li>• Country-wide presence</li> <li>• Desire to launch housing products</li> </ul>	<ul style="list-style-type: none"> <li>• Limited experience in housing microfinance</li> </ul>
<b>Commercial banks</b>	<ul style="list-style-type: none"> <li>• Access to capital</li> <li>• Branch network in urban areas</li> </ul>	<ul style="list-style-type: none"> <li>• Risk aversion</li> <li>• Unwillingness to lend to low-income households</li> <li>• Lack of technologies for lending to entrepreneurs with irregular income</li> </ul>
<b>NGOs</b>	<ul style="list-style-type: none"> <li>• Country-wide presence</li> <li>• Ability to build strategic alliances with microfinance institutions to provide TA in construction practices and other non-financial services</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of experience in lending</li> <li>• Perception that a loan would be a grant and thus not repaid by clients</li> </ul>
<b>Money lenders</b>	<ul style="list-style-type: none"> <li>• Country-wide presence</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of experience in housing lending, except for short-term (12-month) loans</li> <li>• Costly source of loans</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>• Country-wide presence</li> </ul>	<ul style="list-style-type: none"> <li>• Public institution requiring resources and time to get started</li> <li>• Risk of politicization and eventual bankruptcy</li> <li>• Potential negative signal to the microfinance sector</li> </ul>

#### 4.5 Microfinance in Bangladesh

50. Over the years, the microfinance sector has expanded rapidly in Bangladesh in terms of number of microfinance NGOs (MF-NGOs), number of branches and active membership. There was no formal regulatory framework for the MFIs until 2006. The government established the Microcredit Regulatory Authority (MRA) in 2006 to bring transparency and accountability and enhance the efficiency of the MFI operations in the country. By 2014, a total of 719 MFIs have been granted licenses for the operation of microcredit. However, there are many more institutions who are conducting microfinance operations and the MRA is in the process of granting licenses to these organizations (MoF 2014)<sup>56</sup>. Table 2.5 shows that there are a total of 24.60 million clients in

<sup>56</sup> Under the law, it is mandatory for all NGO-MFIs to procure licenses from the MRA. Till May 2014, MRA had approved licenses in favour of 742 NGOs and canceled licenses of 44 NGOs. At the time, there were another 43 applications under process for a final decision although these were mostly small organizations with some potentiality to become viable in course of time.

649 licensed NGO-MFIs having a total of 14,674 branches in June 2013<sup>57</sup>. Despite the existence of over-estimation, the figures show that the intensity of access of the members to financial services of the MFIs has been rising over the years.

51. The microfinance sector is financed by several sources such as savings collected from the clients, cumulative surplus (profit) of the organization, concessional loan received from sources such as the Palli Karma Sahayak Foundation (PKSF), grants received from national and international donors and commercial bank borrowing. In 2013, the most important source of fund for the NGO-MFIs was clients' savings (33 percent) followed by cumulative surplus (30 percent) as the second most important source of fund. Loans from commercial banks had a share of 15 percent while funds from PKSF (the micro finance wholesale funding agency) provided 12 percent of the loan fund at a subsidized rate. Grants from the donor agencies constituted less than 3 percent of the total loan fund.

**Table 5: Indicators of Microfinance Institutions**

	June-09	June-10	June-11	June-12	June-13
<b>No. of licensed NGO-MFIs</b>	419	516	576	590	649
<b>No. of branches</b>	16,851	17,252	18,066	17,977	14,674
<b>No. of employees</b>	107,175	109,597	111,828	108,654	110,734
<b>No. of clients (million)</b>	24.85	25.28	26.08	24.64	24.60
<b>No. of borrowers (million)</b>	18.89	19.21	20.65	19.31	19.27
<b>Loan outstanding (billion BDT.)</b>	143.13	145.02	173.80	211.28	257.01
<i>Source: Microfinance Regulatory Authority, Bangladesh</i>					

52. **Along with a widening network of MFIs, the sector has also witnessed rising volume of loan disbursement and increasing number of outstanding borrowers** (Table). During the end of 2011, the amount of loans outstanding was nearly BDT 290 billion, around 64 percent of the annual loan disbursement in the year. It may be mentioned that these outstanding borrowers include multiple borrowing. On the whole, the figures reflect high microcredit deepening in the country. Some information on rural-urban division shows that the overall volume of microcredit services is relatively high in the rural areas (Table 6). It shows that more than 89 percent of the MFI loans disbursed in 2011 and 90 percent of the outstanding loans were in the rural loans. This suggests that micro credit deepening has taken place enormously in the rural areas. These figures indicate that the access of the poor households to microcredit particularly in the rural areas is relatively high in Bangladesh.

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Until May 2014, a total of 3,456 applications for registration were rejected for failing to meet the required criteria. In practice, thousands of MGO-MFIs operate in the country though their scale of operation is relatively small.

<sup>57</sup> But these numbers should be treated with caution since there is considerable double counting in the numbers reported by the MFIs. Such double counting takes different forms such as multiple memberships, multiple borrowing within the same institution and inclusion of drop-out members. One study estimates that multiple borrowing from different institutions is around 42 percent. The study estimates that the actual number of members will not exceed 20 million in 2009 when the reported number was 35.71 million. According to the study, the individual membership overlapping has been around 8.6 percent in 2000 which is 31 percent in 2009. See Khalily 2013.

**Table 6: Trend in Deposit and Advances by Region, 1991-2013 (in BDT billion)**

Year	Urban			Rural			Total		
	Deposit	Advance	Advance-deposit ratio (%)	Deposit	Advance	Advance-deposit ratio (%)	Deposit	Advance	Advance-deposit ratio (%)
1991	197.3	176.9	89.7	53.3	42.2	79.1	250.6	219.1	87.4
2000	549.2	493.5	89.9	160.6	100.1	62.3	709.8	593.6	83.6
2005	1197.8	999.7	83.5	218.3	117.6	53.9	1415.9	1117.3	78.9
2010	2942.3	2367.5	80.5	436.9	206.9	47.4	3379.2	2574.4	76.2
2012	4011.0	3453.7	86.1	853.1	405.6	47.5	4864.1	3859.3	79.3
2013	4988.2	3987.8	79.9	1117.1	450.6	40.3	6105.3	4438.4	72.7

*Source: Bangladesh Bank*

**Table 7: Selected Statistics of MFIs in Rural and Urban Areas, 2011**

Indicators	Rural areas	Urban areas	Total
<b>Savings behavior</b>			
Net savings (billion BDT)	175.99	10.16	186.15
<b>Borrowers of MFIs</b>			
Active borrowers (million)	24.75	2.43	27.18
<b>Loan disbursement and recovery</b>			
Disbursement (billion BDT)	393.75	46.54	440.29
Recovery (billion BDT)	382.61	48.45	431.06
Outstanding (billion BDT)	250.93	28.89	279.82

*Source: Institute of Microfinance*

53. The access to financial services through the MFIs is remarkable in Bangladesh. As noted earlier, a total of 649 MFIs (registered with MRA) were operating in Bangladesh with 14,674 branches throughout the country (mostly in the rural areas) in 2013 having 24.60 million clients of whom the vast majority are women. Total savings mobilized by the MFIs rose to BDT 226.2 billion in 2013 from BDT 47.4 billion in 2008 while total loan disbursement stood at BDT 553.1 billion in 2013. In addition, thousands of small NGOs (not registered with the MRA) are operating in the country providing financial services to the poor especially women in the rural areas.

54. The Institute of Microfinance (InM) conducted the Access to Financial Services (A2FS) Survey, a comprehensive national survey of all major financial services (savings, credit and insurance), between October 2009 and April 2010. The survey shows that around 77 percent of the households have access to any financial services in Bangladesh (Table 7). However, the access to formal financial services is only 37 percent and that to quasi formal or microfinance is 43 percent. A total of 26 percent of the households have access to informal finance and 25 percent (of adult populations) to MFIs<sup>58</sup>.

<sup>58</sup> For definition of formal, quasi formal and informal financial sector/services, please refer to section 4.2 Financial Sector Framework

**Table 8: Trends in Access to Financial Services**

Year	Population (million)		Population per bank branch (thousand)	No. of bank deposit accounts (million)	Deposit accounts as % of adult population	No. of members in MFIs (million)	MFI members as % of adult population	No. of members in cooperatives (million)	Cooperative members as % of adult population	Access to financial services (%)	
	Total	Adult								Adult population	Total population
<b>2000</b>	111.46	75.16	18.4	28.40	37.8	...	...	...	...	...	...
<b>2005</b>	137.00	83.80	21.4	33.10	39.5	18.82	18.8	7.9	9.5	71.4	43.7
<b>2008</b>	142.40	89.62	20.6	37.60	43.8	23.53	23.5	8.4	9.8	77.6	48.9
<b>2009</b>	144.20	92.24	19.7	38.97	42.3	24.90	24.9	8.6	9.4	78.6	50.3
<b>2010</b>	146.10	94.50	19.0	48.68	51.5	24.94	24.9	8.8	9.3	87.2	56.4
<b>2013</b>	153.7	99.4	17.7	66.68	67.1	24.60	24.8	9.3	9.4	101.2	65.4

Source: Islam and Mamun 2011, BBS 2013



55. The survey indicates that the poor households have higher access to credit (59 percent) relative to the non-poor households (52 percent) while the non-poor households have greater access to savings (61 percent) relative to 47 percent for the poor and insurance services (13 percent) compared with 7 percent for the poor. It is also seen that the urban households are mostly (67 percent) savers and the rural households are mostly borrowers (56 percent). These urban-rural differences are linked with higher coverage of the formal market in the urban areas and the greater presence of the quasi formal or microfinance market in the rural areas. The expansion of MFIs and the wide coverage of poverty-targeted programs both by the government and the NGOs have no doubt contributed to high intensity of access of the poor and the rural households to financial services.

**Table 9: Characteristics of Households with Access to Financial Services, 2009-10**

Characteristics	Access to any financial services	Access to formal services	Access to quasi-formal services	Access to informal services	No access to financial services
<b>Occupation</b>					
Service holder	76.7	54.8	22.9	19.4	23.3
Self-employed	77.0	31.7	48.0	29.8	23.0
Day labour	66.3	13.6	51.9	24.5	33.8
<b>Education</b>					
Illiterate	68.7	17.8	50.0	25.8	31.3
Up to grade 5	73.1	25.1	48.8	28.0	26.9
Up to grade 9	74.5	36.5	38.9	30.0	25.6
S.S.C	78.1	51.7	32.7	26.8	21.9
H.S.C	82.4	66.5	22.2	18.4	17.6
Above H.S.C	90.1	85.7	12.0	15.6	9.7
<b>Income quintile</b>					
Lowest	64.6	18.5	43.3	24.7	35.4
Second	67.8	14.9	51.9	24.7	32.2
Third	73.0	25.2	49.3	27.1	27.0
Fourth	76.0	35.9	40.9	26.2	24.0
Highest	86.0	63.2	30.5	28.6	14.0

*Source: InM*

56. In practice, the formal and the quasi formal or microfinance markets have different and distinct dominant clientele groups in Bangladesh (table). The major borrowers in the formal market are the non-poor who have the ability to provide collateral or third party guarantees. *The excluded poor from the formal market are the dominant group in the quasi-formal financial market.* Often the borrowers from the informal market comprise of the poorest who are excluded from both the formal and the quasi formal or microfinances. In addition, the borrowers in the formal and the quasi formal or microfinances may often borrow from the informal market for meeting unforeseen needs, and due to its convenience and flexibility.

**Table 10: Rural-Urban Division of Share (in percent) of Institutions in Total Credit, 2009-10**

Institutions	National	Area		Poverty status	
		Rural	Urban	Non-poor	Poor
SCBs	5.2	3.9	11.2	6.0	3.4
PCBs	1.6	1.1	3.7	2.1	0.6
Grameen Bank	21.6	23.3	13.6	21.9	21.1
MFIs/NGOs	64.6	64.3	66.2	61.6	70.3
DFIs	5.7	6.2	3.1	6.8	3.5
Cooperatives	1.3	1.1	2.2	1.6	0.8
<b>Total borrowers in sample</b>	7,631	5,714	1,917	5,023	2,608
<i>Source: InM</i>					

57. With poverty incidence of around 32 percent in the country, the number of borrowers in the credit market is dominated by the non-poor households. The number of non-poor borrowers is almost double the number of poor borrowers in the sample. For the non-poor borrowers, the joint share of SCBs and PCBs is 8 percent and it is 7 percent for the DFIs. The share of Grameen Bank and MFIs/NGOs is 84 percent. Such a high proportion of non-poor borrowers of the quasi-formal institutions is probably explained by a large share of graduating members of the Grameen Bank and MFIs/NGOs who continue to avail credit from these institutions as well as some mistargeting. The share of these institutions is more than 91 percent in the case of poor borrowers. Almost 92 percent of the poor borrowers have access to Grameen Bank and other MFIs. As expected, the combined share is only 4 percent for SCBs and PCBs and less than 4 percent for the DFIs in the case of poor borrowers.

**Table 11: Distribution of Supply-Constrained Borrowers, 2009-10**

Distribution	As % of respective totals	% of supply constrained borrowers	
		Unconstrained supply	Constrained supply
<b>National</b>	42.3	10.71	25.3
Area			
<b>Rural</b>	43.4	11.38	26.23
<b>Urban</b>	38.2	8.08	21.18
Poverty status			
<b>Non Poor</b>	41.2	9.92	24.1
<b>Poor</b>	45.1	12.59	27.93
<i>Source: InM</i>			

58. **Three types of potential borrowers are classified in the literature (see Barham, Boucher and Carter 1996):** (i) fully constrained borrowers: this refers to the borrowers who apply for loans but do not get the loan or who prefer not to apply due to high risk or high transaction cost; (ii) partially constrained borrowers: these borrowers receive lower than the desired amount of loan; and (iii) unconstrained borrowers: borrowers who receive the required amount of loan<sup>59</sup>.

<sup>59</sup> Boucher, Guirkingner and Trivelli (2009) introduced two new types of credit rationing – risk rationing and transaction cost rationing to highlight underlying reasons that could have important policy implications. Risk rationing occurs when constrained households do not apply for loans due to perceived high risk. Transaction cost rationing takes place when households do not

The empirical analysis by Khalily and Khaleque (2013) on supply-side constrained households shows that 78 percent of the borrowers are not constrained while 12 percent of the borrowers are partly credit rationed<sup>60</sup>. The share of the rejected applications is 10 percent. The analysis shows that around 25 percent of the borrowers are supply side credit constrained at the national level (Table 10). In the case of demand-side constrained households, about two-thirds of the non-applicant households are observed to be constrained. These households perceive that they would not receive loans if they apply. About 35 percent of the non-applicant households are identified as unconstrained households. It is important to note that nearly two-thirds of the non-applicant households in the rural areas are classified as constrained despite the wide expansion of the network of formal and quasi-formal credit markets. In this respect, the extreme poor households are observed to be more constrained (56 percent) compared with the moderate poor and the non-poor households.

#### 4.6 Transaction cost of Borrowing in Bangladesh

59. **The credit markets in Bangladesh have unique features in terms of sanctioning loan and the lending system.** Usually, the formal credit market requires much paper work, documentation and collateral such that the non-interest cost of borrowing often becomes higher than other markets for a given loan size. Moreover, not all households have access to the formal credit market. On the other hand, the informal credit market exists in almost every village or location. In this case, the non-interest cost is likely to be low and the potential borrower can have relatively easy access to this market. The quasi-formal credit market or microfinance market is also widespread especially in the rural areas and can be accessed at a low non-interest cost.

60. **In the case of lending, the interest rate is usually lower in the formal credit market and it is highest in the informal credit market.** The quasi-formal credit market or microfinance market also offers loan at reasonably high interest rate because of high operating cost; but in most cases it is lower than the lending rate at the informal credit market. Thus, given the lending interest rate and expected average borrowing cost, transaction cost of borrowing (interest plus non-interest cost) is likely to be higher in the informal credit market than in other two markets. The normal expectation is that, with homogenous products, borrowers are more likely to access credit from the quasi formal or microfinance. In reality the products across markets are not homogenous; they vary in terms of loan conditions and size. As such, firms or individuals would behave in a way to optimize transaction cost of borrowing.

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apply for loans because of high transaction cost of borrowing which may arise because of distance of the branch or high non-price cost of processing loan application.

<sup>60</sup> In reality, the high rate of absence of the supply side constraint may reflect other factors such as setting of loan ceiling and known prior information on loan characteristics of the potential borrowers especially in the quasi-formal credit market.

**Table 12: Transaction cost of borrowing from Different Market, 2009-10**

Cost break-down	Borrowing cost (in BDT) per BDT 100		
	Credit market		
	Formal credit market	Quasi-formal credit market	Informal credit market
<b>Conveyance cost</b>	0.61	0.62	1.57
<b>Cost of loan fees</b>	0.52	0.69	...
<b>Cost of informal payment (bribe)</b>	1.20	0.03	...
<b>Total non interest transaction cost</b>	2.33	1.34	1.57
<b>Interest cost</b>	12.14	13.07	22.94
<b>Total borrowing cost (Interest + Non-interest cost)</b>	14.47	14.41	24.51
<b>Non-interest cost as % of total transaction cost</b>	16.1	9.2	6.4

*Source: InM*

61. The non-interest cost is higher in the formal credit market but the average nominal interest rate is lower (Table 12). The quasi formal or microfinance is featured by low transaction cost but high interest rate compared with that in the formal market. On the other hand, the average lending rate is higher in the informal credit market but explicit non-interest cost falls between the cost of the formal and the quasi-formal credit markets. Although the above results show that the interest cost of borrowing is lowest in the formal credit market and highest in the informal credit market, it may be concluded that the total transaction cost of borrowing is similar for the formal and the quasi-formal credit markets.

62. The transaction cost of borrowing is highest in the informal credit market. It is seen that the non-interest cost as percentage of average total transaction cost is the highest in the formal credit market which is above 16 percent of the total transaction cost.<sup>18</sup> On the other hand, the informal credit market has the lowest (6.4 percent) non-interest cost. Similar share is 9.3 percent in the quasi-formal credit market.

#### **4.7 Existing Housing Microcredit Rates in Bangladesh**

63. The floor rate for housing microcredit is often lower than the average break-even interest rate of MFIs. Housing loans carry flat interest rates ranging from 5 to 10 percent. The term varies from 6 years for Proshika to 15 years with the Grameen Bank (Table 12). The housing loans have simple application and approval procedures and assistance is provided with the design and purchase of cheap and appropriate building materials. All housing loans have a lower rate than income-generating loans) and are internally cross-subsidized within the MFI. This is done for the following reasons: 1) housing is considered a social good and a basic need worthy of subsidization; 2) without subsidization the rural poor would not be able to afford a housing loan.

**Table 13: Housing microcredit rates**

POs/MFIs	Housing Loan	Interest Rate	Maturity
MMS	Inclusive Housing System	17%	6
PMK	HL	25%	2
Grameen (Non-PO)	Pre-Basic Housing (PBH) loan amounting BDT 7,500-8,500	8%	10/15
Proshika (Non-PO)	Group Based loan, maximum BDT 30,000	5%	10

*Source: PKSF, Grameen, Proshika*

64. The fixed-income market in Bangladesh also remains thin, not least because of a traditionally low rate of formal domestic savings, the lack of institutions with long-term liabilities (such as insurance companies and pension funds), and the crowding-out effect of the public sector debt and the National Savings System (NSS). Housing finance lending institutions' weighted average deposit and lending rates (as of March, 2015) are given in table below:

**Table 14: Weighted Average Deposit and Lending Rates of Formal Housing Finance Institutions<sup>61</sup>**

Institution	Deposit Rate (%)	Lending Rate (%)
All banks	7.06	11.93
All housing finance including BHBFC	11.12 <sup>62</sup>	14-20.0
BHBFC	N.A.	12.0 for Dhaka & Chittagong 10.0 for others

**Source: Bangladesh Bank**

#### 4.8 Challenges and opportunities for housing microfinance in the sector

65. There are few examples of successful housing microfinance models around the world. However, there is enough experience and lessons from past and existing attempts at providing finance for low income housing through micro finance or other channels. The following are a few challenges of developing a sustainable and effective housing microfinance program:

66. **Funding:** Some MFIs find it difficult to meet the housing finance demand with limited resources. In the absence of a large number of successful stand-alone housing microfinance examples, loans for housing often tend to be perceived by financial institutions as consumption loans, which the financial institutions are unwilling to on lend to MFIs. Securitization to improve portfolio quality so that they can obtain external commercial funds more easily at cheaper price could have been an option, but this is not yet an option for MFIs as this will require a new legal

<sup>61</sup> Bangladesh's formal housing finance market benchmarks itself on the long-term yield curve created by government securities with maturity up to 20 years, although the issue and trading of such securities (especially toward the outer maturity limit) is thin to non-existent. There is no interbank offered rate market to serve as a benchmark. The financial market is not yet developed for active, two-way quotes that would provide benchmarks.

Treasury Bond	Range of Yields (%)
10 year bond	10.70-11.02
15 year bond	11.40-11.70
20 year bond	11.97-12.40

<sup>62</sup> Cost of Funds is the weighted average interest rate of the interest-bearing liabilities of a non bank financial institution. Cost of Funds Index (CoFI) reflects the weighted average interest rate reported for a given month by the non bank financial institutions.

framework. The most viable alternative is for MFIs to find ways to tap longer term funding. There are international examples where governments, donors and NGOs have worked together to establish liquidity facilities for housing micro finance.

67. **Land Title and Collateral:** Low-income households who inhabit informal settlements seldom have formal legal titles. Their rights to land exist through other forms of land security. Literature refers to these rights, which may be in the form of property tax receipts or through stamp paper signifying sale of property, as para-legal rights. Para-legal rights in urban areas can also take the form of government-granted security to slum dwellers which protect them against eviction. This is an area where governments can play a significant role in ameliorating the housing environment that surrounds the poor. The industry acknowledges the difficulty of formal financial institutions to increase the extent of financial intermediary unless the land title conditions among the poor are improved. At the same time, as far as housing microfinance is concerned, in spite of these obstacles posed by the lack of title, the existence of a full title has not always been necessary for housing microfinance.

68. **Construction Services and Technical Assistance:** Though providing TA and/or services to MFIs increases administrative cost, such assistance has the potential to yield a broad array of benefits including the increased likelihood of completing construction through enhanced efficiency, lowered overall cost of construction through cheaper materials, and more robust construction through good quality materials. These benefits translate into increased likelihood of repayment. For those MFIs that do not possess technical expertise, partnerships with NGOs or private institutions, such as construction companies or material suppliers, provide a viable option. But the MFI must weigh the benefits accrued from providing technical assistance against increased costs to the organization and clients.

69. **Awareness Building:** Offering HMF would also necessitate some level of awareness-building amongst potential borrowers. The reasons for this are twofold. Firstly, microfinance clients are used to repaying loans on a short term basis for durations up to a year. HMF entails loans that are at least three years long. Thus, MFIs must spend time training their borrowers to develop a long term view of their finances. Secondly, while ‘progressive build’ that is incremental building characterizes low-income housing construction when access to finance is limited, MFIs observe that once barriers for access to housing finance are removed, clients are keen to build once and for all, rather than over time. This may not be financially possible for them or for the MFI. This reinforces the importance of cost-effective construction assistance, but also underscores the need for awareness building on ‘progressive build.’

70. **Subsidies:** Discussion on subsidies is central to housing microfinance. The general perception is that government subsidy programs and institutional grants for housing tend to cloud prospects for micro finance. They create a culture of expectation amongst the beneficiaries and furthermore perpetuate a culture of non-repayment. While there is no doubt about the negative consequences that are entailed in government *direct* subsidy programs, there are various other ways to make better use of subsidies. There are also ways that direct subsidies can be harnessed in a positive way by innovative MFIs. Some MFIs have structured their credit products in such a way that there are cross subsidies between their regular micro-lending portfolio and their housing microfinance portfolio to ensure that the pricing for the housing loan products is differentiated

from other products. This is because housing is generally considered a non-productive asset, and the loan is for a longer duration, so it is important to price these lower than other, productive, loans. In India, a public private partnership where the Government has allotted land for development of housing has come as a subsidy to end beneficiaries, who then only pay for the cost of construction.

71. **Governance.** One of the key challenges to the development of housing microfinance is the political pressures around lending. This is particularly acute in a project such as this one, where government services and investments are expected to be packaged alongside commercial decisions over lending. Thus, there is a risk that partner organizations (POs) will be pressured by Government to make loans to the areas that they have designated for upgrading. The success of mitigating these pressures is to ensure the full independence of PKSF and the full discretion of its POs in lending.

72. **Interest Rates:** If a housing loan is secured by the beneficiary's home, housing loans should be cheaper than micro-enterprise loans. But foreclosure is not a realistic for most MFIs. Furthermore, most banks are not comfortable lending to MFIs for housing purposes since banks are unable assess credit risk of low-income groups. The result, as we saw earlier, is that medium to long-term funding for HMF is not readily available. The funding which is available is priced at prohibitively high interest rates due to these reasons in the absence of subsidies for HMF. The possibility for cross-subsidization of products and a better risk assessment for HMF loans can help MFIs keep reduced interest rate, but a guarantee fund or risk sharing mechanism can give them more comfort. While subsidies are not a financially sustainable solution, innovative subsidy structures may allow MFIs to offer low income housing.

73. **Changes in Lending Methodology in Implementing HMF programs:** There are several operational constraints and issues in rolling out housing finance products through the microfinance channel.

- a. **Delivery mechanisms:** For micro-credit loans, MFIs predominantly used joint liability methodology although some large MFIs concentrate only on individual lending. However, it is important to note that even some of those MFIs that are using individual lending method utilize existing group structure to select borrowers, disburse loans, and collect repayments. In such a case, each individual is liable to only her own loan but group lending helps to reduce administrative costs. Although the benefits of joint liability in the context of micro-enterprise loans are widely known, evidence suggests that people as the loan amounts became larger, borrowers are increasingly less willing to be liable for other members' loans. Further, in urban areas where the potential of HMF is perceived to be high, joint liability becomes even more questionable as social networks are more fluid, migration is frequent, and incomes are more stable than in rural regions.

In the case of housing microfinance, different delivery mechanisms will need to be explored to find a customized solution for different urban localities/contexts. Housing microfinance is uncollateralized or semi-collateralized, and terms of typically longer than traditional microcredit or SME loans. This requires knowledge for appraisal, assessment and delivery of loan products that will need to

meet the variety of needs of borrowers. Different loans for renovations, expansions or construction, as well as different collateral and liability methods will need to be customized for each country context.

- b. **Reaching the poorest:** MFIs tend to lend to only upper-income level of target borrowers, with good repayment records, and thus they ignore to provide access to finance to the poorest. Considering the risks associated with housing microcredit, a rationale option left with MFIs, as far as reaching the poorest is concerned, is perhaps to focus on house repair and up gradation loans, which are typically as big as or slightly larger than micro-enterprise loans.
- c. **Loan amount:** Even among those MFIs that target the population moderately above the lowest income bracket, very few offer loans that are able to cover the complete cost of a new housing unit. This is mainly due to funding issues and fear of non-repayment. Since the loan amounts from an MFI are not enough to cover the construction of a house, the beneficiaries then resort to a number of informal sources of credit, which may lead to defaults on the MFI loan, at the time of repayment. In other words, the lack of funds leads to a vicious cycle which limits the ability of the MFI to lend. Since the tenure of housing loan products is long, it is also difficult to conclude whether borrowers are really able to keep up with the repayment for next several years, what effect an external shock may have on repayment, or what credit delivery mechanism yield the most efficient outcomes.

## **V. PROPOSED CREDIT LINE UNDER THE PRO-POOR SLUMS INTEGRATION PROJECT**

### **5.1 Objectives**

74. **Project Objectives** The objectives of the project are to improve shelter and living conditions in selected slums and informal settlements of designated municipalities in Bangladesh. This objective is expected to be met through packaging technical assistance, infrastructure upgrading grants, and housing loans to organized urban poor settlements. Technical assistance for settlement level participatory planning, as well as efforts to resolve underlying tenure issues and financing grants for infrastructure upgrades will be implemented by NHA. This package of investments is designed to get at two key underlying issues of affordable housing in urban areas: cost of land and infrastructure, and underlying tenure issues.

75. **Component C. Shelter Lending Line of Credit and Technical Assistance.** The credit line under the project is being extended through PKSf to pilot and develop models for housing improvements and upgrades, new housing construction, and cluster housing redevelopment schemes. This is expected to address the current gap in shelter lending programs among qualified microfinance institutions (MFIs) and NGOs, who face constraints accessing long term credit, and do not have the knowledge on the design and implementation of housing loan products. The component is designed in line with World Bank policy OP/BP 10.00 and the accompanying guidance note on financial intermediary lending. The implementation arrangement is consistent



with international good practice for wholesale microcredit/lending facilities and standards for lines of credit.

76. **Main Target Beneficiaries:** The credit line will primarily target beneficiaries in urban poor settlements that are characterized by poor housing conditions who are interested in (i) home improvements, renovations or expansions; (ii) new construction using an incremental building approach; and (iii) cluster housing redevelopment. The beneficiaries (i) are expected to be within a certain income bracket generally considered to be in the lower income categories<sup>63</sup>; (ii) will invest in housing that meets the requirements of the Bangladesh National Building Code, or alternative minimum standards provided by the project; (iii) demonstrate compliance with a set of agreed criteria set forth for credit line beneficiaries<sup>64</sup>; (iv) demonstrate savings behavior of the amounts equivalent up to six months of anticipated monthly installments; (v) be eligible to receive technical support for housing design and establishment through the project, and (vi) have the ability to repay the housing loan within five years. Borrowers will qualify for housing loans based on the banking considerations of the POs. Loans for housing upgrades are expected to be shorter in term than those for housing construction (e.g. 3 versus 5 years).

77. **Credit Line Allocations:** As housing microfinance is a relatively new product in the context of Bangladesh, the rollout of the project will be conservative, with a select number of towns and select number of POs to be qualified to test a few products in the market. To start, POs will be qualified for both project towns—e.g. Comilla, Sirajganj, and Narayanganj—and in certain select and designated locations outside of project towns. This will allow for some preliminary testing of HMF without the benefit of land, infrastructure and other technical support.

## 5.2 Implementation Arrangement for the credit line: PKSf

78. Palli Karma Sahayak Foundation (PKSF) has been identified as the implementing agency of the proposed credit line. PKSf was established in May 1990 by the Government of Bangladesh and registered under the Companies Act as a “not-for-profit” organization. Since its inception, it has been working as an apex (wholesale) microcredit funding and capacity building organization for eradicating poverty by providing microcredit to the poor through its Partner Organizations (POs). PKSf’s vision is to alleviate poverty and improve the quality of life of the poor – the landless and the assetless people by providing them with resources for creation of employment, and for enhancing economic conditions. The main objectives of PKSf are:

- a. To provide various types of financial help and assistance to non-government, semi government and government organizations, voluntary agencies and groups, societies and local government bodies, so that, as POs and in consistence with the PKSf’s image and objectives, they can undertake activities with a view to generating income and employment opportunities among the economically most disadvantaged groups in the society.
- b. To assist in strengthening the institutional capacity of POs, so that they can manage their program in a sustainable manner.

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<sup>63</sup> Indicative assessments for these categories has identified broadly that the target income categories are between BDT10,000-40,000 per month.

<sup>64</sup> Such detailed criteria will be set forth in the operational manual for the credit line.

79. **PKSF governance structure.** PKSF governance is run on a public-private partnership basis, and has a three-tier structure. There is a management team, a General Body, and a Governing Body. The General Body is responsible for overall policy directions to the management of PKSF, it analyzes and approves the annual budget as well as the audited accounts and annual report. The General Body consists of up to 25 members (currently 22), representing the government, voluntary organizations and private individuals with extensive experience and excellent track record in poverty alleviation activities. This Body meets twice a year. The Governing Body holds the responsibility to provide strategic guidance on programs in accordance with the vision and mission of PKSF. It also holds the financial control of the organization, including approval of projects, loans, donations, and other financial assistance to the POs. The total number of staff is around 300.

80. PKSF mandate authorizes PKSF management to mobilize funds in the forms of grants, loans and contributions from a wide variety of sources which include the Government of Bangladesh (GOB), private individuals and organizations, foreign governments, international donors and lending agencies and capital markets. So far PKSF has received funds from the GOB, the IDA/World Bank, the USAID, the Asian Development Bank (ADB) and the International Fund for Agricultural Development (IFAD).

81. PKSF lends to its 273 POs – of these 27 are category “A” POs (with at least BDT 1 billion loan outstanding), and 247 are small and medium sized POs – under its mainstream credit program as well as under some projects. The POs implement programs at the field level. PKSF’s mainstream credit program, now, includes five components: *Jagoran* (loans for rural and urban poor), *Agrosor* (microenterprise loans), *Bunaid* (loans for the ultra poor), and *Sufolon* (loans for seasonal and agricultural activities). As of mid-2014, the total number of members of all POs is around 11 million, including 90% women. The borrowers are around 8 million. Savings of members stood at BDT 40.7 billion, and the PO loan portfolio with ultimate borrowers – that has experienced a steady growth during the recent years – stood at BDT 163 billion.

82. Although PKSF is not formally regulated, it was reviewed and qualified for participation as an implementing agency based on the indicators similar to those attached as appendix 1 to this Annex. ***A financial review of PKSF*** that is the proposed implementing agency for the credit line, was undertaken to determine compliance with the eligibility criteria under OP10.00. Its overall position with respect to the financial parameters in OP10.00 was found to be sound. As of end-December 2014 (audited statements), the total assets amounted to BDT 52.7 billion, capital was BDT35.3 billion, and the total loan portfolio stood at about BDT 24 billion. The review of the financial performance showed that PKSF is a viable financial institution (a) with good performance on profitability (return on assets, 2 percent), (b) strong capital adequacy (52 percent), (c) has acceptable credit quality (gross NPLs at 8 percent), (d) has the capacity to mobilize domestic resources, and, (e) has adequate institutional capacity and systems and thus is qualified to act as conduit for on-lending the World Bank’s funds to the microfinance sector as required under OP10.00. PKSF’s capital adequacy position is very strong (>50percent) and it enjoys the support of Government of Bangladesh. PKSF undergoes annual audit carried out in accordance with the International Standards of Auditing (ISA).

**Table 15: PKSF Key Indicators**

Indicators	2014	2013	2012

Cumulative loan collection ratio on total dues	98.89%	98.37%	98.45%
Loan collection ratio on current dues	96.68%	96.10%	96.25%
Current ratio	7.10:1	6.57:1	8.02:1
Debt/equity ratio	0.39:1	0.47:1	0.54:1
Debt service cover ratio	30.42	13.73 times	14.64 times
General and administrative expenses as % of average portfolio	3.94%	3.04%	2.05%
Adequacy of MIS and internal audit/control systems	Adequate	Adequate	Adequate
<b>Returns</b>			
Surplus as % of average capital fund	11.88%	6.41%	7.73%
Surplus as % of average portfolio	10.96%	5.63%	6.53%
Surplus as % of average total assets	7.65%	3.91%	4.57%
<i>Source: PKSf's Audited Annual Reports</i>			

83. **Credit Line - Flow of funds:** For the purposes of implementation of the Credit Line, the World Bank credit funds will be passed on to a dedicated Project Management Unit (PMU) located at PKSf. The PMU will be staffed by a Project Coordinator and Assistant Project Coordinators (Construction, Housing Finance, Environment, Accounts and Finance). PKSf will sign Subsidiary Loan Agreements for up to 5 years with each qualified microfinance institutions (Partner Organization-- PO) for the purposes of implementing the project's credit line. Separate Operational Procedures for the Credit Line will determine the criteria, eligible activities, detailed withdrawal procedures, and responsibilities of all parties implementing the Credit Line. The POs, in turn, will on-lend the Credit Line funds to eligible borrower groups in accordance with the Operational Procedures and their banking considerations.

### 5.3 Implementation Arrangement for the credit line: POs

84. **Potential Candidate MFIs for the Proposed Project and their Performance:** The project will use PKSf's existing Partner Organizations. PKSf has a rigorous appraisal of MFIs to become POs, and the project will rely on PKSf's existing system for PO appraisal. The broad eligibility criteria are as follows:

- Adequate profitability, capital adequacy, and asset quality and liquidity in accordance with accounting and auditing principles acceptable to the Bank.
- Acceptable levels of loan collections.
- Appropriate capacity, including staffing for subproject appraisal and implementation.
- Adequate managerial autonomy and commercially oriented governance.
- Capacity to mobilize domestic resources.
- Appropriate prudential policies, administrative structure, and business procedures.

85. Overall, the financial review showed that, prima facie, all these institutions meet the basic eligibility parameters specified in OP10.00. Selected key financial parameters are displayed in Table 16. As seen in this table, the returns on assets for most of the representative POs/MFIs stood in excess of 3.78 percent, while their capital adequacy position is strong and typically well above 20 percent. While overall asset quality is within acceptable limits (6.01 percent Portfolio at Risk or PAR), however, by and large, MFIs' Cumulative Recovery Rate is 99.65 percent. Most of the POs have attained more than 100 percent Financial Self Sufficiency (FSS) ratio. Liquidity positions for all MFIs are sustained by a steady growth in savings and number of members.

86. During implementation, POs/MFIs' compliance with the eligibility criteria will be closely monitored by PKSF and tracked on an on-going basis. As indicated in the M&E section, the POs/MFIs will also be required to report to PKSF on their sub-loan portfolio and on key financial and performance indicators on a quarterly or annual basis, as relevant, and in line with the results framework (Annex 1). The financial performance of the POs/MFIs will be monitored through independent auditors' reports.

<b>Operational and Financial Data(on Selected Indicators) of Partner Organizations of PKSF</b>																
<b>Partner Organizations (POS)</b>	<b>Category</b>	<b>Municipality</b>	<b>Member (in Thousand)</b>		<b>Borrower (in Thousand)</b>		<b>Loan Outstanding (in Crore)</b>		<b>Savings Outstanding (in Crore)</b>		<b>Total Asset (in Crore)</b>		<b>Capital Fund (in Crore)</b>		<b>Portfolio At Risk (PAR) in %</b>	
			June '14	June '13	June '14	June '13	June '14	June '13	June '14	June '13	June '14	June '13	June '14	June '13	June '14	June '13
CDIP	A	Munshiganj	128	119	107	101	215	195	106	91	270	229	83	58	6.70	5.30
RRF	A	Khulna	174	184	129	142	213	147	50	40	231	162	21	14	5.24	10.68
UDDIPAN	A	Comilla	408	369	280	258	465	371	169	132	583	436	61	48	4.73	4.98
RIC	A	Narsingdi	148	132	122	109	197	173	70	62	225	191	26	32	6.09	6.30
POPI	A	Bhoirab	177	213	141	165	151	145	72	64	189	187	12	9	7.00	10.50
SAJIDA	A	Narayangonj	157	141	133	121	260	208	101	74	317	267	51	42	2.99	2.96
TMSS	A	Rajshahi	929	787	799	660	1057	795	363	300	1231	972	280	201	3.96	4.20
SSS	A	Tangail	461	483	359	383	631	612	342	309	793	732	165	125	3.55	2.24
JCF	A	Satkhira	406	412	298	331	685	684	251	203	845	853	165	133	7.4	5.04
Ad-Din	B	Jessore	157	143	120	108	116	101	46	38	152	132	32	27	1.56	1.29
ESDO	B	Thakurgaon	116	126	79	98	103	105	38	33	124	128	17	14	5.14	11.20
JAKAS	C	Joypurhat	64	63	43	45	46	44	20	18	102	84	19	15	1.68	1.48
SDS	C	Shariatpur	59	60	46	45	78	65	23	20	89	73	22	17	4.48	5.02
Coast Trust	C	Cox's Bazar	81	88	63	69	74	72	29	24	93	85	7	6	5.98	7.92
PROTTASHY	C	Chittagong	86	82	69	68	99	93	38	30	121	102	35	25	1.37	1.17
NDP	C	Sirajgonj	75	67	71	56	82	71	21	18	96	79	28	21	1.82	0.71
Patakhuri	C	Moulavibazar	5.7	5.3	4.8	4.6	4	3	2	2	5	4	1	0.5	0.21	0.26
MBSK	C	Dinajpur	31	28	25	21	20	17	7	6	29	25	9	8	2.79	3.32
PPSS	C	Faridpur	70	66	52	50	56	52	18	17	5	3	16	13	4.06	4.40
PCD	C	Pabna	22	18	16	15	29	22	8	5	32	26	10	7	0.82	0.32
<b>PKSF PO Avg</b>			<b>46</b>	<b>45</b>	<b>36</b>	<b>34</b>	<b>46</b>	<b>40</b>	<b>18</b>	<b>15</b>	<b>55</b>	<b>48</b>	<b>10</b>	<b>8</b>	<b>6.01</b>	<b>6.80</b>

Operational and Financial Data(on Selected Indicators) of Partner Organizations of PKSF														
Partner Organizations (POS)	Category	Municipality	Cumulative Recovery Rate (CRR) in %		Capital Adequacy Ratio (CAR) in %		Return on Asset (ROA) in %		Financial Self-Sufficiency (FSS) in %		Debt to Capital (times)		Current Ratio (times)	
			June '14	June '13	June '14	June '13	June '14	June '13	June '14	June '13	June '14	June '13	June '14	June '13
CDIP	A	Munshiganj	99.93	99.93	36.60	28.25	8.45	9.09	137.23	128.00	2.09	2.70	1.91	1.77
RRF	A	Khulna	99.36	99.31	9.43	8.99	3.58	2.31	109.66	107.50	9.39	10.66	1.49	1.07
UDDIPAN	A	Comilla	99.41	99.38	12.19	12.02	2.55	4.10	105.85	101.00	7.96	7.45	1.74	1.49
RIC	A	Narsingdi	99.30	99.26	15.57	15.17	2.30	2.05	105.87	98.28	5.44	5.61	2.60	2.26
POPI	A	Bhoirab	99.32	98.33	7.35	5.76	1.64	1.28	103.00	66.56	12.70	16.08	1.50	1.68
SAJIDA	A	Narayangonj	99.64	99.65	17.87	18.64	3.11	2.72	107.25	105.00	4.88	5.04	1.91	2.18
TMSS	A	Rajshahi	99.60	99.58	24.76	24.78	7.00	6.62	132.43	128.60	3.01	3.39	2.33	2.29
SSS	A	Tangail	99.70	99.74	23.82	18.72	5.04	4.70	116.96	117.00	3.57	4.51	1.58	1.41
JCF	A	Satkhira	99.41	99.35	23.18	18.69	3.77	4.51	111.5	107.5	3.73	4.97	1.56	1.55
Ad-Din	B	Jessore	99.87	99.82	23.06	23.35	4.07	4.09	107.95	101.28	3.45	3.63	1.96	1.82
ESDO	B	Thakurgaon	99.53	98.61	14.71	12.04	2.95	4.03	108.25	104.83	6.00	7.43	1.53	1.70
JAKAS	C	Joypurhat	99.89	99.90	38.14	32.69	4.26	3.44	119.67	117.00	4.07	4.26	1.75	1.72
SDS	C	Shariatpur	99.53	99.47	26.18	24.23	5.90	6.46	112.00	110.00	2.88	3.12	1.88	1.87
Coast Trust	C	Cox's Bazar	99.55	99.47	8.91	8.11	1.04	1.10	96.65	95.37	10.87	11.07	1.42	1.34
PROTTASHY	C	Chittagong	99.84	99.83	33.74	26.44	8.49	7.67	100.00	125.07	2.32	2.84	2.48	3.28
NDP	C	Sirajgonj	99.84	99.89	36.04	28.30	7.62	9.41	124.40	105.00	2.13	2.61	2.02	1.93
Patakhuri	C	Moulavibazar	99.88	99.73	18.06	15.83	5.24	4.83	111.00	109.00	5.42	6.30	1.53	1.38
MBSK	C	Dinajpur	99.73	99.65	42.85	42.60	5.24	4.71	109.24	106.45	1.93	1.96	2.04	2.07
PPSS	C	Faridpur	99.71	99.67	26.48	24.37	2.99	3.10	102.14	97.84	3.48	4.30	1.96	1.89
PCD	C	Pabna	99.89	99.57	33.37	30.88	9.36	8.54	181.00	170.00	2.07	2.26	2.69	2.18
<b>PKSF PO Avg</b>			<b>99.65</b>	<b>99.57</b>	<b>21.09</b>	<b>19.54</b>	<b>3.78</b>	<b>3.79</b>	<b>91.81</b>	<b>94.07</b>	<b>4.13</b>	<b>4.54</b>	<b>1.59</b>	<b>1.57</b>

87. An in-depth assessment of three POs was undertaken to understand the capacity for managing housing loan products. Sajida Foundation is a Category A MFI, having well diversified operations, with a retail presence across nine districts, with 124 branches, 1.6 lac members, and a loan book of BDT2.8 billion (US\$35 million). It has strong community support and presence in urban areas, and the quality of its lending operations, processes, internal audit and controls is generally good. Uddipan is one of the ten largest MFIs in Bangladesh, with 266 branches over 37 districts, and covering 2.2 members. National Development Programme (NDP) is a Category B MFI, with a presence across four districts, 78,000 members and a loan book of BDT1 billion (US\$12 million). NDP has strong financials, stable operations and capable management resources and was assessed to have an overall good potential to diversify into HMF. Overall, the POs were assessed to be in a strong position to cater to the urban low income and slum settlements households, many of whom are perhaps already member clients of the organization. Key figures from these POs are presented in Table 16.

**Table 16: Housing Microfinance programs**

<b>Key Financial Ratios:</b>	<b>Sajida</b>	<b>Uddipan</b>	<b>NDP</b>
<b>Capital Adequacy</b>	19.60%	11.54%	31.78%
<b>Current Ratio</b>	1.49	1.89	2.12
<b>Debt : Capital</b>	4.23	6.96	2.28
<b>Debt Service Coverage Ratio</b>	1.08	1.03	6.67
<b>Liquidity Ratio</b>	10.20%	18.12%	10.94%
<b>Cumulative Recovery Rate</b>	99.40%	4.51%	99.44%
<b>On-time Realisation Rate</b>	99.19%	99.01%	99.31%
<b>Loan Loss Provisioning</b>	4.74%	5.23%	1.79%
<b>Operational Self Sufficiency</b>	106%	115%	144%
<b>Financial Self Sufficiency</b>	80%	87%	99%
<b>Fixed Assets / Total Assets</b>	2.71%	2.37%	1.64%
<b>Deposit Portfolio / Loan Portfolio</b>	43.97%	38.56%	25.59%
<b>Return on Capital</b>	13.58%	19.64%	28.52%
<b>Return on Assets</b>	1.74%	2.29%	7.99%
Source: Financial statements from POs for 2015 (unaudited)			

## **VI. PROPOSED CREDIT LINE PRICING**

### **6.1 World Bank Guidelines on the Pass-on Rate Determination**

88. Bank policy provides guidance on the rate of lending from the Bank to a financial intermediary and on on-lending by the financial intermediary to the end client, both essential dimensions of pricing. In addition, guidance is provided on aspects related to subsidies and situations where, typically for market development reasons and only under special conditions, subsidized pricing may be appropriate.

89. Given that Bank projects typically service those market segments that are under-developed, in addition to quantitative comparisons, there is some element of qualitative consideration on

aspects related to pricing. Further, comparisons with market benchmarks are not always easy, and sometime not even appropriate – for instance, in Bank projects, typically market segments may be largely underserved, loan ticket sizes may be smaller, tenors may be much longer, demand-supply gaps might be very significant, comparable supply side transactions in the market may be very limited, etc. Nonetheless, the guidance provides a useful framework to assess matters around pricing of financing lines, since it is important to assess that pricing does not crowd out potential private sector financing, and instead, serves the purpose of building new market segments.

90. The “Guidance Note on Investment Project Financing – Financial Intermediary Financing,” under OP/BP 10.00 provides the principles for the structuring of World Bank line of credit operations. The specific principle for determining the interest rates from the borrowing government to the POs/MFIs under a World Bank line of credit operation states that: “Financial intermediary financing on-lending terms are set in the context of a borrowing country’s interest rate structure and any agreed program of interest rate reforms. To induce a financial intermediary to provide credit (and to treat financial intermediary financing-related lending as a sustainable part of its business and not a temporary project activity), the interest rate should be sufficient to cover the financial costs of mobilizing resources (deposits and other liabilities); the administrative costs both of mobilizing resources and of making and monitoring the loan and collecting repayments; the risks inherent in lending (including credit risk, any liquidity mismatch, and sector-related risk); and an expected profit that will build the intermediary’s capital base and compare well with its alternative investment opportunities.” In terms of the on-lending rate from the POs/MFIs to the end-borrowers, the Guidance Note states POs/MFIs “should be allowed to make credit decisions, including establishing the interest rate” and the rates “should be adequate to cover all participating financial institution costs and provide a profit margin adequate to encourage lenders to compete in this market.”

## **6.2 Interest Rate Environment in Housing Microfinance and Rate Data Comparisons in Bangladesh.**

91. Housing loans carry flat interest rates ranging from 5 to 10 percent. The term varies from 6 years for Proshika to 15 years with the Grameen Bank. The housing loans have simple application and approval procedures and assistance is provided with the design and purchase of cheap and appropriate building materials. All housing loans have a lower rate than income-generating loans) and are internally cross-subsidized within the MFI. This is done for the following reasons: 1) housing is considered a social good and a basic need worthy of subsidization; 2) without subsidization the rural poor would not be able to afford a housing loan.

92. The following is a sample of housing microcredit programs (interest and maturity) of selected POs/MFIs:



**Table 17: Housing Microfinance programs**

POs/MFIs	Housing Loan	Interest Rate	Maturity
<b>MMS</b>	Inclusive Housing System	17%	6
<b>PMK</b>	HL	25%	2
<b>Grameen (Non-PO)</b>	Pre-Basic Housing (PBH) loan amounting BDT 7,500-8,500	8%	10/15
<b>Proshika (Non-PO)</b>	Group Based loan, maximum BDT 30,000	5%	10
<i>Source: PKSf, Grameen, Proshika</i>			

93. But all these are conventional pro-poor housing microcredit programs. A housing microcredit program for urban slums/shelter and informal income group population with all its credit risks may need subsidy of some sort and/or technical support. The most efficient subsidy schemes are those that are directly allocated to the beneficiaries and that include a preliminary savings requirement as an eligibility criterion to trigger a leverage effect with private resources. To be viable and profitable, microfinance housing lenders cannot rely on internal cross-subsidization by other microfinance products. That reliance increases the cost of microcredit and limits the scale of MFI housing programs. MFI housing programs should be separated, customized to client needs, matched with appropriate longer term funding sources, and defined by the institution's own lending terms and conditions such that it breaks even or turns a profit.

### **6.3 Proposed Pass-on Rate for the credit line and suggested spread/pricing to borrower**

94. PKSf will receive funding with a maturity and interest rate similar to the IDA lending terms, with the Government of Bangladesh assuming the foreign exchange risk. For on-lending to the sector, the project is consistent with Bank guidelines and policies on financial intermediary financing (OP10.00) and standards for credit lines. The proposed credit line would be on-lent on existing wholesale microcredit market terms, without dis-incentivizing the POs/MFIs for a new microfinance product that aims to pilot housing microfinance products. A flat rate of 5.50 percent will be used based on available benchmarks for on-lending rates for development purpose (low efficiency/capacity MFIs, please refer to the table below) and references.

95. The proposed on-lending rate is similar to the cost of alternative sources of funds for the POs/MFIs. PKSf's on-lending rates have been set to cover the cost of funds, operating costs, and to be consistent with the cost of fund of the MFI's and PKSf's existing on-lending rate structure for other microcredit products. In addition, as this credit line will be on-lent to the POs/MFIs for a housing microcredit pilot (for informal population group), it needs to be priced/costed taking the following factors into consideration: (a) the credit risk will be higher for the POs/MFIs, as this lending will not support any income generating activities (IGAs) like conventional microcredit, (b) the POs/MFIs need to be incentivized to take part in the pilot, which is not conventional lending operation for them, and the POs/MFIs do not have competency in appraising housing microcredit of such nature<sup>65</sup>, and (c) as the loan size under this lending program will be bigger than conventional microcredit products, administrative costs of the POs/MFIs to run the program is expected to be lower over time. Considering all these factors, it would be justifiable for PKSf to

<sup>65</sup> PKSf will provide TA to the POs/MFIs to appraise the lending, but it would take time to develop capacity.

set the lowest pass-on rate (applied for the Category C POs) as the on-lending rate for this credit line.

**Table 18: Categories of POs and on lending rates**

Category of PO	On Lending Rate	Avg Cost of Fund
<b>Category A</b>	8.00%	8.02%
<b>Category B</b>	6.50%	7.65%
<b>Category C</b>	5.50%	6.28%

*Source: PKSf; Categories are determined based on capacity and volume of lending*

96. **Pricing to borrower:** Pricing to borrower will be determined by the POs based on an appraisal of the credit risk of the borrower and the underlying activities being financed (typically expected to be in the range of 10 to 12 percent above the cost of funds 5.5 percent), as expressed by the POs/MFIs, and based on information collected during project preparation. This is fully in line with market rates for the few housing microcredit that exist with a few POs of PKSf<sup>66</sup>, and comparable to other microcredit and microenterprise products (see Table 19). Interest rates are due to be revised accordingly by PKSf.

**Table 19: Housing Microfinance Pricing**

	Cost to PO	Operation Expense	Risk Cost	Cost of Capital/ Profit	Cost to Customer
<b>Micro Credit</b>	6%-8%	11%-13%	1%-2%	5%	25%
<b>Micro Enterprise</b>	6%-8%	9%-11%	3%-4%	5%	25%
<b>Housing Micro Finance</b>	5.5%	5%-7%	2%-3%	2%	15%

## VII. HOUSING LOAN PRODUCT DESCRIPTION

### 7.1 Proposed Housing Finance Models under PPSIP

97. The table below describes some of the housing finance models which could be developed further by PKSf for the purpose of their onward lending to POs.

<sup>66</sup> 17 percent for including housing finance, maturity is 6 years.

**Table 20: Key features of proposed models under PPSIP**

Locations	Model Approach	Primary Borrower	Housing Need	Social / Individual Collateral
Non-NHA Towns	Incremental Build without Land Tenure	Individual	In-situ Improvement / Extension	Group Guarantee and Personal Guarantee, if available
	Incremental Build with Land Tenure	Individual	In-situ Improvement / Extension	Group Guarantee and / or Personal Guarantee + Equitable Mortgage
	New Construction with Land Tenure	Individual	In-situ Construction / Relocation	Personal Guarantee + Equitable Mortgage
NHA Towns	Incremental Build with Land Tenure	Individual	In-situ Improvement / Extension	Guarantee by Community Fund (and / or) Personal / Group Guarantee + Equitable Mortgage
	New Construction with Land Tenure	Individual	In-situ Construction / Relocation	
	Re-blocking / Redevelopment at Cluster level with Land Tenure	Individual / Housing Society / Cooperative	In-situ Construction / Relocation	FLDG Mechanism by Community Fund + Personal / Group Guarantee + Equitable Mortgage

98. The table below shows the essential product parameters and principles for housing loans.

**Table 21: Parameters and principles of housing loans**

	Low Income	Lower Moderate Income
<i>Basic Eligibility</i>	Appraised household income of BDT 10,000 – 25,000 p.m. (PO ensures that upper income ceiling is not breached)	Appraised household income of BDT 25,000 – 40,000 p.m. (PO ensures that upper income ceiling is not breached)
	<ul style="list-style-type: none"> <li>- Age of Applicant / Co-applicant as per PO norms</li> <li>- Spouse and / or blood relatives to be added as Co-applicant/s for the housing loan as far as possible</li> <li>- Borrower should have been residing for minimum three years in the house property prior to availing housing loan and should be the owner of the property even though s/he may not hold a legal title</li> <li>- Bank account with any scheduled Bank</li> </ul>	
<i>Savings</i>	<ul style="list-style-type: none"> <li>- Borrower should have a demonstrated savings history of a minimum of 3-6 months prior to availing housing loan</li> <li>- Borrower should deposit a minimum of 5% of loan amount as</li> </ul>	

	upfront savings with the PO Optional monthly savings	
<i>Loan Purpose</i>	<ul style="list-style-type: none"> <li>- House Improvement / Renovation</li> <li>- House Extension</li> <li>- House Construction</li> <li>- Construction with Re-blocking / Realignment (In-situ) (Settlement or cluster level project with site development)</li> <li>- Construction with Redevelopment (Settlement or cluster level project; either in-situ or relocation)</li> </ul> <p>Following loan categories are strictly excluded under the PPSIP Credit Line: house purchase, take-over/refinance of housing loans, home equity loans, top-up loans, loans against property, land loans and loans for construction / purchase of non-residential premises</p>	
<i>Property Location</i>	<ul style="list-style-type: none"> <li>- Designated areas and settlements identified in NHA Towns</li> <li>- Slum and low-income settlements (approved by World Bank / PKSf) within the Pourashava Limits in Non-NHA Towns</li> </ul>	
<i>Loan Amount</i>	Maximum – BDT 250,000	Maximum – BDT 400,000
<i>Construction Cost</i>	Maximum – BDT 310,000	Maximum – BDT 500,000
	The same ceiling would apply per housing unit for in-situ construction as well as redevelopment and re-blocking projects.	
<i>Loan to Cost Ratio</i>	Maximum 80%	Maximum 80%
<i>Loan to Value Ratio</i>	Maximum 60%	Maximum 60%
<i>Installment to Income Ratio (IIR)</i>	Maximum IIR of 25%	Maximum IIR of 25%
<i>Fixed Obligations to Income Ratio (FOIR)</i>	Maximum FOIR of 40%	Maximum FOIR of 40%
<i>Gross Spread Earned by PO</i>	Expected maximum spread of around 10% p.a. at the level of PO (difference between cost of funds availed from PKSf and effective annualized rate of interest charged to the end-borrower)	
<i>Rate of Interest</i>	PO will price the housing loans on a fixed rate basis such that effective annualized interest rate charged to the end-borrower leads to a gross spread of maximum 10% p.a.	
<i>Tenure</i>	Minimum – 18 months Maximum – 60 months	Minimum – 18 months Maximum – 60 months
<i>Security</i>	<p>Security arrangements may comprise any or more of the following:</p> <ul style="list-style-type: none"> <li>- Equitable Mortgage of House Property (wherever possible)</li> <li>- Personal Guarantee (one or two personal guarantors)</li> <li>- Group Guarantee (as available under micro-credit operations)</li> <li>- Guarantee by CBO (funded from Community Savings)</li> <li>- FLDG arrangement with CBO (using Community Funds)</li> <li>- Security Cheque and / or Post-dated cheques</li> <li>- Equitable Mortgage of alternate property (including land)</li> <li>- Assignment of a life insurance policy</li> <li>- Lien marked on savings and deposits</li> </ul>	

	- Collateral surrogates and alternate security mechanisms
<i>Disbursement</i>	<ul style="list-style-type: none"> <li>- Stage-wise disbursements for all loans above BDT 80,000 (As a prudent measure PO may opt for stage-wise disbursements for loans &lt; BDT 80,000 as well)</li> <li>- Minimum two disbursement tranches for all loans up to BDT 1.50 lac and minimum three tranches for all other loans</li> <li>- First disbursement to be made only after the borrower invests the entire cash component of his/her equity in house construction</li> <li>- The usual mode of disbursement to be through banking channels either by way of cheque, electronic transfer or mobile payment to effect credit in the borrower's bank account</li> </ul>
<i>Repayment</i>	<ul style="list-style-type: none"> <li>- PO to offer weekly, fortnightly or monthly installment for loan repayment based on their respective product design; frequency of installments to be monthly or lower</li> <li>- The usual mode of repayment to be through banking channels either by way of cheque, electronic transfer or mobile payment</li> <li>- Cash collection of loan installment allowed in exceptional cases</li> </ul>
<i>Prepayment</i>	<ul style="list-style-type: none"> <li>- The product designed by POs should have flexibility to allow multiple partial prepayments of the loan and full prepayment without levy of any prepayment charges to the end-borrower</li> <li>- POs will offer the end-borrower a choice of lower installment or lower tenure or both in the event of partial prepayments</li> </ul>
<i>Construction Technical Assistance</i>	<ul style="list-style-type: none"> <li>- POs can consider offering Construction Technical Assistance to the borrowers based on differentiated pricing, however the borrower should have the option whether to avail of this facility</li> <li>- POs can also benefit from the CTA delivery mechanisms and capacities instituted at PKSF / supported by PKSF</li> </ul>
<i>Insurance</i>	POs can offer an insurance cover for life / accident / property as a bundled product offering; the premium being collected along with repayment installments
<i>Construction Standards</i>	All construction financed by way of housing loans under the credit line should be compliant with the NHA guidelines for planning design and construction as recommended by World Bank / PKSF
<i>Environmental and Social Safeguards</i>	Housing loans administered under the credit line should be fully compliant with the environmental and social safeguards as recommended by World Bank / PKSF

## 7.2 Key Assumptions

99. **Role of Project Implementation Team.** The Project Implementation team has a key role to play in the project. The project has multiple pillars and seamless coordination between each of these pillars is very important for success of the project. The coordination & understanding between The National Housing Authority, the Implementing Agency and The Project Implementing Consortium working on Community Mobilization, Land Tenure Rights, Infrastructure provision needs to be of very high quality. It is also important to have good relationship and understanding between the Project Implementing Consortium and the Financial Partner Organizations.

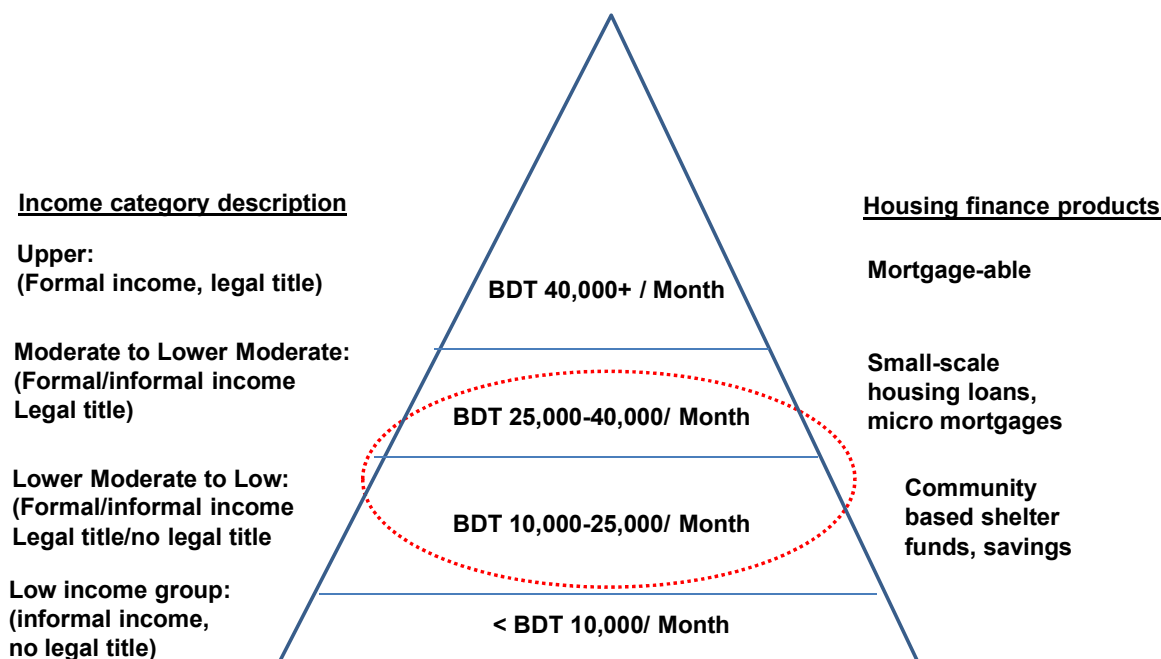
100. **Securing Tenure Rights.** Securing Land Tenure Rights to the communities is a key activity of the project. The availability of a strong Title/ Tenure right is a key prerequisite for Housing Finance. The Implementation Agency & the Team coordinating these efforts are to ensure that the title/ tenure rights are made available at the household level before the loans are extended to the households.

101. **Capacity of POs.** The POs participating in the project have a well-established track record in the field of micro credit in Bangladesh. They have vast experience working in this space. They are also interested in doing housing micro finance product. With support from experts from the sector, PKSf, the credit-line implementing agency they should be in a position to handle this new product.

### **7.3 Affordability Analysis**

102. For the purpose of this project the following aspects have been considered for affordability analysis. The housing finance needs of households earning more than 40,000 BDT per month are being serviced by Banks and Housing Finance Companies. The priorities on households earning less than 10,000 BDT per month are on livelihoods and sustenance. They require a government supported heavily subsidized housing program. The income groups between these two extremes i.e. 10,000 BDT to 25,000 BDT and 25,000 BDT to 40,000 BDT constitute the two main target segments that are being considered for housing loans under the PPSIP credit line.

## Housing Finance products based on income segments and affordability



103. The table below illustrates the Installment to Income ratios for various loan amounts and household Incomes for a 5 year term at 15 percent rate of interest per annum. The areas marked in green are the most likely loan exposures that can be looked at by the POs. The areas marked in Yellow can be considered in future based on learning and portfolio performance. The areas marked in Red are high risk and hence will not be entertained.

**Table 23: Installment to Income ratios**

RoI -15% p.a; Term - 5 Years		MI as % of MHI (IIR)			
Loan Amount	Monthly Installment	10000	20000	30000	40000
50000	1189	12%	6%	4%	3%
100000	2379	24%	12%	8%	6%
150000	3568	36%	18%	12%	9%
200000	4758	48%	24%	16%	12%
300000	7137	71%	36%	24%	18%
400000	9516	95%	48%	32%	24%

RoI : Rate of Interest per annum  
MHI : Monthly Household Income

MI: Monthly Installment  
IIR: Installment to Income Ratio

104. The table below indicates the loan eligibility for various threshold income levels and loan terms taking into consideration the Installment to Income Ratio of 20 percent / 25 percent.

**Table 24: Income and Loan Eligibility**

Income p.m.	EMI Ratio (IIR)	Term	EMI	Loan Eligibility
10000	20%	3 Years	2,000	57,695
		5 Years	2,000	84,069
25000	20%	3 Years	5,000	1,44,236
		5 Years	5,000	2,10,173
	25%	3 Years	6,250	1,80,295
		5 Years	6,250	2,62,716
40000	20%	3 Years	8,000	2,30,778
		5 Years	8,000	3,36,277
	25%	3 Years	10,000	2,88,473
		5 Years	10,000	4,20,346

## VIII. SUSTAINABILITY

105. The credit line funds will continue to be revolved by PKSf for a period of 38 years, with a repayment of the funds to the MOF according to the agreed schedule. Interest payments on the subsidiary loans and principal amounts repaid by the POs will be channeled to the MOF, which will use the money to repay to IDA. Any funds not required for repayment to the Ministry of Finance will be on-lent by PKSf to qualified POs for new shelter credits towards the development objectives.

106. **Sustainability of the shelter lending component.** This component has been designed with a view to scaling up in the future, and therefore places emphasis on the viability and sustainability of the lending component. Qualifying financial intermediaries will be carefully assessed by PKSf in conjunction with the World Bank and must have a sustained track record of lending. The technical sustainability of the credit line will be ensured through provision of relevant training and hands-on technical assistance to the POs. The POs will be trained in applicability of the new financial products, assessing the suitability and effectiveness of these new products, and on mitigation of the related risks. The sustainability of the funding that the POs will be receiving will be ensured by using the PMU at PKSf that has accumulated extensive experience in working with donor credit lines (including from the World Bank).

107. The **benefits** will accrue to POs in form of transferred knowledge on new much-demanded products, ability to pilot these new products with longer-maturity funds, an expanded portfolio in the housing finance market niche, expanded menu of lending products, and broadened client base through the process of “nurturing” their clients. The benefits to the poor people participating in the project will be improved housing conditions and physical infrastructure, which will improve living conditions, provide more stability in their lives, as well as expanded income earning opportunities.

108. **Risks.** The main risks related to the credit line relate to potential political interference in decisions over lending that would undermine the sustainability of lending against prudent financial standards. This is particularly true in NHA areas, where the lending would be closely linked with existing government financed interventions at the community level. A further risk is that the credit



line may face delays or may be diverted to other uses, thereby not achieving the project development objective. Close monitoring and evaluation, as well as supervision of the credit line component will be critical to ensuring its success.

## **Appendix to Annex 8: Eligibility Criteria**

### **A. General Standards:**

- (i) Be in compliance with all relevant laws for microfinance institutions and prudential regulations of the Microcredit Regulatory Authority.
- (ii) Be interested and committed to servicing the range of clients who are the intended beneficiaries of the Project.
- (iii) Undergo an annual audit, with an unqualified audit opinion, that is conducted in accordance with the International Standards on Auditing (ISA) by an audit firm acceptable to the World Bank.
- (iv) Adhere at all times to international norms of sound banking and accounting practices including, but not limited to, proper asset valuation, adequate provisioning, etc.
- (v) Have the necessary staff, knowledge, physical and other resources to implement the credit line under the Project.

### **B. Financial Standards:**

- (i) At all times, meet all the prudential regulations issued by the Microcredit Regulatory Authority, with a particular focus on the following:
  - a. Maintain at all times the risk assets/equity ratio of 8:1;
  - b. Maintain an adequate loan loss reserve: Actual loan loss reserve/required loan loss reserve shall be no less than 100 percent;
- (ii) Meet the following profitability requirements:
  - a. Have a positive net income for the current and two immediately preceding financial years, as reflected in the financial statements audited in accordance with IFRS.
  - b. Be financially sustainable, i.e., have the Financial self-sufficiency ratio: Operating income / (Sum of loan loss provision + Personnel costs + Administrative expenses), adjusted for inflation, of  $\geq 100$  percent;
  - c. Have the Return on Assets (ROA) ratio: Net income/Average assets, greater than 1 percent;
  - c. Have the Return on Equity (ROE) ratio: Net income/Average equity, at least equivalent to the inflation rate in the country.
- (iii) Have sound portfolio quality management policies, procedures (including asset classification) and skills and acceptable asset quality:
  - a. Portfolio at risk: Portfolio past due greater than 30 days + loans in legal recovery + rescheduled portfolio/Gross loan portfolio, shall be less than 5 percent;
  - b. Write-offs: Net write offs/Loan portfolio, shall be less than 5 percent.
- (iv) Project funding should not exceed 50 percent of the MFI's total capital.

### **C. Corporate Governance and Managerial Standards:**

- (i) Have a highly qualified Board of Directors, responsible for, and capable of, setting the overall MFI policy and perform appropriate oversight of the MFI's operations.
- (ii) Have a qualified and capable management team.
- (iii) Have a sound business plan and appropriate budgeting and budget control procedures.
- (iv) Have sound lending policies and procedures, including in respect of the entire credit cycle, problem loan management, write-offs of assets, credit approval authority, etc.
- (v) Have satisfactory internal control and audit procedures, including accounting principles and procedures, and financial documents, internal controls and reporting, and operational controls, confirmed by external auditors.
- (vi) Is not exposed to undue interest rate risk, confirmed by annual audited financial statements.
- (vi) Have an internal reporting and management information system capable of providing sufficient information necessary for managing the bank's operations, performance and risks.