



PIDE SLUDGE SERIES



HOUSING FINANCE

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What is Sludge in the Economy?

Sunstein (2020) defines sludge as:

- Excessive or unjustified frictions that makes it difficult for people to get what they want or to do as they wish to do.
- Frictions that make processes difficult to navigate, such as paperwork burdens that cost time and money, and which may end up frustrating people by depriving them of access to goods, opportunities, and services.

Much sludge consists of work not required at all (permissions etc.), duplicative paperwork and wait-time – waiting in a queue or waiting for a public official to decide.

Why Sludge matters?

- Sludge impedes decision making by making it more difficult for people to navigate through their everyday lives.
- It imposes costs upon the economy in terms of waste of resources, and the opportunity costs incurred. This discourages investments, lowers productivity and therefore constrains GDP growth.
- It can be used to seek rents, which again constrains economy activity and GDP growth.
- It imposes psychological costs as well in the form of frustration, humility, and stigma.

Examples of sludge include; seeking permissions absence of which affects no one, waiting for approvals (bureaucratic red tape), waiting in queues to get a task done, doing manually what is possible digitally at little cost to stakeholders, waiting for court in hearings involving cases that lad in courts and securing attestations/verifications and fulfilling legal requirements (agreements on stamp papers, securing persons to sign as witness on agreements, notarize the legal documents)

Objectives of the Sludge Series

- To highlight the sludge involved in different activities.
- Induce the concerned agencies to work for reducing sludge
- To pin down areas where sludge can be reduced by shortening the process or reduced through digitization



MERA PAKISTAN MERA GHAR

GETTING HOUSE FINANCE

TIME CONSUMED (DAYS)

127.3	Total Time
120	Agency Time
6	Overhead Time



TOTAL COST (PKR)

15,130	Total Cost
5,689	Opportunity Cost

STRESS LEVEL

High Stress Involve
3.6

CHALLENGES

-  Excessive Documentation
-  Unaccommodating Process

FACTS

ACTUAL PROCESSING TAKES FOUR TIMES MORE THAN THE BANK'S DESCRIBED TIME.

THE PROCESSING TAKES AROUND 4 MONTHS

Stress Ranking

Low Stress		1
Mild Stress		2
Moderate Stress		3
High Stress		4
Severe Stress		5

Definitions

Opportunity Cost

Income earned if the time consumed in this activity is put on an alternative use. It is measured by multiplying total processing time with the hourly per capita Gross National Income.

Agency Time

The time consumed by the department/agency concerned in processing an activity.

Overhead Time

Part of the day lost due to being involved in this activity for a fraction of the day.

Steps involved in obtaining Credit for construction of House		
under Naya Pakistan Housing: Scheme Loan		
Time Consumed (days)	Cost (PKR)	Stress
Gather Information		
1	1,500	2.5/5
Prepare Documents		
8	8,400	3/5
Submit Application		
1	2,200	3/5
Wait for Inspection of Property		
30	0	0
Inspection of Property		
1	2,200	3/5
Address bank's concerns		
3	6,600	3/5
Wait for Approval of Loan		
90	0	0
Wait of Disbursement of loan		
7	2,200	3/5

Primary Issue

- The banks are not used to extending mortgage finance – building capacity and introducing efficiency in the process will require bold initiatives, suitable legal framework (enacting and implementing foreclosure law in spirit and training bank staff).

Sources of Sludge

- A major source of sludge is the 'inspection of the property by the bank – it can around 3 months for the bank officials to physically inspect the property and declare it as 'clear' for lending as per the bank's criteria (the maximum time mentioned in documents obtained from a bank is 12 days). Apart from the inspection, the rest of the processing of the loan application at the bank can take around one month (Again the time mentioned in the documents referred above is 18 days).

Cutting Sludge

1. Eliminating unnecessary steps

- Providing an attested copy of CNIC: The bank also requires biometric verification of the applicant through e-sahulat. This verification is obtained directly from the NADRA record – this makes an attested copy of CNIC unnecessary.
- Rent Agreement: This is a strange requirement – A loan applicant need not essentially be presently residing in rented accommodation – He/she could be residing with family in shared accommodation.

2. Digitization

- The time spent in gathering information on 'how and on what terms to get finance for building a house' can be reduced significantly for the literate people if this information is made available in English and Urdu on the website of the bank in a user-friendly manner. This will also reduce the actual cost as well as the opportunity cost of gathering such information. The stress that a person goes through in gathering such information will also be almost relieved.

Stress to the Applicant (and family)

- The applicant (and perhaps his/her family as well) undergoes a high level of stress (3.6/5) to obtain a loan from the bank for building a house, while fulfilling the requirements of the loan and especially during the time the loan application is being processed at the bank.

Color Legend

	Full Elimination Possible
	Partial Elimination Possible
	Digitization Possible

Table-1: Steps and Time Consumed in Getting Naya Pakistan Housing Scheme Loan

No	Step	Description	Time (minutes)				Overhead Time	Agency Time	
			Travel	Waiting	Transaction/Process	Total			
1	Gather Information	Visit bank	45			45			
		Meet officer to gather information		30	30	60			
		Collect Bank's Loan form			5	5			
		Finish the day	45			45			
2	Prepare Documents	Bank statement	Visit bank	45			45	240 (1/2 day)	
			Collect Bank statement of last 6 to 8 month		60	15	75		
			Finishing the day	45			45		
		Salary slip	Visit account section	5			5	480 (1 day)	
			Obtain Salary slip		60	10	70		
			Finish the day	5			5		
		Photo	Visit photo studio			5	5	240 (1/2 day)	
			Attestation			5	5		
		References	Search	45			45	1,440 (3 days)	
			Signature		240	60	300		
			Finish the day	45			45		
		Attested CNIC Copy	CNIC copy	45	5	10	60	240 (1/2 day)	
			Attestation	120	45	5	170		
			Utility bills copy			10	10	240 (1/2 day)	
			Copy of allotment letter			10	10		
			Rent Agreement Copy				0		
	Attestation				0				
NADRA verification	Visit e-sahulat	45			45				
	Bio-metric verification		30	10	40				
	Finish the day	45			45				
3	Submit Loan Application	Visit bank	45			45	1,440 (30 days)		
		Submit documents		30	30	60			
		Finish the day	45			45			
4	Check Status	Visit bank	45			45			
		Check the status of Application		30	30	60			
		Finish the day	45			45			
5	Address concerns of the bank	Visit bank	45			45			
		Fulfill further requirements of the bank		30	30	60			
		Finish the day	45			45			
6	Bank Staff's visit	Visit the plot location, verify it is in approved society			60	60	43,200 (90 days)		
7	Approved	Issue first deposit to third party				0			
Total Time (Days)						1.3	6	120	

Table-2: Monetary and Opportunity Cost in Getting Naya Pakistan Housing Scheme Loan (PKR)

No	Step	Description		Monetary Cost			Opportunity Cost
				Travel	Fee	Total	
1	Gather Information	Visit the bank		500		500	151.5
		Meet officials to gather information				0	202.0
		Collect Loan Application				0	16.8
		Finish the day		500		500	151.5
2	Prepare Documents	Bank Statement	Visit Bank	500		500	151.5
			Collect Bank statement of last 6 to 8 month		350	350	252.5
			Finish the day	500		500	151.5
		Salary slip	Visit account section			0	16.8
			Obtain Salary slip			0	235.7
			Finishing the day			0	16.8
		Photo	Visit Photocopying shop	500	500	1,000	16.8
			Attestation			0	16.8
		References	Search	500		500	151.5
			Signature			0	1010.0
			Finish the day	500		500	151.5
		Attested CNIC Copy	CNIC copy	500	10	510	202.0
			Attestation			0	572.3
		Copy of Utility bills			10	10	33.7
		Copy of Property allotment letter			10	10	33.7
		Rent Agreement Copy	copy		10	10	0.0
			Attestation			0	0.0
		NADRA verification	Visit e-sahulat	500		500	151.5
Bio-metric verification			50	50	134.7		
Finish the day	500			500	151.5		
3	Submit Loan Application	Visit bank		500		500	151.5
		Submitting document				0	202.0
		Finish the day		500		500	151.5
4	Check Loan approval status	Visit bank		500		500	151.5
		Check the status of Loan Application				0	202.0
		Finish the day		500		500	151.5
5	Address concerns raised by the bank	Visit bank		500		500	151.5
		Fulfill further requirements of the bank				0	202.0
		Finish the day		500		500	151.5
6	Banks Staff's visit	Visit the plot location, verify it is located in an approved society		500		500	202.0
7	Loan Disbursement	Receive 1 st instalment of loan				0	0.0
Total Cost						9,440	5,689.6

Table-3: Stress Level in Getting Naya Pakistan Housing Scheme Loan

No	Step	Description	Stress Level	Stress %	
1	Gather Information	Visit bank	2	1.5	
		Meet official to gather information	3	3.0	
		Collect Bank's Loan Form	3	0.3	
		Finish the day	2	1.5	
2	Prepare Documents	Bank Statement	Visit Bank	2	1.5
			Collect bank statement of last 6 to 8 month	4	5.0
			Finish the day	2	1.5
		Salary slip	Visit account section	2	0.2
			Obtain Salary slip	3	3.5
			Finish the day	2	0.2
		Photo	Visit photoshop	3	0.3
			Attestation	5	0.4
		References	Search	5	3.8
			Signature	5	25.0
			Finish the day	2	1.5
		Attested CNIC Copy	CNIC copy	2	2.0
			Attestation	5	14.2
		Utility bills copy		2	0.3
		Copy of allotment letter		2	0.3
		Rent Agreement Copy	copy	2	0.0
			Attestation	5	0.0
		NADRA verification	Visit e-sahula	2	1.5
			Bio-metric verification	3	2.0
			Finishing the day	2	1.5
3	Submit Loan Application	Visit bank	2	1.5	
		Submit documents	5	5.0	
		Finish the day	2	1.5	
4	Check Status	Visit bank	2	1.5	
		Check the status of the application	5	5.0	
		Finish the day	2	1.5	
5	Address Concerns of the Bank	Visit bank	2	1.5	
		Fillful further requirements of the bank	5	5.0	
		Finish the day	2	1.5	
6	Bank Staff's Visit	Visit the plot location, verify it is in approved s	5	5.0	
7	Approved	Issue first deposite to third party	2	0.0	

Box-2: Stress Percentage

The distribution of stress across steps has been calculated by multiplying the total process time (including travel, waiting, and transaction time) of each step with the stress level. The Stress % column in the table contains a percentage representation of stress distribution.

Stress Ranking

Low Stress		1
Mild Stress		2
Moderate Stress		3
High Stress		4
Severe Stress		5

Table-4: Steps Involve in the Application Processing within Bank
(As per official claim)

Step	Description	Time (DAYS)
1	Application received at Regional Bank office	2
2	Internal verification office will conduct telephonic verification	5
3	Credit Analyst will sign the application and move forward to Manager Regional Bank	1
4	Financial monitoring unit will take sample ok case and conduct vigilance	2
5	File forward to Credit office at regional bank office	2
6	Regional Credit office issue FLA, Amortization, legal document and forward to concern department	2
7	Evaluating and Monitoring unit (Security perfection)	12
8	Regional credit office issue DAC and forward to OPS	2
9	OPS confirmation of CIF and account number	2

Table-5: Documentation Requirements Across Banks

No.	Documents	ABL	HBL	Alfalah Bank	Askari Bank
1	CNIC				
2	3 Stamp Papers				6
3	Income Proof				
4	6-12 Months Bank Statement		6		6
5	3 Photocopy				6
6	2 References (Witnesses)				
7	Rent Agreement				6
8	Utility Bills				6
9	Registry Inteqal	6			6

Notes

The information used in the report has been collected through multiple interactions and in-depth interviews with stakeholders including concerned; government agencies and private entities. Applicants were a key informants and were also interviewed in-depth.

Assumptions

1. Average travel time to any office within Islamabad/Rawalpindi is 45 minutes. Roundtrip takes 90 minutes.
2. The cost for one way trip is Rs.500/-. This is average fares of Uber/Careem.
3. Applicant visiting a government agency to meet an official manages to meet the person during the said visit.
4. Stress level included in the report has been assessed based on (i) effort-level of the applicant for performing a task (ii) time involved in completion of the step and (iii) how crucial the step is for completion of the activity and (iv) the probability that the task may not be allowed/ approved by the authority concerned. The entire foregoing assessment is based on in-depth interview of the applicant

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