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Housing Finance in Afghanistan: Challenges and Opportunities

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ACRONYMS AND ABBREVIATIONS

AREU	Afghanistan Research and Evaluation Unit
DAB	Da Afghanistan Bank (Afghan central bank)
GDP	Gross domestic product
IFC	International Finance Corporation
LTERA	Land Titling and Economic Restructuring in Afghanistan (Project)
MISFA	Microfinance Investment Support Facility for Afghanistan
NGO	Nongovernmental organization
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

During the conflict of the past two and a half decades the social and economic infrastructure of Afghanistan was virtually destroyed. About six million Afghans left the country, mainly for Pakistan and the Islamic Republic of Iran. Many of those who returned found their houses destroyed and their land under new ownership, having illegally changed hands many times. Most cities in Afghanistan now face acute housing shortages, with returnees living in inhuman conditions. In the informal settlements of Kabul two-thirds of houses are occupied by more than one family, and almost 9 of 10 families live in just one or two rooms.

To alleviate the severe housing shortage will require concerted actions by the government, the private sector, donors, and stakeholders. The World Bank estimates that in Kabul alone investment of \$2.44 billion will be needed for rehabilitation and new construction. Efforts to develop the housing sector need to focus on several challenges: resolving legal issues relating to land ownership, tenure, and transfer; creating a legal framework and necessary infrastructure for the housing market; broadening access to finance and developing the mortgage market; and extending microfinance loans to cover housing for low-income groups.

This study examines the constraints on the housing sector in Afghanistan. It evaluates government policy on housing, looks at the state of housing finance, and examines legal and regulatory barriers with a bearing on the housing market. The report provides policy recommendations aimed at helping to develop a private-sector-led housing market. To assist in formulating policies and implementing actions, the study recommends forming a housing finance task force under the sponsorship of the government. Such a task force could help foster wider discussion among the government, financial institutions, microfinance institutions, nongovernmental organizations, civil society, and other stakeholders.

ECONOMIC AND FINANCIAL SECTOR OVERVIEW

The Afghan economy has sustained strong GDP growth in the past few years, with per capita income rising from \$123 in 2001/02 to \$300 in 2005/06.¹ Projected GDP growth for the medium term is 10–12 percent a year, which would lead to a steady rise in per capita income to about \$482 in 2010. The country's population, about 24 million today, is projected to reach about 37 million by 2015. That will compound the housing problem in Afghanistan, especially in such cities as Kabul, Jalalabad, Maser-e Sharif, and Kandahar. But higher incomes may provide opportunities for a growing housing market as long as the right kinds of policies and interventions are put into place.

Among the biggest constraints is the very limited outreach of financial services in Afghanistan. Small and medium-size businesses and the housing sector have almost no access to bank credit and only limited access to banking services. The World Bank, in *Doing Business 2008*, ranked Afghanistan 159th among 178 economies on the ease of getting credit, a measure that reflects the quality and coverage of the credit information system and the legal rights of borrowers and lenders.

¹ Afghanistan uses a solar calendar in which the years correspond to the period March 20–March 19.

The country has 2 state-owned and 14 private commercial banks now in operation, and 15 microfinance institutions providing financial services to urban and rural borrowers. But most banks avoid lending for housing, which typically involves long-term commitments to the client. Among the main reasons for this is the lack of an adequate legal framework to protect financial institutions in the event of default. But several laws awaiting enactment by the Parliament—such as secured transaction, mortgage, and negotiable instruments laws—should clear the way for banks to extend long-term loans.

HOUSING SECTOR

The housing shortage in urban areas has led to the expansion of informal settlements without access to the most basic city services. In Kabul informal settlements provide shelter for 80 percent of the population, cover 69 percent of the residential land, and with the land value excluded, represent fixed private capital investment of \$2.5 billion. Much of the informal housing in Kabul is built on government land, self-constructed by migrants, and in poor condition. A World Bank study called for upgrading rather than demolishing the informal settlements, and regularizing the tenure of their households.

Growing Demand

Projected population growth will add to the housing needs, especially in urban areas. Kabul's population grew by 15 percent a year between 1999 and 2002 and is expected to continue to grow by 5 percent annually as a result of migration and natural growth. Countrywide, the demand for housing was estimated at 1.0 million units in 2006 and is projected to grow steadily, to reach 1.25 million in 2010 and more than 1.5 million in 2014.

New Supply

Despite the enormous need for housing, few new housing developments are under way in Afghanistan, though several are planned. Municipalities, the Ministry of Returnees, and the Ministry of Urban Development are responsible for housing construction for returnees from Pakistan and the Islamic Republic of Iran. Kabul has distributed 22,000 plots at an average price of \$5,200, transferring the title after 40 percent of the construction is completed. Jalalabad has distributed 4,400 plots at an average cost of \$5,000 as part of a housing zone intended for 20,000–30,000 plots.

In addition, the Ministry of Urban Development plans to build a large “new city” near Kabul with 250,000 housing units, costing \$13,000 per home, to house 700,000 inhabitants. The government will donate the land to a developer, whose profit will be guaranteed by fixed prices. The project is expected to cost \$250 million. Plans call for it to be completed by 2013, with a pilot site for 20,000 homes to be launched in the near future.

Middle-class housing development programs like this one, which provide significant subsidy through free land, are not properly targeted to the people who most need housing support. The subsidy could be better directed to improving water, sanitation, and other infrastructure for low-income housing.

Constraints for women

Women in Afghanistan face particular constraints in gaining ownership of or title to property. Women gain ownership of property only through inheritance, but this is difficult. And most must rely on a male relative to hold the title to their property. Title to a home would improve access to bank credit for women, particularly important for entrepreneurs.

HOUSING FINANCE

Lack of institutional finance remains a major constraint to the development of a housing market in Afghanistan. The government-owned housing finance bank was closed in mid-2003 because of nonperformance. The 16 commercial banks operating in the country today, while perceiving the housing finance market in the main cities as potentially lucrative, have extended little financing to the housing sector.

While the availability of long-term funding remains a challenge, the problem is largely not a financing issue: the banks have excess liquidity. The problem is instead an inefficient financial intermediary function for generating long-term funds and the lack of a legal regime that supports long-term loans such as those for housing. The consequence is that houses are purchased on a cash basis, precluding all but the wealthy from participating in the market.

A housing finance system could provide benefits to the economy beyond development of a housing market. For example, instituting a sound property registration system would enable entrepreneurs to use their property as collateral for business loans. In addition, housing finance would help develop a long-term finance market for other industries, including infrastructure development. And private sector lending for housing would free scarce government resources for other social and economic needs.

Housing finance options

Neither formal nor informal housing finance is significant. Bank e Millie, a state-owned commercial bank, has extended mortgage loans but has no set product—each is unique. Generally two-year loans, they range in size from \$400 to \$10,000.

Most commercial banks, public and private, are keen to launch a housing finance product in the near term. These banks, along with microfinance institutions, envision a wide range of housing loan products. A product designed by Bank e Millie would range from \$10,000 to \$20,000, with a monthly payment of more than \$100 over a 20-year term. Microfinance institutions, with the aim primarily of meeting short-term needs for home repair, envision loans ranging from \$100 to \$500, with a monthly payment of about \$50 and a maximum term of one year.

Some banks provide loans for the purchase of a home that are structured not as traditional mortgages but as lease-buyback arrangements. Under these loans, known as murabaha, the bank buys the property and resells it to the client at a markup, owning the property outright until final payment—an arrangement offering the bank a level of security not available with a traditional mortgage. In the microfinance sector one institution has extended loans for home improvements to slum dwellers.

Lack of homeowners insurance

Until more private insurance companies establish operations and begin offering homeowners insurance in Afghanistan, however, the risk of lending to homeowners may remain too high. Banks are reluctant to offer large loans without insurance on the collateral—but no company in Afghanistan offers homeowners insurance protecting against fire or earthquake. Although the country’s insurance law was revised in January 2006, only one private insurance company has since started doing business. And the public sector Afghan National Insurance Company is barely functional and financially weak.

LEGAL AND REGULATORY ENVIRONMENT

Lack of an appropriate legal and regulatory regime has prevented commercial banks and, to a lesser extent, microfinance institutions from entering the housing finance market. Inadequate enforcement of laws and structural weaknesses in the housing market have made housing finance an overly risky proposition. Among the reasons commercial banks cite for staying out of the housing market are the inability to establish clear title to property, the high cost of registering liens, and the lack of secured transaction or foreclosure laws.

Title insecurity

Establishing clear title to land is a major problem in Afghanistan. There is no coherent land registration law. In addition to several traditional means of property transfer, conflicting registry schemes have been put into place over the decades. And corruption and forgeries often lead to several competing claims to the same piece of property. In Kabul an estimated 70 percent of residents live on property that has not been formally registered.

Land title has been complicated by the several legal regimes in place: customary law (*rawaj*), civil law (*qanoon madani*), religious law (*Shar’ia*), and statutory or national state law. In addition, frequent regime change has led to more than 60 different land laws and amendments to the state law. As a result, property may be legally held in several different ways, including through a customary document certified by the local *shura* or *jirga*.² While *shuras* and *jirgas* are not officially recognized by the court system, they often provide the most effective way to conclude a transaction or resolve a land dispute.

Given the complexity, it is unsurprising that few people have the skills or training to conduct a proper title search and declare title free and clear. Nor is there adequate capacity in (or records for) property appraisal, resulting in unreliable information on the true sales value of property. Adding to the problem, real estate licenses can be obtained for a small fee, and there is no mechanism for verifying credentials.

To help bring people into the formal land titling regime, the Supreme Court has cut the number of steps required to register property from more than 30 to just 4 or 5. That has reduced both the time required and the opportunities for corruption. In addition, the government has committed to lowering the cost of registration from 10 percent of the property value to 2 percent.

² A *shura* (the Dari term) or *jirga* (the Pashtu term) is a committee in a village, community, or township whose members are selected by the residents. Those selected are typically elderly, wealthy, and educated; are often landlords; and may have served as a commander during the war.

Lack of a well-functioning collateral system

A bank willing to extend a mortgage loan would face discouraging obstacles in creating a lien against the property to secure the loan and, in the event of default, in enforcing its security.

The procedure for creating liens is bureaucratic, time consuming, and overly expensive. Even where a valid lien is perfected against the property, the lender has virtually no options available for acquiring and disposing of the collateral in the event of delinquency or default on the loan. Afghanistan presently has no mortgage, secured transaction, or foreclosure law.

Under Shar'ia, foreclosure or eviction from a property that is the borrower's sole shelter is almost impossible. For this reason banks that use collateral first ensure that the borrower has two properties, then effect a lien against the second home.

While property disputes are heard in civil court, the judges are poorly trained in property law. Moreover, there is little or no enforcement of judges' decisions.

HOUSING MICROFINANCE

Microcredit activity in Afghanistan was initiated in 2003 under an apex body, the Microfinance Investment Support Facility for Afghanistan (MISFA). By March 2008 the 15 microfinance institutions now under MISFA had 373,000 active borrowers among the country's low- and moderate-income families, had disbursed a total of \$420 million in loans, and had current outstanding loans of \$108 million.

Potential demand

The country's microfinance clients have demonstrated a large demand for housing loans. Indeed, they often use microfinance business loans for home improvements. In addition, one microfinance institution has provided loans explicitly for home improvements.

Estimates suggest that the total demand for housing microfinance could be substantial. In Kabul alone the financing need for home improvements and new construction in the informal housing sector amounts to an estimated \$276 million a year. Today those needs are met through relatives and friends, labor sharing, and family incomes. If microfinance institutions met only 10 percent of the demand, the financing requirement would be about \$28 million a year. In meeting this demand, microfinance institutions should initially use their own funding from MISFA, mobilized from donors. In the long run, however, market-based funding from commercial banks could promote the financial sustainability of microfinance institutions.

Potential challenges

There are two target groups for nonmortgage housing loans: the self-employed, based in rural and urban areas, and wage earners, based mainly in urban areas. Microfinance institutions are well placed to extend housing loans to these groups; an analysis shows that they have more comparative advantages and fewer disadvantages than other potential providers of loans for informal housing.

Even so, several conditions need to be met to ensure effectiveness: detailed knowledge of the housing microfinance market, capacity building in loan appraisal techniques, effective guarantee mechanisms to limit risks, lending methodologies and policies designed for high-risk areas, and cost-effective ways to reach rural clients. In addition, microfinance institutions need to provide loans to women to promote their homeownership.

A stand-alone housing microfinance bank?

Establishing a stand-alone microfinance bank specializing in housing microfinance is not a feasible option. Building a new institution takes time and capacity, and existing microfinance institutions are already providing 10–15 percent of loans for informal housing. Moreover, the countrywide presence of these institutions allows them to quickly and efficiently expand housing finance activities.

HOUSING POLICY DIRECTIONS

The government of Afghanistan has taken some policy measures to overcome the housing shortage in the country. Its primary aims have been to create new serviced and unserviced land, improve land titling, support home construction and improvement, promote the conditions for housing finance, and establish a housing subsidy program for low- and middle-income communities. The policy on involving the private sector in helping to alleviate the housing shortage needs serious scrutiny, however.

In addition, the situation remains too tenuous for financial institutions to begin large-scale lending in the housing sector, with such legislation as the mortgage law and secured transaction law still awaiting enactment by the Parliament. Moreover, an overhaul of land policy is needed, as well as actions to promote housing finance so as to stimulate housing supply, particularly at the lower end of the market. Among the key policy measures are those needed to improve security of tenure, improve the framework for housing finance, and build the capacity of secondary participants in the housing market.

Improve security of tenure

Without a regime ensuring security of tenure, banks will be unwilling to lend in the housing sector. Microfinance institutions are less likely to need title for a mortgage guarantee, however, as they use alternative forms of collateral.

Review and overhaul land titling. To ensure single ownership, all title deeds—from both informal and formal registrars—need to be centralized in the land title office. Standardizing documents, limiting the number of registry offices, and computerizing the records could all support efficient searching.

Improve the cadastre. Technology is now available that would allow proper mapping for an accurate titling system in the country. The Afghan Geodesy and Cartography Head Office has already begun digitizing existing cadastral maps of about 800,000 properties.

Ease title transfer and registration. Simple, affordable procedures for title transfer and property registration would encourage people to use the formal registration process. That in turn should promote development of the primary and secondary property markets.

Improve access to title for women. Women's difficulty in obtaining title to and ownership of property limits their access to formal finance in Afghanistan. Promoting a greater ownership share for women requires policy incentives. In India, for example, the microfinance institution Mann Deshi Mahila Sahakari Bank provides lower interest rates on loans to women who have title to property.

Improve the framework for housing finance

The housing sector in Afghanistan operates under few guidelines and with almost no mechanisms for enforcing those guidelines. Remedying this situation will require concrete actions.

Provide training. Judges need training to gain the knowledge required to review and approve the decisions of shuras and other informal bodies and to make decisions themselves on property cases. And financial institutions need training to build their capacity in mortgage and nonmortgage home loans.

Improve enforcement. No formal eviction law is in place to protect either banks or tenants in cases of foreclosure. To ensure security for banks and property owners alike, actions to enforce land law must follow a formal procedure and be backed by a court order, not imposed arbitrarily for political reasons.

Ease the burden of registering liens. A quick, inexpensive, and transparent system for registering liens against property would encourage banks to enter the mortgage market. The time for processing liens should be shortened from two months to two weeks and the costs reduced from 6 percent of the property value to 0.5 percent.

Build the capacity of secondary participants

Development of a housing finance market requires a professional cadre of participants in all areas of the market. The quality of professionals in this field is generally low, and there are no real associations or codes of conduct providing minimum standards. Nor are there penalties for unprofessional conduct.

Develop qualified property dealers. Basic, minimum standards of professionalism for property dealers are needed to give banks the confidence to enter the housing finance sector. Entering this field requires merely a license obtained for a small fee from the Ministry of Justice, with no training or tests of qualifications.

Build title search skills. A group of people with the training to provide a qualified guarantee of title quality needs to be developed. Some lawyers are knowledgeable about title search, but too few to meet the demand. Computerization and centralization of title records will help make title search more straightforward.

Ensure reliable appraisals. Financial institutions must have strong confidence in the accuracy of property appraisals. Today in Afghanistan appraisals are conducted by property dealers or loan officers on the basis of inadequate market information. Making the property registration and transfer system simple and user friendly—so that people begin to properly register their property with the value paid—is one important step. Professional standards, to mitigate the risk of false valuation and corruption, could be achieved through licensing, regulation, and self-governing associations with strict codes of conduct. Certification could be provided by the government or by professional associations, under standards set by the government or subject to regulatory oversight.

RECOMMENDATIONS

To develop Afghanistan's housing sector, with the overall objective of building a primary mortgage market and thus increasing the availability of affordable housing, the following future program and policy interventions are recommended:

- *Strengthen the legal framework and necessary infrastructure*, the prerequisites for developing the housing finance market. These include a sound legal environment for market participants such as financial institutions, housing developers, and property buyers and sellers; improved systems for property titling and registration and enforcement of liens; and establishment of a legal and regulatory framework for the insurance industry.
- *Develop the mortgage market* by enhancing capacity in commercial banks, introducing new housing finance products, and putting into place a guarantee facility to mitigate the risks for commercial banks relating to property titling and registration or enforcement of liens.
- *Develop housing microfinance* by creating incentives for microfinance institutions to engage in nonmortgage lending. To create such incentives, the government and donors should provide technical assistance to microfinance institutions in piloting and rolling out expanded microfinance lending for the housing sector.

CHAPTER 1. COUNTRY CONTEXT

The two and a half decades of international and domestic conflict endured by Afghanistan have been reflected in its economy, its demographic situation, and its financial sector. While recent trends in economic growth and financial sector development have been promising, Afghanistan continues to confront enormous challenges.

ECONOMIC OVERVIEW

In 2001/02, the base year for measuring growth in the post-Taliban era, per capita GDP was \$123.³ Since then the economy has been on a path of recovery, sustaining its growth momentum despite a difficult security environment. In 2005/06 the GDP growth rate was 14 percent, and per capita income had risen to \$300.

The relatively robust growth can be attributed mainly to the end of a five-year drought followed by three years of exceptional rainfall, the rapid growth of the opium economy, international aid, and the return of thousands of migrants and refugees with entrepreneurial and other skills. In addition, many constraints to growth were removed through small but gradual reforms, boosting private investment and employment creation.

But despite the recent economic growth along with relatively low inflation, Afghanistan confronts acute poverty. Meeting this challenge, along with those of poor social indicators and ongoing security problems, will require robust, sustainable economic growth and, to achieve that, continued macroeconomic stability. The reform agenda presents formidable challenges for the government: heavy dependence on aid, institutional and staff capacity constraints, an extremely small domestic revenue base, imports that far outstrip exports, the risks of poverty, persistent insecurity, and illicit opium trade can all threaten economic growth.

Future growth prospects

GDP growth is projected to average 10–12 percent a year over the medium term, leading to a steady rise in per capita income to about \$482 in 2010. Agriculture is expected to return to its historical trend while trade, transport, and telecommunications continue to grow at a strong pace. Construction is also expected to increase steadily, though more slowly than in recent years. The service sector too is expected to maintain steady growth over the medium term.

Further growth prospects are predicated on the emergence of new activities, greater efficiency in the public sector, an appropriate regulatory framework for private sector activities, and improvements in human capital and infrastructure. The Interim Afghanistan National Development Strategy identifies four sectors that could enhance the country's growth and export prospects: agriculture and rural industry, leasing of state assets (land and buildings), mining and extractive industries, and regional trade and transit (Islamic Republic of Afghanistan 2005a).

³ Afghanistan uses a solar calendar in which the years correspond to the period March 20–March 19.

Macroeconomic and fiscal management

Inflation has declined substantially. In 2002/03 annual inflation was about 52 percent, but by 2005/06 it had dropped to about 9.4 percent, and projections suggested a further drop in 2006/07, to about 7 percent. Assuming continued sound macroeconomic and fiscal policies, inflation should continue this declining trend, falling to 5 percent in 2007/08.

The decline in inflation was due mainly to a sharp slowdown in real estate rental fees and stability in education fees in urban areas. But there are also factors that have recently pushed inflation upward, such as the large inflows of aid, the rising labor costs, and an increase in oil and food prices. If inflationary pressures intensify, the government will need to tighten monetary management.

Revenue collection relative to the size of the economy is the lowest in South Asia, at only 3.2 percent of GDP in 2002/03. Though it was expected to rise to 5.2 percent of GDP in 2005/06, it would still be the lowest in the region—despite economic growth, political economy reforms, and state-building efforts. At current revenue levels the government is able to finance only 50 percent of its operating budget, with the balance funded through donor assistance. Several factors explain the poor revenue collection: corruption, the large share of illicit activities in the economy, parallel governance structures, an outdated revenue collection system, and weak institutions, including the customs service.

Opium continues to account for a large share of the economy. In 2005/06, with a production value of \$2.7 billion, opium was equivalent to about a third of GDP, though it is excluded from GDP estimates. This share is unlikely to decline in the near future.

Reducing the trade deficit is a key to better macroeconomic management. Legitimate exports have grown steadily, from \$1,291 million in 2002/03 to \$1,893 million in 2005/06. But imports have also increased, from \$2,508 million to \$4,560 million, opening a growing trade gap. Narrowing this gap will require substantial investment to enhance Afghanistan's comparative advantage in certain areas of production for export.

DEMOGRAPHIC OVERVIEW

The demographic situation in Afghanistan plays an important part in its housing needs, especially in urban areas. Of the country's total population—23.6 million according to the population census of 2005/06—an estimated 22 percent live in urban areas and 78 percent in rural areas (Ministry of Economy 2005). But the stronger employment growth in urban areas is encouraging migration from rural areas to cities and district towns all over Afghanistan, increasing demand for urban housing. Afghanistan also has the youngest population in the world, with an estimated 57 percent under the age of 18 (Islamic Republic of Afghanistan 2005a). As these young people start to seek jobs and places to live, that will add to the pressure on the housing sector.

The country's population is concentrated in 5 of its 34 provinces: Kabul (3.07 million), Herat (1.55 million), Nangarhar (1.26 million), Balkh (1.07 million), and Kandahar (1.0 million). These provinces, with about a third of the country's population (7.95 million), have large urban concentrations and perennial housing shortages. The capital cities of two of these provinces, Kabul and Jalalabad, provide useful examples.

Kabul, the capital of Afghanistan as well as Kabul province, is the country's leading economic and cultural center. It also commands the strategic routes to Pakistan through the Khyber Pass. The city was captured by the Taliban on September 27, 1996, and captured again, by Northern Alliance forces, during the U.S.-led invasion in November 2001.

Estimates of Kabul's population vary significantly. One estimate, from the population census of 2005/06, puts it at 2,483,600 (1,198,000 females and 1,285,000 males), of which the majority are Farsi-speaking Tajiks; there is also a large Pathan (Pashtun) minority (Ministry of Economy 2005). Reports from the Afghanistan Research and Evaluation Unit (AREU) put the population at about 3.0 million in 2005. The population growth rate, as high as 17 percent a year during the post-Taliban period, is now around 5 percent. This rapid increase in population stems from substantial immigration into informal settlements, and the city's expansion is largely unplanned.

Jalalabad, the capital of Nangarhar province, in eastern Afghanistan, is situated on the road from Kabul to Peshawar in Pakistan, a major route. The city's population in March 2002 was estimated to be 165,100 (80,100 females and 85,000 males), of which the majority are Pathan (Pashtun) (Ministry of Economy 2005). Jalalabad is well placed to handle much of the trade between Afghanistan to the west and Pakistan and India to the east and is the commercial center for the irrigated plain surrounding the city.

FINANCIAL SECTOR OVERVIEW

Afghanistan's financial sector is developing, but lending remains very limited, confined to trade financing and short-term business loans to customers well known to the lender. Most banks have avoided lending for industrial financing or housing, which typically involves long-term commitments to the client. One of the main reasons is the lack of an adequate legal framework in the financial sector, to protect banks and other financial institutions in the event of default. The laws do not support foreclosure of borrowers' property, a clear disincentive for banks to take the risk of long-term lending. But pending laws, once enacted, should increase banks' incentive to extend long-term loans.

Recent developments

In 2002, after the fall of the Taliban regime, Afghanistan's formal financial sector was dominated by state-owned commercial banks and some specialized banks. Most of these banks were bankrupt or too weak to provide efficient financial services. Moreover, the legal framework for the financial sector was essentially nonexistent or inappropriate. The central bank, Da Afghanistan Bank, had an obsolete structure and staff too unskilled to undertake efficient monitoring and supervision of the financial sector.

Major financial sector reforms are scheduled to be completed by the end of 2008. Meanwhile, the outreach of financial services in Afghanistan remains very limited. Small and medium-size businesses and the housing sector have almost no access to bank credit and only limited access to banking services. The World Bank, in *Doing Business 2008*, ranked Afghanistan 159th out of 178 economies on the ease of getting credit, a measure that reflects the quality and coverage of the credit information system and the legal rights of borrowers and lenders.

Still, there has been significant growth in private commercial banks since 2004: today 14 private and 2 state-owned licensed commercial banks are operating in Afghanistan. The banks are concentrated mostly

in Kabul and provide services primarily to international donors, large businesses, foreign nongovernmental organizations (NGOs), and foreign government agencies. There are also a small but growing number of nonbank financial institutions, including a credit union and 15 microfinance institutions that provide financial services to urban and rural borrowers. A leasing finance company is also operating in Kabul, though with limited capital. But while financial services are expanding, these institutions have yet to broaden their offerings to meet new demands, such as for long-term loans.

Housing finance

Afghanistan has no bank or financial institution providing long-term mortgage financing. Before 2002 a government-owned housing finance bank was operating in Afghanistan, but its operating performance and loan portfolio were so weak that it failed to obtain a provisional license in 2003 under the new Banking Law. Some state-owned commercial banks, however, were relicensed under this new law in mid-2003. Before 2002 some commercial banks provided housing loans to their staff and, selectively, to government officials, but these loan activities did not continue into the post-Taliban period.

Afghan businesses and homeowners must rely almost entirely on friends, relatives, and moneylenders to meet their financing needs. Informal financing may play an important part in manufacturing and commercial activities, but such funds are often costly and therefore inappropriate for long-term private sector or housing development.

Legal and regulatory framework

Before the financial sector reforms, launched in 2003, there was an urgent need for a strong central bank and a legal framework with prudential regulations for efficient operations of private commercial banks. The restructuring and modernization of the central bank began in mid-2003. The president, through a presidential decree, approved a new central bank law in September 2003 that provides a legal and regulatory framework for a two-tier banking system—state-owned commercial banking and private commercial banking—and grants the central bank autonomous regulatory power for monetary and banking supervision.

To further strengthen the financial sector, the central bank is sponsoring laws to enable commercial banks to lend to the private sector: a secured transaction law, a mortgage law, negotiable instruments laws, and a leasing law. These laws, aimed at modernizing the financial sector as well as improving the enabling environment for the private sector, await approval in the Ministry of Justice's Taqin (law review and drafting department) before being presented to the Parliament.

Other programs for reform of the private and financial sectors are under way:

- Establishment of a legal framework to facilitate private sector development by promoting private investment and modernizing the financial market. Proposed statutes include bankruptcy, contract, and commercial laws. Of the 10 priority laws to be approved, 4 were signed by the president in January 2007.
- Enhancement of the supervisory framework for financial institutions, with the aim of strengthening

deposit protection and confidence in the financial system and improving the private sector's access to finance. This effort includes banking sector reforms, most of which are scheduled to be implemented by the end of 2008. Regulations for the microfinance sector were introduced at the end of 2006.

- Broadening and deepening of financial services by building capacity in financial institutions and adopting and implementing national accounting and auditing standards. Most of these measures are still to be implemented, with the target date being the end of 2008.

CHAPTER 2. HOUSING SECTOR

During the two and a half decades of conflict in Afghanistan nearly six million people were forced to flee as refugees to Pakistan, the Islamic Republic of Iran, and other countries. Many of those who returned found their houses badly damaged by war and repeated earthquakes and their land in the hands of others—either legally appropriated under successive governments or illegally grabbed by powerful elements.

The result is a severe shortage of housing: the Ministry of Urban Development estimates the current need for new housing units in Afghanistan at more than one million, with 70 percent of these required in urban areas. As more returnees arrive, and the development of housing proceeds at a slow pace, the housing shortage is expected to continue to grow.

To alleviate the severe housing shortage will require concerted actions by the government, the private sector, donors, and stakeholders. The World Bank estimates that in Kabul alone investment of \$2.44 billion will be needed for rehabilitation and new construction.

INFORMAL SETTLEMENTS

The housing shortage in urban areas has led to the expansion of informal settlements lacking access to the most basic city services. A World Bank assessment in Kabul (2005e) shows that informal settlements provide shelter for 80 percent of the city's population (2.44 million people), cover 69 percent of its residential land, and with the land value excluded, represent fixed private capital investment of \$2.5 billion.

Most of the housing in Kabul's informal settlements is self-constructed on government land and in poor condition. The security and quality of housing are related: since squatters have no right to the land, they are cautious about making improvements. An Afghanistan Research and Evaluation Unit case study notes that insecure title may discourage households from improving the condition of their housing—but that, conversely, investments in home improvement can serve as an explicit strategy to secure tenure (Schütte 2006c). The World Bank study in Kabul (2005e) concluded that the informal settlements should be upgraded rather than demolished, and the tenure of the households in these settlements regularized.

Even in illegal settlements, most inhabitants pay rent to someone to avoid eviction. Indeed, rising rents have led to the eviction of a large number of people from the slums, forcing them into even more meager shelter. In the informal settlements (legal and illegal) of Kabul, it is estimated that more than two-thirds of houses are occupied by more than one family.⁴ And a study by the Aga Khan Trust for Culture (2006) reports that almost 9 of 10 families in informal housing live in only one or two rooms.

⁴ Interview with H.E. Eng. Mohammad Yusef Pashtun, Minister of Urban Development, November 2006.

The condition of the housing stock in Afghanistan is very poor, as shown by data from 2002 (table 1). Most indications are that aside from some improvements to the roads and, to a lesser extent, the water system, the challenges in housing supply and infrastructure remain.⁵

Table 1 Overview of housing and infrastructure in Afghanistan, 2002

<p>Housing</p> <ul style="list-style-type: none"> • Around 50% of all units are located in unplanned areas • 26% are seriously damaged or destroyed 	<p>Water supply</p> <ul style="list-style-type: none"> • 75–80% of the population have no access to piped supply of safe water • Incremental, ad hoc additions to system through shallow tube wells
<p>Roads and drains</p> <ul style="list-style-type: none"> • 42% of roads have been destroyed or damaged • 50% of drains are broken or nonfunctional 	<p>Sanitation and solid waste management</p> <ul style="list-style-type: none"> • 84% have no proper (sanitary) toilets • 52% have no collection of solid waste • There are no sanitary disposal sites (landfills)

Source: Adapted from UNDP, World Bank, and ADB 2002.

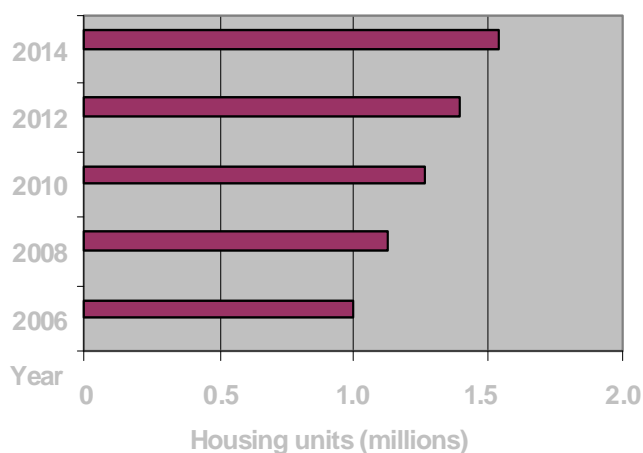
DEMAND FOR HOUSING

The recent increase in the flow of returnees from the Islamic Republic of Iran and the Pakistan government’s decision to close some of the refugee camps in Peshawar to encourage Afghans to return to their homeland are likely to compound the housing problem in Kabul as well as other large cities, such as Jalalabad, Maser-e Sharif, and Kandahar. Moreover, according to United Nations estimates, between 2000 and 2015 the national population is expected to increase by 14 million to reach a total of about 37 million—and more than half this growth will be in urban areas, where the housing deficit is most severe.

In Kabul, where an estimated 700,000 returnees have settled since 2001 (UNHCR and Pakistan 2005), the population grew by 15 percent a year between 1999 and 2002. It will continue to grow by at least 5 percent a year as a result of migration and natural growth (World Bank 2005b).

Nationwide, the projected population growth is expected to increase the demand for housing from an estimated 1 million units in 2006 to more than 1.5 million by 2014 (figure 1).

Figure 1. Projected demand for housing in Afghanistan



⁵ The Urban Water Supply and Sanitation Project, financed by the Afghanistan Reconstruction Trust Fund, provided \$41 million to support the government’s short-term goals in the sector. This initiative, which began in September 2006, has supported other water supply rehabilitation projects, which have increased the distribution network by 132 kilometers.

Despite the housing shortages, the World Bank (2005b) estimates that only 0.5 percent of Kabul's population can be considered homeless, including 10,000 living in tents and 5,000 living in destroyed buildings. How have returnees been housing themselves? Many resort to constructing their own dwellings. In Kabul and Jalalabad around 60 percent of households surveyed in an Afghanistan Research and Evaluation Unit study have built their own homes, while 20 percent are renting homes and the rest are living rent free as beneficiaries of charity (Schütte 2005). People migrating to the cities, generally poor, also mostly construct their own houses: UNICEF estimates that around 80 percent of the new houses constructed in Kabul in the 1990s were self-built (Schütte 2006d).

DEVELOPMENT OF HOUSING

Few new housing developments are under way in Afghanistan, though several are planned (box 1). Municipalities, the Ministry of Returnees, and the Ministry of Urban Development are responsible for housing construction for returnees from Pakistan and the Islamic Republic of Iran. But progress in new construction has been slow because of the scarcity of land and lack of funds for constructing infrastructure.

Both the Kabul and Jalalabad municipalities have implemented programs to transfer land to needy (unsheltered) families. This land is sold for prices below market value as long as the families build houses in the short term. Kabul has distributed 22,000 plots at an average price of \$5,200, with the title transferred after 40 percent of the construction is completed.⁶ Jalalabad has distributed 4,400 plots at an average cost of \$5,000 (though with significant concessions for widows and disabled persons); these are part of a planned development, Malang Jan, intended to provide 20,000–30,000 plots.⁷ (Besides Malang Jan, the largest planned development, the Jalalabad Municipality also plans several smaller communities—one for police, one for teachers, and a more upscale one for Afghans returning from overseas—with a total of 19,000 units.)

Neither land transfer program has had much impact on the housing stock. One reason is tenure issues: although the municipal authorities claim that they are able to provide clear title to the land, the title transfer took almost three years for many families because of squatters on the land. A second reason is real concern about ensuring that the land goes to those who are eligible rather than to speculators. (The main requirement for eligibility is that the recipient owns no other land in Kabul.)

⁶ Interview with Eng. Mohammad Yasin Hellal, Deputy Director, Policy Planning and Coordination Department, Kabul Municipality, November 5, 2006.

⁷ Interview with Bashasep, Director, Eastern Region Business Development Center, Jalalabad Municipality, November 10, 2006.

Box 1. A housing developer in need of finance: Shelter for Life

Working with NGOs in Kabul, Shelter for Life, a private, voluntary organization based in the United States, has completed and distributed houses for 3,000 families. It also plans a project to provide affordable apartments for middle-class residents: a mid-rise complex (three to five stories) with 40–60 units. The Kabul Municipality has offered the program land with clear title free of charge. The land is in Mikro-Rayon, an area with good existing infrastructure. Shelter for Life is the lead contractor and developer for the project and is interested in partnering with financial institutions to provide the mortgage finance to borrowers upon completion of the construction.

Shelter for Life has community development as its overarching goal: it strives to integrate its reconstruction projects with community development programs designed to enable independence and self-sufficiency. This process begins with the physical reconstruction of the community: shelters, schools, clinics, and infrastructure. The program equips people with the training, tools, and materials they need to permanently rebuild their communities. Beyond Afghanistan, Shelter for Life is also working in Indonesia, Iraq, Pakistan, Sri Lanka, Sudan, Tajikistan, and the United States.

Source: Kabul Municipality, Policy Planning and Coordination Department

The Ministry of Urban Development, projecting substantial investment needs in the housing sector, has recommended designing an incentive system for developers to alleviate the urban housing shortages. It plans to build a large “new city” near Kabul, with 250,000 housing units, costing \$13,000 per home, to house 700,000 inhabitants. The government will donate the land to a developer, whose profit will be guaranteed by fixed prices. The project is expected to cost \$250 million. Plans call for it to be completed by 2013, with a pilot site for 20,000 homes to be launched in the near future.

In addition, the Ministry of Urban Development plans to sign an agreement with a U.S.-based housing company to construct 10,000 single-story houses for middle- and lower-middle-class inhabitants of Kabul.⁸ The land will be free of cost, and the sales price of the houses \$20,000. The ministry’s efforts to promote such housing projects have been under way for the past three to four years, slowed mainly by the difficulty in mobilizing financial resources.

Another incentive scheme, designed by the Ministry of Education as part of its education reform agenda, uses land distribution to increase the share of female teachers (box 2).

Box 2. Meeting housing needs in the education sector

The Ministry of Education aims to increase the number of female teachers in the country to 50 percent of the total. To achieve this goal, the ministry plans to implement a housing incentive scheme that will encourage female teachers to move to rural areas by giving them land. Once the Parliament passes legislation authorizing the distribution of land to teachers—which it is expected to do—the main tasks are to identify land, review applications (from a potential pool of 181,000 eligible staff), distribute land, and then provide households with access to mortgage loans to construct their homes. But availability of housing finance is a key missing piece.

Source: Interview with H.E. Mohammad Haneef Atmar, Minister of Education, November 2006.

Housing initiatives that offer land free of cost raise some economic issues. Although the housing shortage is acute, housing development programs that provide substantial subsidy through free land are not

⁸ Income group classification follows that of the Ministry of Urban Development, with lower-middle class having a monthly family income of \$200–1,000; and middle class, \$1,000–3,000.

targeted to those who most need housing support. Instead, they are directed to middle-class residents, most with businesses or salaried employment, who could be better served by the private sector. The subsidies could be better targeted to improving water, sanitation, access roads, and other infrastructure for low-income housing.

CONSTRUCTION OVERSIGHT

The quality of construction has become a major source of concern in Afghanistan. The main reasons are lack of quality control in the materials sector, lack of supervision, and corruption in the enforcement of construction standards. The Afghan National Standards Authority, established by the Ministry of Commerce in May 2004, will set standards for both imported and locally sourced construction materials. Results will depend on enforcement of these standards, however, and the enforcement authority has generally been ineffective.

The enforcement of building codes, the responsibility of municipalities, has also been poor. People building in zoned areas are required to get proper building permits, issued only after the municipality approves blueprints and title. In reality, there is no oversight, and most home construction follows neither the code nor approved blueprints. City engineers often ignore code violations for a small payment.

LAND TITLING PROCEDURES

Clear title to land is critical to expansion of the housing sector, because without it financial institutions will be unwilling to provide the financing needed by developers and home buyers. Improved land titling would help mobilize such financing, and the mortgage law now awaiting enactment by the Parliament would further help encourage financial institutions to extend housing loans to home buyers. In the past, many people preferred to avoid formal registration, instead using traditional means to establish ownership. The titling process took more than 30 steps, each one involving much time and cost and therefore creating opportunity for corruption.

The Afghan Supreme Court has taken action aimed at bringing people into the formal land titling regime. The steps involved in the titling process have been reduced to four or five, limiting the opportunity for corruption. The formal registration process has the following steps: register with the provincial land title office (*makhzan*); register with the municipality; pay taxes at the tax office (*mustofiat*); complete the cadastral process (surveying the boundaries of the property) at the cadastre office; and register the new title in the primary court.

To further motivate people to formally register land titles, the government has committed to lowering the cost of land registration, which includes stamp duty and legal and other charges, from 10 percent of the property value to 2 percent. In addition, an effort has been made to reconstruct and improve the land records, nearly eliminated during the past two and a half decades (box 3).

Box 3. Rehabilitating land records in Afghan courts—a success story

Afghanistan's land administration infrastructure was nearly destroyed during two and half decades of war. Land records, including property and transfer deeds, were burned, eaten by mice, or destroyed completely. Starting in late 2004 the Land Titling and Economic Restructuring in Afghanistan (LTERA) Project, funded by the U.S. Agency for International Development, began refurbishing more than half the provincial registration courts (*makhzans*) in the country. Teams have cleaned, restored, and reorganized 5.4 million legal documents, including 500,000 title deeds. Land administration offices now are able to provide proper documents on land transfers and proof of ownership and prevent the registration of fraudulent deeds. Throughout the country property documents are being photographed and digitized to prevent future manipulation.

Source: Interview with Dr. Greg Massen, Chief of Party, LTERA Project.

ACCESS TO TITLE FOR WOMEN

Obtaining title to property is particularly difficult for women in Afghanistan. A very small percentage of women hold title to property in urban areas, but almost none do in rural areas. Instead, women must rely on a male relative to hold the title to their property.

Women gain ownership of property only through inheritance, but this too is difficult. According to Islamic inheritance law and practice, if a will is in place, a woman can receive no more than two-thirds of a property and even less if there are male heirs.⁹ If no will exists, a woman can receive no more than an eighth of her husband's property or, if there are no children, a fourth. When children are the heirs, a son receives a share equal to that of two daughters. In reality, daughters rarely receive land.

Title to a home would improve access to bank credit for women, particularly important for entrepreneurs. A recent report showed that access to formal finance for women in Afghanistan is constrained because they lack guarantees and title deeds (Narain 2006).

HOUSING COSTS

The cost to build a 200-square-meter apartment for upper-middle-class housing is estimated to be \$41,000.¹⁰ The cost to construct low-income housing (estimated for a two-room dwelling) might range from \$5,000 to \$10,000. A microfinance institution involved in lending for housing estimated that the cost to upgrade a two-room house would be \$500–600 and the cost to construct a new building, \$5,000–10,000. Overall estimates from a construction company, microfinance institutions, and commercial banks suggest costs of \$100–5,000 for home improvement, depending on the type (adding an extra room, building a kitchen, building a bathroom, fixing the ceiling, fixing the flagstones, painting the home, replacing doors and windows, installing plumbing and a water supply connection, installing wiring for electricity), and costs of \$10,000–40,000 to build a new apartment or house, depending on the location (rural or urban) and the construction materials used.

⁹ Grace (2005); interview with Dr. G. Farouq Bashar, Senior Legal Adviser, Ministry of Urban Development, November 2006.

¹⁰ The team received ambiguous information on the actual construction and sales costs of dwellings, with figures ranging from \$13,000 for a single-family dwelling to \$41,000 for an apartment. While some of the difference may be due to the higher relative costs of building multifamily apartment buildings complete with infrastructure, the costs of construction should be further studied and surveyed as part of the implementation of housing construction or finance programs.

CHAPTER 3. HOUSING FINANCE

Lack of institutional finance remains a major constraint to the development of a housing market in Afghanistan. Institutional housing finance is in its infancy. The state-owned mortgage bank, operating since 1960, was dissolved in mid-2003. The 16 commercial banks operating today, though they see the housing finance market in the main cities as potentially lucrative, have extended little financing to the housing sector.

While the availability of long-term funding remains a challenge, the problem is largely not a financing issue: commercial banks held current deposits of about \$1.20 billion against outstanding loans of \$0.74 billion in January 2008, and they are seeking ways to safely lend their available funds. The problem is instead an inefficient financial intermediary function for generating long-term funds and the lack of a legal regime that supports long-term loans such as those for housing. The consequence is that houses are purchased on a cash basis, precluding all but the wealthy from participating in the market.

Availability of various housing finance products would help expand the housing market in Afghanistan. But commercial banks and other financial institutions play a limited role in providing such finance, for many reasons. These include the lack of a legal framework for the financial sector, low household savings, the underdeveloped financial infrastructure, the poor creditworthiness of enterprises, and the lack of institutional capacity to deliver financial services. Where the private sector has undertaken construction projects, such as a residential hotel, shopping center, and business center, the construction was usually financed through own funds, with no bank loan (box 4).

Box 4. Financing construction projects through own resources

Among the most notable construction projects financed through own resources in Afghanistan is the Shafi Landmark, the largest hotel and shopping complex in Kabul. The Shafi Landmark was built by the Shafi Brothers Import and Export Company, whose main office is in Dubai. The construction cost, about \$35 million, was financed entirely from the company's own resources. There was no bank loan. Shafi Brothers also recently established a gypsum factory in Kandahar for an investment of \$20 million, again financed from its own resources.

Another such project is the Kabul Trade Center, a shopping and office complex in Kabul owned and constructed by Basir Omarzai, a businessman who is based in Dubai and owns a paper manufacturing company there. Mr. Omarzai met the entire cost of construction, estimated at about \$20 million, from his own resources.

Source: Case studies conducted by World Bank staff for an investment climate survey in October 2005.

A housing finance system could provide benefits to the economy beyond development of a housing market. For example, instituting a sound property registration system would enable entrepreneurs to use their property as collateral for business loans. With transparent housing lending, where risks can be measured and mitigated, financial institutions would be able to put capital that they might otherwise have held against residential mortgages to other productive uses, such as business lending. In addition, housing finance would help develop a long-term finance market for other industries, including infrastructure development. And private sector lending for housing would free scarce government resources for other social and economic needs.

EXTENT OF HOUSING FINANCE

Traditional mortgage lending

Housing finance, whether formal or informal, is not significant in Afghanistan. Two state-owned banks, Bank e Millie and Pashtany Bank, have made small forays into the housing finance market. Bank e Millie has no established mortgage loan product; each of its housing loans is unique, though it generally charges interest of around 12 percent for a two-year loan, with the loan sizes ranging from \$400 to \$10,000.

Most commercial banks are keen to launch a housing finance product in the near term. Bank e Millie intends to allocate 10 percent of its loans to the housing sector and has set up a mortgage finance department to carry out the plan. But implementation has been delayed by lack of capacity. All commercial banks and microfinance institutions in Afghanistan need basic mortgage tools and training before they can introduce housing finance.

Other financing options

Some banks provide loans for the purchase of a home that are structured not as traditional mortgages but as lease-buyback arrangements. Under these loans, known as *murabaha*, the bank buys the property and resells it to the client at a markup. These loans are made on a relationship basis.

The *murabaha*, which are Shar'ia compliant, may enable banks to overcome some of the problems with foreclosure by owning the property outright until final payment. Leasing may offer many of the same advantages, giving financial institutions a level of security unavailable with traditional mortgages in the present legal system.

Another opportunity is to provide construction finance to housing developers at the front end, which would be fully paid off after completion of the construction through mortgage loans to the home buyers, with the completed houses serving as collateral.

In the microfinance sector one institution has extended loans for home improvements to clients in informal settlements in Kabul. The loans, mostly short term and ranging in size from \$400 to \$2,000, are intended primarily for home repairs.

Informal housing finance

The hawala system, an underground banking network based on ancient methods of paperless transactions, includes informal moneylenders and could provide an efficient alternative source of housing finance. But its presence in the housing finance market is insignificant. Moreover, thanks to the recent speed and efficiency improvements in the financial system, Afghan banks are now better able to compete with the hawala system on price and service.¹¹

Afghans looking for credit outside the formal system overwhelmingly turn to relatives and, to a lesser extent, local moneylenders. Informal credit is generally a short-term loan for consumption, to cope with

¹¹ The hawala system continues to play a major part in the laundering of drug money in Afghanistan. Since September 2004 the central bank has taken measures to prevent this, enacting the Anti-Money Laundering Law and the Combating Terrorist Financing Law to better regulate the informal financial sector and requiring the hawaladars to produce standard reports. The central bank has established a monitoring unit to support both laws.

temporary shortfalls in cash flow. Less than 10 percent of credit in urban areas is obtained from local moneylenders, despite the need (Beall and Schütte 2006). Clients of microfinance institutions have pointed to the high interest charged and the potential repercussions of delinquency as reasons that moneylenders are best avoided.

NEED FOR LONG-TERM FUNDING RESOURCES

While the Afghan banking sector has excess liquidity, these funds are generally in the form of short-term deposits, which do not match the long-term funding needs of housing finance. Added to that are the high risks of long-term lending, which leave financial institutions reluctant to offer products amortized over a long period without some form of guarantee or risk sharing.

In more developed markets, where the risk is clearer, the capital markets take some of the burden of long-term lending by creating funding and guarantee instruments for the housing market. Efforts to develop a secondary mortgage market in Afghanistan would be very premature. But creating a sound primary mortgage market could help lay the groundwork for eventual secondary market activities.

Ensuring clean titles and banks' ability to place liens on properties and to enforce those liens in the event of default, for example, would give eventual investors in mortgages or in mortgage-related securities the confidence that the ultimate collateral for the assets is sound and accessible. Similarly, standardizing mortgages would help make them more marketable or securitizable instruments in the long run. In Afghanistan, where a 48-month loan is considered a long-term loan with a marginal interest of 20 percent, banks will need to be able to access other funding or guarantee sources to develop a housing finance product.

LACK OF HOMEOWNERS INSURANCE

Afghan banks are reluctant to offer large loans without insurance on the collateral. But no company in Afghanistan currently offers homeowners insurance protecting against fire or against earthquake, a particular concern in Kabul and the surrounding region. Although the country's insurance law was revised in January 2006, only one private insurance company has since started doing business. The Insurance Corporation of Afghanistan began operating in Kabul in October 2007, though it obtained its formal registration only in February 2008. Meanwhile, the public sector Afghan National Insurance Company is barely functional and substantially undercapitalized. Until more private insurance companies establish operations and begin providing homeowners insurance in Afghanistan, the risk of lending to homeowners may remain too high for banks.

AFFORDABILITY OF HOUSING LOANS

What is the affordability of mortgages for potential Afghan borrowers? Several sources of information give some indication.

Bank e Millie estimates that mortgage clients could potentially pay up to \$100 a month and that it would be feasible for the bank to charge 20 percent in annual interest for a 20-year loan. The bank reports that prices for new housing typically range from \$10,000 to \$15,000, with a maximum of \$20,000.

Another source, a market investigation undertaken in 2005 by the Ministry of Economy, links the cost of housing to buyers' ability to afford it based on their monthly income (table 2). A house costing \$5,000, the typical price for a house owned by low-income residents of Kabul, would require a monthly payment of \$49 for a 20-year loan at 10 percent interest. For middle-income residents the costs of houses range from \$10,000 to \$20,000. And for high-income residents the average costs are estimated at \$50,000. High-income home buyers make higher monthly payments, mainly from business activities. While potential low-income home buyers lack adequate disposable income to pay for a house, they usually cover loans from other sources.

Table 2. Cost and affordability of housing in Kabul, 2005

(U.S. dollars)

Market segment ^a	Average monthly household income	Average housing cost (est.)	Monthly payment ^b	Disposable income after housing cost
Low income	30	5,000	49	-19
Middle income	177	13,000	127	50
High income	—	50,000	483	—

Source: Ministry of Economy data.

Note: — = not available.

a. Classification of low income is based on a poverty level of less than \$1 a day per capita and an estimated six contributors to the household income.

b. Assumes a 20-year loan at 10 percent interest.

Yet another source of information is the Shadab Zafar Construction Company, a developer with 40 years' experience in the Afghan market. The company targets the high end of the market, building homes for upper-middle-class purchasers (box 5).

Box 5. Finding strong demand for upper-middle-class housing in Kabul

The Shadab Zafar Construction Company is building upper-middle-class apartment complexes in Kabul. The demand for such housing is high: the developer quickly presold all the apartments, which cost an average of \$41,000 for a 200-square-meter flat. The buyer must pay a fee of \$1,200 for registration as a purchaser. Once 40 percent of the construction is completed, the buyer then pays 30 percent of the purchase price. Thereafter the buyer pays \$500 a month until the flat is paid for, with no interest. The price is the same whether the buyer pays in cash or in installments.

The company now plans to construct a 1,200-unit apartment complex in Kabul with all necessary infrastructure. It expects to have no problem selling the apartments. But it thinks that greater availability of mortgages would make the new development accessible to a wider range of clients.

Source: Interview with Alihaj Mohammad Yunos, General Director, Shadab Zafar Construction Company, November 2006.

CHAPTER 4. LEGAL AND REGULATORY ENVIRONMENT

Lack of an appropriate legal and regulatory regime has prevented commercial banks and, to a lesser extent, microfinance institutions from entering the housing finance market. Inadequate enforcement of laws and structural weaknesses in the housing market have made housing finance an overly risky proposition. Among the reasons commercial banks cite for staying out of the housing finance market are the inability to establish clear title to property, the high cost of registering liens, and the lack of secured transaction or foreclosure laws.

TITLE INSECURITY

Lack of confidence in property titles is a major hurdle in developing housing finance in Afghanistan. There is no coherent land registration law. In addition to several traditional means of property transfer, conflicting registry schemes have been put into place over the decades. Moreover, corruption and forgeries often lead to several competing claims to the same piece of property. In Kabul it is estimated that 70 percent of residents live on property that has not been formally registered. Although these residents may be legitimately entitled to the land, they are at risk of being evicted by others who might acquire a more formal title.

Ambiguity of ownership

Even before the conflict began in Afghanistan, land title was complicated by the several legal regimes in place: customary law (*rawaj*), civil law (*qanoon madani*), religious law (*Shar'ia*), and statutory or national state law. Shar'ia is largely enshrined in the civil law, but it often differs from customary law. And all are applicable where state law does not apply. In addition, frequent regime change has led to more than 60 different land laws and amendments to the state law (Beall and Esser 2005).

As a result, property may be legally held in several different ways. Some of these do not include formal registration with the municipality. Instead, ownership is legitimized through a customary document certified by the local *shura* or *jirga*.¹² While shuras and jirgas are not officially recognized by the court system, they often provide the most effective way to conclude a transaction or resolve a land dispute—though often with a strong tribal or gender bias.

Moreover, during the past quarter century of war land was appropriated or taken by force by the communists, the mujaheddin, and Taliban commanders in turn—and the cycle of occupation and illegal appropriation continues. During each transfer, legal or not, a legal title was obtained from a complicit land office and court system using forged title deeds. In addition, squatters moved onto land, government or private, and built homes while the owners were abroad during the period of conflict. These are among the range of reasons given for land disputes, which need to be mitigated through a stronger land tenure system (table 3).

¹² A *shura* (the Dari term) or *jirga* (the Pashtu term) is a committee in a village, community, or township whose members are selected by the residents. Those selected are typically elderly, wealthy, and educated; are often landlords; and may have served as a commander during the war.

Table 3. Land disputes mediated by the Norwegian Refugee Council in Kabul, 2004

Type of case	Share of total (percent)
Cases involving land grabbing by commanders	13
Cases involving disputes with government officials, political party members, or court judges	16
Cases involving "pure" corruption, such as a demand for bribes from municipal or court officials	7
Cases involving problems with the municipality, such as compensation claims from people being evicted from land allocated to a road or development project	13 ^a
Ordinary people with disputes, such as two people disputing ownership of the same house or piece of land or family members quarreling over inheritance	36
Nature of dispute unclear because client has not returned or case has not been concluded	15
Total	100

Source: Beall and Esser 2005, based on data provided by Norwegian Refugee Council.

a. This percentage is on the low side because some municipality cases fall into the category of cases involving government officials or those involving corruption.

Lack of title search expertise

Few people in Afghanistan have the skills to conduct a proper title search and declare title free and clear—and those who do are unwilling to guarantee the result. The people with adequate skills are based mainly in Kabul, and they are outnumbered by those who are unqualified and possibly engaged in fraudulent activities. Moreover, the lack of transparency and enforcement in the title system fosters corruption, creating an environment that banks are unwilling to deal with.

Lack of professional appraisers

Beyond the insecurity of title, weaknesses in property appraisal leave banks unable to rely on the sales value of property. The Ministry of Justice issues real estate licenses for a small fee but has no mechanism for verifying the credentials of those who apply for such licenses. These real estate agents are the same people who appraise houses for banks. They also verify title. But because the real estate agents lack training and a code of conduct, banks can have no confidence in either their property appraisals or their title verifications. Moreover, lack of public information in the real estate sector makes it difficult to develop a set of comparable values for property against which a bank might lend.

LACK OF A WELL-FUNCTIONING COLLATERAL SYSTEM

A bank willing to provide a mortgage loan would face discouraging obstacles in creating a lien against the property to secure the loan and, in the event of default, in enforcing its security.

Burdensome procedure for creating liens

The procedure for creating liens is bureaucratic, time consuming, and overly expensive. The procedure is done through the primary courts and may take up to two months to complete. The cost is 3 percent of the value of the contract (loan amount) to execute the collateral registration and another 3 percent to release the property from registration, for a total of 6 percent. But the transfer of property as collateral in the name of the bank takes about 6 percent of the property value, and the transfer back to the owner another 6 percent, for a total of 12 percent—a very high cost for the borrower. Borrowers are reluctant to go through this costly and onerous process. The government recently committed to reducing the cost of lien

registration from 6 percent to 0.5 percent (0.25 percent at registration and 0.25 percent at release), which should help encourage financial institutions to formalize collateral registration.¹³

Some banks and microfinance institutions take physical possession of the title, returning it to the borrower when the loan is repaid (not for housing loans, however, but for other loans for which property is used as collateral). And some banks do go through the process of creating liens—but only for very large loans. Liens are not centrally registered, creating a risk of multiple liens against the same property if an inadequate title search is carried out.

Lack of a formal legal framework

Even where a valid lien is perfected against the property, the lender has virtually no options available for acquiring and disposing of the collateral in the event of delinquency or default on the loan. As noted, Afghanistan currently has no mortgage, secured transaction, or foreclosure law under which banks would function, though such laws are pending (see the chapter on country context). Under Shar'ia, which encompasses much of the property law used by Afghan courts, foreclosure or eviction from a property that is the borrower's sole shelter is almost impossible. For this reason many of the banks that use property as collateral first ensure that the borrower has a second home and then file a lien against that home.

Lack of judiciary training in property law

Afghanistan lacks judges with good training in property law. Property disputes are heard in civil court, where the judges are generally poorly versed in property issues. The Rule of Law Program, a year-long training course for judges funded by the U.S. Agency for International Development, focused very little on property law. While there is now a property tribunal set up in Kabul to resolve property disputes throughout Afghanistan, the results have been poor because of lack of training and authority.

Provincial-level courts have had little or no impact on the way disputes are settled. Instead, tribal or informal means of dispute resolution are usually used. This approach works well for members of the dominant ethnic group or tribe, but less so for members of a minority or for women. Fair outcomes have been possible, but in cases where one party has political or other influence the result is often biased (UNHCR 2003). The Afghan civil code recognizes mediation and arbitration as legal forms of dispute resolution.

Lack of enforcement

Once a judge hands down a decision in a property case, there is little or no enforcement of the decision. The lack of follow-through undermines the legitimacy and authority of the court and forces claimants to rely on informal means of enforcement. Responsibility for enforcement lies with the Afghan National Police, but this institution is poorly trained and equipped to enforce judicial decisions. Where there is political will, however, the government is ready to enforce court decisions and evict people from their homes.

¹³ A decree formalizing this commitment was issued in mid-2006, but not sent to the Parliament for ratification. The government, committed to this change, will issue a new decree in 2008 as part of the implementation of the Enabling Environment Road Map, an outcome of the Enabling Environment Conference held in June 2007.

CHAPTER 5. HOUSING MICROFINANCE

Microfinance for housing remains underdeveloped in Afghanistan. But there is a clear rationale for microfinance as a low-cost source of housing finance: homes serve a dual purpose as both a place to live and a place to perform income-generating activities, a good fit with microfinance's aim to reduce poverty by supporting such activities. Moreover, microfinance could provide an immediate solution to the need in Kabul for informal sector housing, which is unlikely to attract commercial bank financing because of the lack of clear land title.

Housing microfinance also provides microfinance institutions an opportunity to design new financial products and diversify their portfolios. Some have observed that their borrowers occasionally use their microfinance loan for home repair or construction. Many have expressed interest in housing microfinance and have already identified housing finance products targeted to different groups of clients.

Microcredit activities in Afghanistan were initiated in 2003 under an apex body, the Microfinance Investment Support Facility for Afghanistan (MISFA). MISFA now has 15 microfinance institutions, operating in 23 provinces and 111 districts. By March 2008 these had 436,000 registered and 373,000 active borrowers, had disbursed a total of \$420 million in loans to low- and moderate-income families, and had current outstanding loans of \$108 million.

POTENTIAL DEMAND

Microfinance clients in Afghanistan have demonstrated a large demand for housing loans. Indeed, they often use microfinance business loans for home improvements. It is estimated that 20–25 percent of business loans outstanding in July 2007 (\$18–22 million) may have been used for home construction and improvement.

One microfinance institution, a partner of MISFA, had provided 360 loans explicitly for home improvements by March 2008. The loans average \$600, though they range from \$400 to \$2,000. The term ranges from 5 to 12 months, with a monthly interest rate of 2 percent. The demand from some clients was for loans of \$500–600 for home improvements and \$5,000–10,000 for housing construction, with terms of two to three years. Loans are made on an individual basis and typically guaranteed by a cosigner, which eliminates the need for a mortgage or similar guarantee.

Estimates suggest enormous potential demand for microfinance housing loans among low-income Afghans. As noted, in Kabul an estimated 2.44 million people live in informal sector housing. Given an average household size of 7.5 people, that suggests around 325,333 informal sector homes in Kabul. If 50 percent of these need improvement each year, at a cost of \$750 per home, the potential financing needs for home improvement could be \$122 million annually. Similarly, based on World Bank (2005e) estimates of the construction cost of Kabul's informal sector housing—about \$2.5 billion, or \$7,684 per household—if 20,000 new houses are constructed annually, financing needs for new construction would amount to \$154 million a year.

These estimates suggest a total financing need of \$276 million a year for home improvement and new construction in Kabul’s informal housing sector. Today financing needs are met through relatives and friends, labor sharing, and family incomes. If only 10 percent of the demand were met by microfinance institutions, the financing requirement would be \$27.6 million a year.

POTENTIAL ADVANTAGES—AND CHALLENGES

Microfinance institutions’ strong track record in providing enterprise loans to low-income borrowers makes them well suited for extending loans for the informal housing sector. Indeed, an analysis of potential housing loan providers shows that microfinance institutions have more comparative advantages and fewer disadvantages than other potential loan providers for this sector (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 housing lending, lending methodologies and policies designed for high-risk areas, and cost-effective ways to reach rural clients. In addition, microfinance institutions need to provide loans to women to promote their homeownership.

Table 4. Advantages and disadvantages of potential housing finance providers

Providers	Advantages	Disadvantages
Microfinance institutions	<ul style="list-style-type: none"> • Experience in lending to low-income families • Countrywide presence • A desire to launch housing loan products 	<ul style="list-style-type: none"> • Minimal experience in housing microfinance
Commercial banks	<ul style="list-style-type: none"> • Access to capital • Branch network in urban areas 	<ul style="list-style-type: none"> • Risk averse • Unwilling to lend to low-income households • Lack of lending technologies for entrepreneurs with irregular income
NGOs	<ul style="list-style-type: none"> • Countrywide presence • Ability to build strategic alliances with microfinance institutions to provide technical assistance in construction practices and other nonfinancial services 	<ul style="list-style-type: none"> • Lack of experience in lending • Perception that a loan would be a grant and thus not repaid by clients
Moneylenders	<ul style="list-style-type: none"> • Countrywide presence 	<ul style="list-style-type: none"> • No experience in housing lending except for short-term (12-month) loans • Costly source of loans
Government		<ul style="list-style-type: none"> • Public institution requiring resources and time to get started • Risk of politicization and eventual bankruptcy • Could send negative signals to microfinance market

Source: Prepared by ShoreBank International consultant based on review of various studies and discussions with MISFA and microfinance institutions.

Feasibility of a stand-alone housing microfinance bank

Establishing a stand-alone microfinance bank specializing in housing microfinance is not a feasible option. Instead, existing microfinance institutions should meet the demand for housing microfinance. This is so for several reasons: Building a new institution for low-cost housing finance would take time and capacity, and the costs are likely to outweigh the benefits. Existing microfinance institutions are already providing 10–15 percent of the loans used for home improvement and construction in the informal housing sector. And microfinance institutions' countrywide presence and access to existing clients would allow them to quickly and efficiently expand lending activities to the housing market.

Potential funding mechanisms

Microfinance institutions should initially use their own funding, mainly from MISFA (mobilized from donors), for housing finance. Once housing finance activity expands, however, there will be a need for 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. Potential sources of such funding could be the International Finance Corporation and commercial banks. Market-based funding sources should be encouraged, to promote the financial sustainability of microfinance institutions as well as market-based housing finance.

Ability to extend loans to women

Microfinance institutions may have advantages in extending credit to women entrepreneurs. As noted, women in Afghanistan have limited access to formal finance because of their lack of guarantees and title deeds (Narain 2006). One microfinance institution in Kabul has plans to do something about that. The institution reports that it presently offers loans secured by title deeds and guarantees and that such loans to women account for about 12 percent of its loan portfolio. To diversify its portfolio, it would like to further expand access to finance for women entrepreneurs, particularly in urban areas. And because women in Afghanistan rarely hold title deeds or have easy access to guarantees, it plans to introduce joint-liability group lending to expand its outreach.

POTENTIAL TARGET GROUPS AND AFFORDABILITY

About 85–90 percent of economic activities in Afghanistan are carried out in the informal sector. In addition, 80 percent of the population is rural, and the overwhelming majority of Afghan households are low income.¹⁴ These data suggest the large potential target population for nonmortgage loans for informal and low-cost housing. There are two groups of potential borrowers: the self-employed (entrepreneurs, farmers), found in both urban and rural areas, and wage earners (salaried workers), found mainly in urban areas (table 5).

¹⁴ Classification of low income is based on a poverty level of less than \$1 a day per capita.

Table 5. Potential target groups for housing microfinance

Group	Characteristics
Self-employed	Family-based businesses with fewer than 10 workers, including the owner. Most have been established for several years.
Urban self-employed	Engaged in a wide range of activities, including trade, services, transport, home-based industry, and food production and processing. Women work from home, mainly in domestic work, beauty salons, and handicrafts.
Rural self-employed	Focus on agriculture, livestock, silk, day labor, transport, carpet weaving, food processing, and shop keeping.
Wage earners	Employed mainly in public sector (women made up about 21% of public sector workforce in 2003, earning \$60–800 a month). Other wage earners work for international agencies.

Source: MISFA.

An analysis of affordability—based on clients’ monthly payment, household income, and type of financing and guarantee system—indicates that poor borrowers could afford a 12-month loan amounting to \$500–1,000 to pay the cost of home improvements (table 6). Middle-income borrowers could afford a 5-year construction loan of \$8,000, requiring monthly payments of about \$200. But the provision of such loans to the targeted group would require a long-term funding mechanism to be in place for microfinance institutions.

Table 6. Affordability analysis for housing microfinance

	Minor improvement	Major improvement	Construction
Amount (U.S. dollars)	500	1,000	8,000
Term (months)	12	12	60
Monthly interest rate (percent, declining balance)	2	2	1.5
Monthly payment (U.S. dollars)	46	92	200
Monthly household income (U.S. dollars)	184	368	800
Market segment	Poor	Upper poor	Middle income
Guarantees	Loan evaluation	Loan evaluation; cosigner	Loan evaluation; cosigner’s salary deduction; institution having possession of land title ^a
Requirements	Regular income (business or salary); ownership of home	Regular income (business or salary); ownership of home	Regular income (business or salary); long-term funding mechanism in place.

Source: Prepared by ShoreBank International consultant based on review of various studies and discussions with real estate developers, commercial banks, MISFA, and microfinance institutions.

a. The institution would return the title once the loan is paid. The institution’s possession of the title prevents a client from selling the home and puts psychological pressure on the client to repay so that the family can regain the title document.

CHAPTER 6. HOUSING POLICY DIRECTIONS

The government of Afghanistan has taken some policy measures to overcome the country's housing shortage. Its primary aims have been to create new serviced and unserviced land, improve land titling, support home construction and improvement, promote the conditions for housing finance, and establish a housing subsidy program for low- and middle-income communities (Ministry of Urban Development 2007).

While these are mainly public-sector-led efforts, a private sector role in the housing industry has also been explored, with some apparent successes. But policy interventions that involve the private sector in helping to alleviate the housing shortage through free land need serious scrutiny. Such policy interventions usually are not targeted to those who most need housing support, and the resources could be better used to improve living standards, such as through the provision of water, sanitation, and basic roads for low-income housing.

For financial institutions, the situation is still too tenuous to begin large-scale lending in the housing sector. Donors, the central bank, and several ministries are all working on issues that will help overcome some of the obstacles, though with varying degrees of coordination.

As noted, legislation that could help create an enabling environment for housing finance, such as mortgage and secured transaction laws, now awaits enactment. Beyond these legislative initiatives, there also needs to be an overhaul of land policy. City plans developed by the Soviets in the 1970s are still in use despite being quite out of date. In Kabul, for example, the master plan developed in 1978 was designed for a maximum of 2 million people, but today's population is 50 percent larger than that. The municipality's continued use of this plan is the reason that so many settlements are considered illegal.

Actions are also needed to promote housing finance so as to stimulate housing supply, particularly at the lower end of the market. Some policy measures ought to be taken immediately to improve the supply and demand situation in the housing sector. On the supply side, enacting the pending laws and providing sufficient funding for the private sector—through commercial banks or other financial institutions—would promote the real estate business. On the demand side, developing a mortgage market for middle- and lower-middle-class home purchasers could stimulate the housing market. Among the key policy measures are those needed to improve the security of tenure, improve the framework for housing finance, and build the capacity of secondary participants in the housing market.

IMPROVE SECURITY OF TENURE

Without a regime ensuring security of tenure, banks will be unwilling to lend in the housing sector, and other private enterprises, such as developers, reluctant to do business. Tenure security may be less critical for microfinance institutions, which are less likely to require title for a mortgage guarantee because they use alternative forms of collateral. But it is a minimum requirement for commercial banks and other market participants. And it can have impacts beyond the housing sector (box 6).

Review and overhaul land titling

Property deeds can take many forms and can confer different types of rights, depending on the historical basis for property ownership and the governing legal framework. To ensure single ownership, all title deeds—from both formal and informal registrars—need to be centralized in the land title office. Equally important is that the registry system be transparent and readily accessible to all participants in the housing finance system. Standardizing documents, ensuring that each document is filed in only one of a small number of registry offices, and computerizing the records could all support efficient searching from remote locations.

Box 6. Improving tenure security in informal settlements in Kabul

In 2005 the USAID Land Titling and Economic Restructuring in Afghanistan (LTERA) Project launched two pilot projects in Districts 7 and 13 of Kabul. The aim was to develop and test ways to improve the tenure security of residents in informal settlements. The project used three guiding principles: First, the communities have the means to solve most land problems themselves (community elders are knowledgeable about residents' property and are generally able to back ownership claims, resolve disputes, and weed out fraudulent documents). Second, solutions must be integrated into the formal legal and land planning systems. And third, the process must involve a partnership between authorities, communities, and donors.

The formalization of title and property mapping in the two districts had impressive results, reflected in a big increase in housing construction, home improvements, business start-ups, and land prices.

Source: Interview with Dr. Greg Massen, Chief of Party, LTERA Project.

Improve the cadastre

Lack of clear property boundaries has led to many, sometimes fatal, land disputes. The years of conflict in Afghanistan have hampered the introduction of modern mapping techniques that could have resolved these disputes. Few properties have been properly surveyed, and most customary deeds offer only vaguely defined boundaries. Plots are often described as abutting someone else's land, which itself has not been surveyed.

Technology that would allow the mapping to be done properly is now available in Afghanistan. The Afghan Geodesy and Cartography Head Office has begun digitizing existing cadastral maps of about 800,000 properties. Producing accurate maps will be a key to establishing an accurate titling system in the country.

Ease title transfer and registration

Simple, affordable procedures for property transfer and registration would encourage people to use formal registration and thus help prevent further fragmentation of the land titling system. The recent move toward formalization has been successful and should help quickly improve the transparency of the secondary property market. But the 10 percent property registration cost remains an obstacle. As noted, the government has committed to lowering the cost of registration from 10 percent of the property value to 2 percent, and the Parliament will review this proposal as soon as it is presented for approval.

Improve access to title for women

Women's difficulty in obtaining title to and ownership of property limits their access to formal finance in Afghanistan. A concerted effort is needed to ensure that women understand their property and inheritance rights and have the same access to credit to purchase property as men do (box 7).

Box 7. Ensuring access to title for women: a case study from India

The Mann Deshi Mahila Sahakari Bank, a cooperative bank in India run by and for women, encourages women to get their names onto the title to their home because its lending policy requires collateral for its larger microfinance loans. As an incentive, the bank offers lower interest rates on loans if both wife and husband are registered as owners of their home. The result: faster repayment rates and fewer late payments.

The bank worked closely with village and tax authorities to support joint registration of ownership. The registration papers showing joint ownership are forwarded to the tax authority, making the women jointly responsible for paying property taxes. Women have proved to be reliable taxpayers—the tax authority reports faster payment rates. And it is now considering lowering the property taxes on jointly registered houses.

Women find having the joint registration useful not only because it enables them to apply for loans at lower interest rates, but also because it protects them in cases of divorce.

Source: Mann Deshi Mahila Sahakari Bank.

IMPROVE THE FRAMEWORK FOR HOUSING FINANCE

The housing sector in Afghanistan operates under few guidelines and with almost no mechanisms for enforcing those guidelines. Remedying this situation will require concrete actions.

Provide training for judges and financial institutions

Property law has not received enough attention in judiciary training. Judges need the knowledge to review the decisions of shuras and other informal bodies and to make timely decisions themselves on property cases. Similarly, financial institutions need training in mortgage and nonmortgage home loans.

Improve enforcement

Enforcement of property law tends to be sporadic and often unrelated to any judicial decision. Land-grabbers forcibly and illegally evict people to take their land. Yet where evictions are approved by the court, the police do not carry them out. There still is no formal eviction law in place, to protect tenants or banks in cases of foreclosure.

For banks and property owners to feel secure, actions to enforce property law must follow formal procedures and be backed by a court order, not imposed arbitrarily for political reasons. The police force should have properly trained officers dedicated to enforcement of property law in each district.

Ease the burden of lien registration

A quick, inexpensive, and transparent system for registering liens against property would encourage banks to enter the mortgage market. A long process of lien registration and release exposes the bank, the borrower, and the seller of property to risk if the property loses value.

A simpler and less expensive method of lien registration needs to be developed. The processing time should be shortened from two months to two weeks and, if the Parliament approves the change, the costs reduced from 6 percent of the property value to 0.5 percent.

A system of escrow also needs to be developed, allowing banks to safely deposit funds with a disinterested third party, to be transferred contingent on a lien being registered by a qualified individual or company (or any other conditions being met). This would lift the burden of risk from all parties to the transaction.

BUILD THE CAPACITY OF SECONDARY PARTICIPANTS

Development of a housing finance market requires a professional cadre of participants in all areas of the market. The quality of professionals in this field is generally low, and there are no real associations or codes of conduct providing minimum standards. Nor are there penalties for unprofessional or unscrupulous conduct.

Develop qualified property dealers

Property dealers carry out tasks ranging from title searches to appraisals, yet need no training or proof of qualifications to enter the profession—merely a license obtained for a small fee. Property dealers are often the only market participants with data on housing values and recent transactions; the lack of openness and transparency in the industry makes it very difficult for others to ascertain the real sale or rental cost of housing. Basic, minimum standards of professionalism for property dealers are needed to give banks the confidence to enter the housing finance sector.

Build title search skills

A group of people with the training to provide a reliable guarantee of title quality needs to be developed. Some lawyers are knowledgeable about title search, but far too few to meet the demand. Over time computerization and centralization of title records will make this process more straightforward.

Ensure reliable appraisals

To extend mortgage loans, financial institutions must have strong confidence in the accuracy of property appraisals. Today in Afghanistan appraisals are conducted by property dealers or loan officers on the basis of inadequate market information. One way to improve access to reliable information on comparable values in the market is to make the property registration system simple and user friendly, so that people begin to properly register their property with the value paid. Professional appraisals will still be necessary, to mitigate the risk of false valuation and corruption in the housing finance market. Professional standards could be achieved through licensing, regulation, and self-governing associations with strict codes of conduct.

Ensure high standards across professions

The emergence of companies to provide appraisal, title search, lien and title registration, and possibly escrow services would help pave the way for financial institutions to enter the market. To ensure confidence in these services, the institutions and individuals who provide them must be trained to operate objectively and professionally; must be independent, so that they do not become captive to other market participants (such as lenders) or to other parties to a real estate transaction; and must be subject to licensing and review to ensure that they have the necessary knowledge and skills and adhere to appropriate standards of conduct. Certification could be carried out by the government or by professional associations in accordance with standards set by the government or subject to regulatory oversight.

CHAPTER 7. RECOMMENDATIONS

To develop Afghanistan’s housing sector, with the overall aim of building a primary mortgage market and thus increasing the availability of affordable housing, the following future program and policy interventions are recommended:

- *Strengthen the legal framework and necessary infrastructure*, the prerequisites for developing the housing finance market. These include a sound legal environment for market participants, improved systems for property titling and registration and enforcement of liens, and establishment of a legal and regulatory framework for the insurance industry.
- *Develop the mortgage market* by enhancing capacity in commercial banks, introducing new housing finance products, and putting into place a guarantee facility to mitigate the risks for commercial banks relating to property titling and registration or enforcement of liens.
- *Develop housing microfinance* by creating incentives for microfinance institutions to engage in nonmortgage lending. To create such incentives, the government and donors should provide technical assistance to microfinance institutions in piloting and rolling out expanded microfinance lending for the housing sector.

STRENGTHEN THE LEGAL FRAMEWORK AND NECESSARY INFRASTRUCTURE

Developing the housing sector requires a clear legal framework and institutional infrastructure for commercial and financial transactions in the housing market. That means creating a sound legal environment for market participants—financial institutions, housing developers, property buyers and sellers—and enhancing the systems for land titling and for registration and enforcement of liens. Some steps are greater priorities than others and need to be taken in the short term (within 12 months); others could be taken in the medium term (within 24 months) or over a longer period (table 7).

Table 7. Proposed recommendations for legal reform and infrastructure development

	Recommendations	Time frame	Afghan stakeholders	Potential donor roles
Legal framework				
1	Enact mortgage law	Short term	Ministry of Justice, central bank, Parliament, and financial institutions contemplating providing mortgage loans	Provide model statutes from other emerging markets; offer technical assistance to government officials in crafting laws and supporting regulations
2	Enact statutes to strengthen property rights and clarify security of tenure	Short term	Ministry of Justice, central bank, Parliament, and financial institutions contemplating providing mortgage loans	Provide model statutes from other emerging markets; offer technical assistance to government officials in crafting laws and supporting regulations

	Recommendations	Time frame	Afghan stakeholders	Potential donor roles
3	Enact asset securitization law and tax provisions to promote development of capital market and mortgage-related securities	Medium term	Ministry of Justice, central bank, Parliament, and potential issuers of and investors in asset-backed securities	Provide model statutes from other emerging markets; offer technical assistance to government officials in crafting laws and supporting regulations
Infrastructure development				
4	Enhance land titling and registration system, review existing title records and claims, simplify and reduce cost of registration and transfer, and integrate formal and informal transfer systems	Short to medium term	Government of Afghanistan and current and future property owners	Provide examples of effective reforms in other markets; support adoption of needed technologies and training of appropriate staff
5	Move toward computerization of all landownership records, map all property boundaries, and improve security of tenure for all families, including those lacking titles	Medium to long term	Government of Afghanistan and current and future property owners	Provide examples of effective land management in other markets; expand support in projects similar to USAID's LTERA Project
6	Improve lien registration system, simplify and reduce cost of perfecting liens on real property, and clarify legal recourse in the event of default	Short to medium term	Government of Afghanistan and financial institutions contemplating providing mortgage loans	Provide examples of effective systems in other markets; support training for appropriate government officials and staff
7	Improve lien enforcement (foreclosure) system and train courts and others involved in enforcing liens to ensure adequate protection for banks in the event of default	Medium term	Government of Afghanistan and courts and others charged with enforcing liens	Provide examples of effective systems in other markets; support training for court and other officials
8	Support creation of networks of independent real estate professionals, including property appraisers and sales brokers	Medium to long term	Financial institutions involved in mortgage lending, independent property appraisers and real estate sales brokers, and potential government licensing offices	Provide examples of guidelines for the performance of real estate professionals; support training and creation of professional associations
9	Support creation of property insurance industry and review insurance law to ensure that it attracts insurance companies to the market	Long term	Financial institutions involved in mortgage lending and insurance companies	Provide examples of insurance schemes from other markets; support training and mentoring as appropriate

DEVELOP THE MORTGAGE MARKET

To support development of the mortgage market, the government could leverage available resources to put into place a guarantee facility to mitigate certain risks for commercial banks. Also important are efforts to enhance capacity in commercial banks and introduce new housing finance products.

Create a guarantee facility to stimulate mortgage lending

The Ministry of Urban Development is promoting the establishment of a housing finance bank and intends to raise \$100 million from Saudi Arabia and the United Arab Emirates for this purpose. However, state-owned lending institutions can create market distortions, and they also discourage private financial institutions from offering mortgages. In a situation in which tenure security and enforcement of property rights are highly uncertain, it is therefore recommended that private financial institutions play the lead role while the government provides support through a guarantee facility to mitigate the risks for private banks relating to property titling and registration or enforcement of liens.

Using the funds raised by the Ministry of Urban Development to provide such a guarantee to financial institutions offering mortgages would help promote primary market lending on a larger scale. The guarantee facility could help reduce banks' risk in writing mortgages to an acceptable level while still subjecting the originating institution to sufficient losses in the event that a mortgage fails. It could also promote standardization of mortgage products and policies—contributing to the underlying efficiency of the primary mortgage market and the eventual development of a secondary market.

The Ministry of Education has proposed piloting a mortgage product, backed by a government guarantee, for ministry staff, a proposal being examined by one of the state commercial banks. It is this kind of inclusive program that can involve banks, microfinance institutions, and housing developers in implementing a guaranteed housing finance product—and inject confidence into the market.¹⁵

Build capacity in mortgage lending

To enable mortgage lending to take hold, a long-term capacity-building program is needed to introduce the fundamentals of prudent loan origination, underwriting techniques, closing, disbursal, and collections procedures. The International Finance Corporation's Mortgage Toolkit for Emerging Markets, designed for Africa, could be adapted to building the primary mortgage market in Afghanistan, providing a backbone of standard processes and approaches (including Shar'ia-compliant products). This toolkit and a technical assistance program for training could help in creating cohesive, professional mortgage lending units in participating banks. The technical assistance should be implemented in combination with the guarantee facility for mortgage loans and would ideally be a precondition to supporting any type of mortgage lending activity.

¹⁵ ShoreBank International, working with MISFA, has already begun drafting a methodology for such a scheme for use by the Ministry of Education.

Perform a market segmentation exercise

A market analysis needs to be carried out in collaboration with potential partner financial institutions, especially the leading commercial banks and financial institutions that are keen to expand their home mortgage business. This would include detailed market segmentation along income levels, loan sizes, regions, and genders to further refine loan products, including delivery mechanisms and institutional relationships. This exercise should be undertaken in conjunction with a technical assistance program for both commercial banks and microfinance institutions. Table 8 provides an initial summary of general segments observed in Afghanistan.

Table 8. Housing loan products and partner institutions

Market segment	Financing product	Possible partnerships
Upper-income households	Long-term mortgage loan with variable interest rates funded from matched long-term source of funding; and lease-to-own products	Commercial banks and leasing companies ^a
Moderate- to middle-income salaried workers	Long-term mortgage loan with variable interest rates and lease-to-own products	Commercial banks and leasing companies
Developers, rehabbers (entrepreneurs)	Medium-term financing to fund construction loans	Commercial bank or special-purpose vehicle ^b
Low-income households; self-employed microentrepreneurs	Housing microfinance products to fund incremental housing or self-construction of new housing units	Microfinance institutions; commercial bank and microfinance institution (service company model)

a. The legal environment for leasing real estate would need to be further explored.

b. Housing units would be financed by a long-term mortgage to the ultimate buyer financed by the bank.

Ensure financing sources for developers

Ensuring that real estate developers can access commercial funds could help motivate local and foreign developers to enter the housing construction sector. Commercial banks could provide construction finance to developers through takeout loans that the commercial banks ultimately fund through mortgage loans to the home buyers. The commercial banks' liquidity would enable them to generate adequate funds for such loans. Support from the government's guarantee facility could reduce the commercial banks' risk exposure to developers. Strict underwriting guidelines should be followed to avoid fraudulent use of funds. It is recommended that the government, in partnership with donors, explore the possibility of creating a pilot finance program to fund new developments.

Finance the development of rental housing

The housing shortage has led to high rental costs, forcing many families to share a house with several others, especially in urban areas. Financing the construction or upgrading of housing units—with the housing units forming the collateral and the repayments based on the rental income—could provide a short-term solution. This could also provide a potential market for commercial banks and finance companies and, for low-cost or informal sector housing, for microfinance institutions. Since the property rental industry has not yet been developed in Afghanistan, substantial training and capacity building in property management would be needed.

Form a housing finance task force

A task force could be created to help coordinate the efforts of government agencies and financial institutions to develop an effective housing finance system in Afghanistan. Members could be representatives of such key stakeholders as banks, the relevant government ministries and regulatory bodies, and third parties to real estate transactions, such as sales brokers and property appraisers. Task force members could have a shared agenda of actions, and an agreed schedule for completing those actions, with each taking responsibility in the relevant area—whether for regulations, development and rollout of mortgage products, or training and certification of third parties to real estate transactions.

Forming this housing finance task force with the necessary structure and a secretariat in a related ministry would be the responsibility of the government. Proposed terms of reference for forming this housing finance task force are provided as guidance for the government (box 8).

Box 8. Forming a housing finance task force: proposed terms of reference

1. Identify stakeholders who should be represented on the task force, including the government, consumers, financial institutions, and real estate professionals
2. Determine how each stakeholder group would select representatives to serve on the task force, how vacancies would be filled, and how newly formed institutions would be accommodated as the housing finance system evolves
3. Create an agenda of actions for the task force, indicating the relative priority of the actions and identifying the institutions that would take responsibility for completing them by the target date
4. Specify how the task force would monitor outcomes in the housing finance system—for example, the volume of mortgages by financial institution and type of borrower and the performance of outstanding mortgage loans
5. Define the continuing role and composition of the task force, if any, after the principal elements of a functioning housing finance system are in place

Source: Mann Deshi Mahila Sahakari Bank.

DEVELOP HOUSING MICROFINANCE

Developing housing microfinance requires an integrated approach—to mobilize a long-term funding stream for microfinance institutions, which should be linked to technical assistance in developing housing loan products. Donors could extend technical assistance to microfinance institutions in developing housing finance products and promote a policy dialogue with the government of Afghanistan to clarify security of tenure and women’s rights to their homes. A comprehensive program for microfinance institutions is suggested, focused first on the entire microfinance community, then on institutions that demonstrate the capacity to implement housing microfinance. The following recommendations are based on study of the housing sector and detailed discussions with stakeholders in the housing microfinance sector.

Survey market demand for housing microfinance

A survey of market demand for housing microfinance would provide information on potential clients' borrowing needs, desired projects, income, repayment capacity, and motivations for seeking loans. It could also provide information on the effective demand for housing finance and the scope of housing needs. But these results would not necessarily provide enough detail to enable a microfinance institution to develop a new loan product adapted to its specific market.

Conducting such a survey would also involve some possible challenges. These include the difficulties of conducting rigorous surveys in Afghanistan, especially in rural areas, and the challenge of finding qualified enumerators and supervisors. Perceptions could also pose challenges, such as the perception of some stakeholders that the demand for housing microfinance is too small to provide a sustainable market and that the products demanded by microfinance clients could not be provided. The survey should be able to address these perception issues.

Develop a practical guide for housing microfinance

A guide based on the market survey results and experience in other countries could show microfinance institutions, the government, and other stakeholders the potential for housing microfinance and a practical way to proceed in developing it in Afghanistan. And by answering questions that microfinance institutions may have, it might increase their willingness to launch a new housing loan product. One challenge, however, would be to provide a document that gives enough detail so that microfinance institutions move forward with product development—but not so much that it results in several institutions providing identical services or in a lack of fair competition in the housing microfinance market.

Select three to five microfinance institutions for further intensive technical assistance

Selecting three to five microfinance institutions for intensive technical assistance would help focus efforts on those with the greatest interest in and capacity for housing microfinance. Key criteria for selection would include proven commitment by the board and management to launching a new product, experience with individual lending, and experience in the target markets. If these pioneering experiences in housing finance are positive, other microfinance institutions could be expected to enter the market with their own housing loans over the medium term.

Provide capacity building and assistance in market research and product development

Microfinance institutions need to devote time and resources to creating a housing loan adapted to both their market and their retail capacity. By sharing a proven methodology and toolkit for developing housing microfinance products, the technical assistance providers could help the selected institutions undertake the systematic work needed to create new financial services that meet the target clients' needs and promote the institutions' financial and development objectives. As part of this work, the possibilities of using group-based collateral could be explored, to ensure that women have access to housing microfinance.

The technical assistance providers should work with the selected microfinance institutions to ensure the quality of the construction financed by their loans. They should also train builders, laborers, and clients in the basic principles of sound construction.

Develop lending policies for each institution

Each microfinance institution needs to develop a lending policy that takes into account some of the specific legal issues in Afghanistan, especially those related to tenure security and women's rights to their homes. The lending policy could be tested and analyzed during a pilot phase to identify any changes needed. A lending policy should not be biased toward providing loans only to those with title to land, which could exclude deserving clients from access to financing for home improvements. But a home improvement loan made to someone without use rights to the house concerned might be diverted to other purposes or not repaid.

Launch and monitor pilot tests

Pilot tests allow microfinance institutions to refine their products so that they reach clients more efficiently. Any change in needs can be easily identified by monitoring against benchmarks. Based on the results, a product can be canceled, modified, or rolled out to the rest of the microfinance institution. The main challenge in pilot testing is persuading the institution to devote enough time and resources to this phase to ensure that the housing microfinance product is adapted to the market and the institution.

Disseminate results

Lessons from the pilot phase should be synthesized and disseminated through a publication and workshop. This would help provide guidance for microfinance institutions on how to increase the scale and outreach of the pilot products; encourage other Afghan microfinance institutions, as well as such institutions as commercial banks, to provide housing microfinance; and build up knowledge of best practices in housing microfinance. This dissemination would not necessarily lead to greater provision of housing microfinance in Afghanistan. But if the pilot tests proved unsuccessful, it would help ensure that errors are not repeated.

Launch a policy dialogue with the government

A policy dialogue with the government is needed to clarify security of tenure and women's rights to their homes. The aim would be to produce clear regulations about who has the right to stay in a house without risk of being evicted. Microfinance institutions would then be able to confirm whether a loan applicant has the right to live in the home she wishes to improve. Because the risks of nonpayment due to fraud or eviction would be lowered, lenders would be more willing to provide loans for home improvement, especially to women. To ensure policy coherence, the regulations would need to be implemented at both national and municipal levels. And to help protect homeowners' rights, the changes should be broadly communicated through an information campaign.

Create a medium-term funding facility

The need to undertake major renovations and new construction will lead to demand for larger loans, which in turn will create demand for longer-term (three- to five-year) loans. To avoid asset-liability mismatches, lending institutions will need to mobilize longer-term funds.

Commercial banks could play an important part in mobilizing longer-term funds for microfinance institutions. For example, a commercial bank could lend money to a microfinance institution for two years, after which a second commercial bank or financial institution could extend a subsequent loan for

another two years. The first loan would have a balloon payment at the end of the second year, which would be assumed by the second commercial bank or financial institution. The first commercial bank could also renew the loan on its own books if it preferred.

The role of the supporting commercial bank or financial institution would be to provide the takeout finance and facilitate links between commercial banks and microfinance institutions interested in such transactions. Microfinance institutions that are successful in using these types of products from commercial banks could “graduate” to funding from other sources.

Facilitate bank partnerships with microfinance institutions

Expansion and competitive provision of housing microfinance could encourage partnerships between commercial banks and microfinance institutions. While banks could provide capital, some risk sharing, and their infrastructure, microfinance institutions could contribute lending methodologies, staff, and experience in the market. Such partnerships could increase access to credit for micro-entrepreneurs and the economically active poor, enhance the institutional capacity of commercial banks to provide microfinance services, and establish sustainable financial services for poor communities through either direct lending or microfinance subsidiary companies.

CONCLUSION AND NEXT STEPS

The findings and recommendations of this report were discussed at a stakeholders’ workshop (see appendix 2). Participants agreed on the following conclusions:

- Legal and regulatory issues are the priorities.
- The existing task force on the housing sector could be upgraded to a housing finance task force.
- Developing mortgage finance is a priority activity, and integrating the work of banks, municipalities, and developers is important.
- Housing microfinance is a priority for informal and low-cost housing.

Coordinating the efforts of stakeholders is essential to lay the foundations for the development of both mortgage and nonmortgage housing products. Forming a housing finance task force to facilitate solutions to the larger policy and regulatory challenges facing the housing finance sector would be an appropriate step in that direction. These policy activities, combined with technical assistance for banks and microfinance institutions and appropriate long-term funding mechanisms, would bring the Afghan housing finance sector closer to serving the needs of Afghan citizens.

APPENDIX 1. INSTITUTIONS AND INDIVIDUALS INTERVIEWED

H.E. Mohammad Yousef Pashtun
Minister of Urban Development

Gunendu K. Roy
Program Coordinator, Microfinance
BRAC Afghanistan

H.E. Mohammad Haneef Atmar
(with Shafiq Qarizada and Habib Wayand)
Minister of Education

Paul Robinson
(with John Yancura and Faridoon Akwail)
Country Director
FINCA Afghanistan (Jalalabad office)

Dr. G. Farouq Bashar
Senior Legal Adviser
Ministry of Urban Development

Mohammad Taib
Kabul Regional Director
FINCA Afghanistan

Hasib Latifi
Director, General Administration and Finance
Ministry of Urban Development

Tanguy Gravot
Head of Microfinance
First MicroFinance Bank

Samiullah Ibrahim
First Deputy Governor
Da Afghanistan Bank (central bank)

Amjad Arbab
Managing Director
MISFA

Bashasep
Director
Eastern Region Business Development Center
Jalalabad Municipality

Katrin Fakiri-Wardak
Managing Director
Parwaz

Eng. Mohammad Yasin Hellal
Deputy Director, Policy Planning and
Coordination Department
Kabul Municipality

Richard Scarth
Director
Property Consulting Afghanistan

M. Naim Dindar
Chief Executive Officer
Bank e Millie

Alihaj Mohammad Yunos
General Director
Shadab Zafar Construction Company

M. R. Johnson
Chief Executive Officer
Kabul Bank

Martin Dinning
Chief of Party
BearingPoint

M. Ehsanul Haque
Chief Executive Officer and Managing Director
BRAC Afghanistan Bank

Kevin O'Brien and John Ewald
Consultants
BearingPoint

Fran Toomey, Ed Guerrero, and Joyce Lehman
Aries Project Consultants
ShoreBank International

Dr. Greg Massen
(with Claus Frost-Hansen, Stephan Lombardo,
and Tressan Sullivan)
Chief of Party
USAID LTERA Project

Storai Sadat
Executive Director
Ariana Financial Services Group (Mercy Corps)

James Agee
(with Richard Remias and M. Djanbaz)
Chief of Party
USAID Afghan Rule of Law Program

Catherine Sobrevega
(with Zakera Wahidi)
Microfinance Program Manager
Care Afghanistan

Bernd Leidner
Director
Afghan Credit Support Program

Renia Salinas
Manager
World Council of Credit Unions (WOCCU)

APPENDIX 2. HOUSING FINANCE ASSESSMENT WORKSHOP

Subject: Afghanistan Housing Finance Assessment Workshop
Date: March 19, 2007
Organizers: World Bank, International Finance Corporation, ShoreBank International

The workshop was intended to disseminate the results of the draft report “Afghan Housing Finance Assessment” to stakeholders in Afghanistan and coordinate actions for next steps. The workshop was held on March 19, 2007, in the auditorium of the Afghanistan Investment Support Agency (AISA), in Kabul. Fifty participants attended, including staff of the Afghan government, microfinance institutions, banks, donors, the World Bank, private companies, NGOs, real estate agencies, and consultants from related projects.

The workshop was divided into three sessions:

1. Presentation on mortgage finance and policy findings
2. Presentation on housing microfinance
3. Breakout sessions.

The workshop was inaugurated by H.E. Eng. Mohammad Yousef Pashtun, Minister of Urban Development, with supporting speeches from Paul Edwin Sisk, Acting Country Manager, World Bank, and Mary Porter Peschka, Senior Operations Officer, International Finance Corporation.

Session 1: Mortgage Finance and Policy Findings was chaired by Dr. Mohammad Haidar Reza, Deputy Minister, Ministry of Commerce, and presented by Garth Bedford of ShoreBank International.

Session 2: Nonmortgage Housing Microfinance was chaired by Mr. Noorullah Delawari, Governor, Da Afghanistan Bank, and presented by Kirsten Weiss of ShoreBank International.

Session 3: The Breakout Session was chaired by Dr. Omar Zakhilwal, President and Chief Executive Officer, AISA, and facilitated by the World Bank, the International Finance Corporation, and ShoreBank.

The presence of high-level individuals from the government, donor projects, and the private sector reflected the seriousness with which the issue of housing finance is being taken. The support given to the findings of the assessment also indicates the willingness of all stakeholders to coordinate on the implementation of the steps needed to support housing finance.

SESSION OUTCOMES

Session 1. Mortgage Finance and Policy Findings

The main points brought out in the discussion in session 1 were as follows:

- All findings of the report were still relevant.
- Homeowners insurance is a higher priority than expected.
- Resolving the title issue will take many years.
- Banks could begin more mortgage lending, even under the current conditions, with
 - A large amount of capacity building
 - A source of long-term funds
 - A more efficient process for placing liens.

Session 2. Nonmortgage Housing Microfinance

The main points brought out in session 2 were these:

- Microfinance institutions are prepared to begin a housing microfinance product immediately with
 - A funding source
 - Capacity building in the microfinance institutions.
- There is strong support among government agencies for the work of the microfinance institutions.
- A more robust public relations campaign for microfinance institutions needs to be developed.
- Banks have the willingness to downscale to provide housing microfinance, either through microfinance institutions or directly.

Session 3. Breakout sessions

The breakout sessions were designed to facilitate the development of specific actions that could be taken in the near term to move the housing finance sector forward, as well as recruit those who would be interested in further work on a housing finance task force.

1. Housing microfinance breakout session

The housing microfinance breakout session returned with the following recommendations.

Funding. Microfinance institutions need a funding source, preferably a soft loan possibly delivered through the Microfinance Investment Support Facility for Afghanistan (MISFA). Microfinance institutions would need a loan of 12–60 months to cover their term liability but cannot fund this out of their resources. MISFA, the International Finance Corporation, other donors, and banks were indicated as funding sources.

Human resources. There is a need for an in-house consultant to deliver skills upgrading to the staff rather than just training courses.

Technical capacity. The technical capacity needed is as follows:

- Appraisal techniques
- Product development
- Market position
- Construction costs, including material

- Legal
- Quality standards
- Toolkit or standard model for underwriting, documentation, and the like.

Support. Capacity upgrades and intensive technical assistance could be provided by

- International Finance Corporation
- BRAC
- MISFA
- ShoreBank International, CHF International, and other practitioners.

Survey. The survey as recommended in the report is not needed, as microfinance institutions know their market.

Task force. A future meeting should take place to define:

- A mailing list of stakeholders
- Figures and content for technical assistance
- Funding scenarios and related costs
- Market demand.

2. *Mortgage finance and policy findings breakout session*

The mortgage finance and policy findings breakout session returned with the following recommendations.

Land security. The problem of land security will take many years to solve as a result of the various valid titles held as well as forged documentation.

Some short-term solutions:

- Train court systems in property law. (This is to be undertaken by the USAID Rule of Law Program.)
- Finalize mapping (cadastre). (This is being completed by the USAID Land Titling and Economic Restructuring in Afghanistan project.)
- For banks, use alternative means to assess title validity, such as getting title as well as a confirmation from local community leaders who are members of the shura.

Insurance. The insurance law was recently amended but should be reviewed for relevance to the current era. In addition, the cost of premiums would be too high to cover political risk for most Afghans.

A short-term solution:

- Develop a funding guarantee scheme that would build in political risk. This could be implemented by the Afghanistan Credit Support Program, USAID/Aries, and the World Bank and International Finance Corporation.
- Develop an environment that would foster investment by insurance companies.

Property liens. The cost and time for registering liens need to be reduced, and enforcement in cases of foreclosure improved.

A short-term solution:

- Enact a presidential decree lowering the cost
- Provide assistance to the Supreme Court, under which courts register liens, to improve the efficiency of lien registration

- Provide training to enforcement agencies in carrying out court orders for eviction and foreclosure.

Capacity. Even in the current environment, banks are willing to begin more mortgage lending if they have good internal systems.

A short-term solution:

- Provide technical assistance to banks
- Develop standard mortgage products and systems (with an eye toward a secondary market).

Task force. There is already a mortgage working group—with members from the Afghanistan Bankers Association, line ministries, consultants, and NGOs—that could take on the role envisioned for the task force. The working group will bring up findings in its next meeting and add new members from the workshop.

IMMEDIATE NEXT STEPS

Mortgages

- Develop in-depth knowledge of banks' needs in the mortgage market and define a technical assistance program to meet the needs
- Develop a standard set of products and procedures that could be used by the banking sector
- Identify and help develop possible guarantee funds

Housing microfinance

- Improve the capacity of implementers to deliver housing products
- Identify a funding source and delivery mechanism

CONCLUSION

The workshop was well received by the participants and appears to have reinforced the need to focus on the issue of housing finance as well as the importance of the sector to the country. Importantly, it demonstrates that, despite the obstacles, there is an ability to begin housing finance in Afghanistan in the short term with some inputs that can be provided by those in attendance. It is hoped that with the momentum developed at the workshop these interventions will take place and initial housing finance products will be offered in the short term.

Table A2.1 Participants in the Afghanistan Housing Sector Assessment Workshop

	Name	Title	Organization
Government of Afghanistan			
1	H.E. Eng. Mohammad Yousef Pashtun	Minister	Ministry of Urban Development
2	Dr. G. Farouq Bashar	Senior Legal Adviser	Ministry of Urban Development
3	Dr. Said Sharif Hossainy	Deputy Minister	Ministry of Urban Development
4	Eng. M. Nadir Omar	Director, Housing Program	Ministry of Urban Development
5	Hafizullah Walirahimi	General Director, Private Sector Development	Ministry of Commerce
6	Dr. Mohammad Haidar Reza	Deputy Minister	Ministry of Commerce
7	Noorullah Delawari	Governor	Da Afghanistan Bank
8	Samiullah Ibrahim	First Deputy Governor	Da Afghanistan Bank
9	Dr. Omar Zakhilwal	President and Chief Executive Officer	Afghanistan Investment Support Agency
10	Naseem Akbar	Director, Industrial Park Development Department	Afghanistan Investment Support Agency
11	Azarakhsh Hafizi	Chairman	Afghanistan International Chamber of Commerce
Commercial banks			
12	Khalil Sediq	Chief Executive Officer	Afghanistan International Bank
13	Ben Turnbull	Chief Operating Officer	Afghanistan International Bank
14	M. Naim Dindar	Chief Executive Officer	Bank e Millie
15	Vineet Gangal	Chief Credit Officer	Azizi Bank
16	Tanguy Gravot	Head of Microfinance	First MicroFinance Bank
17	M. Ehsanul Haque	Chief Executive Officer and Managing Director	BRAC Bank
18	Hayatullah Dayani	Chief Executive Officer	Pashtany Bank
19	Hussain Ali	Deputy	Pashtany Bank
20	Abdul Baqi	Deputy	Pashtany Bank
21	Hussain Muhammad Hameed	Country Marketing Manager	Bank Alfalah
22	Nasreen Satar	Chief Executive Officer	Standard Chartered Bank
Microfinance institutions			
23	Amjad Ali Arbab	Managing Director	MISFA
24	Paul Robinson	Country Director	FINCA
25	Katrin Fakiri-Wardak	Managing Director	Parwaz
26	Madhavan Ati	Chief Technical Adviser	OXUS
Consultants			
27	Martin Dinning	Chief of Party	BearingPoint
28	Kevin O'Brien	Consultant	BearingPoint
29	William Kosar	Legal Adviser at Da Afghanistan Bank	BearingPoint
30	Alian Abejdid	Adviser at Bank e Millie	BearingPoint
31	John Ewald	Adviser at DAB	BearingPoint
32	John Dempsey	Rule of Law Specialist	USAID contractor

World Bank and International Finance Corporation			
33	Paul Edwin Sisk	Financial Management Specialist and Acting Country Manager	World Bank
34	Reazul Islam	Senior Private Sector Development Specialist and Country Officer, IFC	World Bank and International Finance Corporation
35	Abdul Raouf Zia	Communications Officer	World Bank
36	Abdul Wali Ibrahim	Operations Analyst	World Bank
37	Mary Porter Peschka	Senior Operations Officer	International Finance Corporation
38	Syed Farhan Fasihuddin	Program Manager, Housing Finance	International Finance Corporation
39	Parwana Wawreena Nasiri	Team Assistant	World Bank and International Finance Corporation
40	Shahrnaz Rafi	Research Assistant	World Bank
41	Nazir Ahmad	Research Analyst	World Bank
ShoreBank International			
42	Garth Bedford	Program Manager	ShoreBank International
43	Kirsten Weiss	Senior Consultant	ShoreBank International
Private companies			
44	Sameh Panah	Chief Executive Officer	AFC
45	Richard Scarth	Director	Property Consulting Afghanistan
46	Manizha Waissi	Operational Manager	AFSG
47	Ibrahim Khan	President	Hewadwal Co.
48	Haji Mir Ahmad Omari	Owner	Omari Property Dealers
49	Mr. Qate	Owner	Qate Property Dealers
NGOs			
50	Gunendu K. Roy	Program Coordinator, Microfinance	BRAC NGO

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