

AFFORDABLE URBAN HOUSING

SEPTEMBER | 2024

Why does housing matter?

Adequate housing is a basic human right.¹ It offers the opportunity for better health, livelihood and social services, opening door for a better future. In Bangladesh, this right is facing increasing pressure in urban areas, driven by a yawning supply-demand gap, rapid urban population growth, and climate change impacts.

The housing sector contributes to a mere 7.8% of Bangladesh's economy.² Urban areas faced persistent housing shortage, which is estimated at 6 million units and expected to rise to 10.5 million by 2030.³ More than 70% of this demand are associated with affordable housing.⁴ Yet, the annual supply is only 31,500 units,⁵ meeting just 1% of the affordable housing demand. Meanwhile, the profit-oriented housing market produced a surplus of homes for higher-income citizens,⁶ while leaving middle and low-income groups behind.

Bangladesh cities have been expanding fast in the past two decades. Urban population grew from 30 million in 2000 to 70 million in 2023.⁷ This growth, along with a trend towards smaller households, has ramped up housing demand. Many new urban residents are poor climate migrants, who've left their livelihood such as farming and fishing due to rising sea levels and flooding. Their financial hardship adds to mounting needs for low-cost urban housing.

The significant gap between housing demand and supply triggered the proliferation of slums in cities. In Dhaka, the slum population increased by about 20% between 2010 and 2020.⁸ During this same period, housing prices rose by approximately 150%, and rents doubled,⁹ making decent housing even more out of reach for many. Today, according to Bangladesh official data, 1.73 million people still lives in slums.¹⁰



Dire living conditions in slums: Slum residents face higher rent costs than decent housing.¹³ Their access to public service such as water and electricity is even more limited and costly, with a majority controlled by slumlords.¹⁴

Bangladesh is one of the most climate disaster-affected countries.¹¹ As it continues to urbanize, housing should be provided at a pace that meets growing demand and with the capacities to cope with climate disasters. Affordable housing is crucial for survival, especially for the low-income urban citizens. Those living in affordable housing perceive a wide range of benefits, including safety from disasters, a standard living environment, economic and social services, secure homes for children, and land tenure.¹² It paints a vital investment in the overall wellbeing for Bangladesh's future generations.

How to build affordable housing?

On page 2.

In Bangladesh, there is no official definition for affordable housing. According to the United Nations, affordability in housing means that cost should not threaten or compromise the occupants' enjoyment of other human rights.¹⁵ It differs from market-based housing in that it prioritizes accessibility and basic needs over profit margins. Affordable housing aims to provide adequate and durable places at a cost that low and middle-income households can sustainably manage.

Currently, there are two main modalities of affordable urban housing in Bangladesh. The first is multi-story buildings, which are large-scale projects aimed at creating low-cost housing for many families. The second approach is single-story community housing, which is more community-based. These often involve NGOs, community groups, and international organizations working together in both upgrading and building new houses. The diverse stakeholders involved in these two modalities illustrate an evolving landscape of affordable housing solutions.

Modalities	Approach	Description	Example
Multi-story Buildings	Public-private partnerships	Collaboration between government and private developers	- Bhashantek Rehabilitation Project - Jhilmil Residential Project ¹⁶
	Government-led	Collaboration between government and Dhaka North City Corporation (DNCC) or National Housing Authority (NHA)	- Multipurpose Cleaners Residential Complex - Uttara Apartment Project ¹⁷
	International organization (IO)-led	Projects involving international organizations, local NGOs, and government	- National Urban Poverty Reduction Programme (NUPRP) ¹⁸
Single-story Community Housing	Government-led	Government initiates and implements	- Ashrayan Project
	International organization (IO)-led	Projects involving international organizations, local NGOs, and government	- National Urban Poverty Reduction Programme (NUPRP)
	NGO-led	NGOs work with communities	- ARBAN's Low-cost housing projects ¹⁹
	Community-led	Housing initiatives led by community organizations, often with NGO support	- Jhenaidah Citywide Housing Process ²⁰



Land provision: Government and local municipalities play a crucial role in offering land directly or facilitating its acquisition. In public-private partnerships, the government typically provides the land. NGO and IO projects might negotiate land deals or transfer with authorities. Community-led initiatives sometimes arrange collective land leases or work within existing land ownership. Particularly for single-story community housing, beneficiaries often provide the land, particularly in IO-led and community-led projects.



Community engagement: The level of community engagement varies significantly across different approaches. Government-led and public-private projects often have limited community involvement, mainly in selecting beneficiaries. In contrast, NGO, IO, and community-led housing projects prioritize resident participation in planning, design, and implementation. Especially in community-led projects, residents often participate actively in construction, fostering a sense of ownership and community cohesion.



Financing: Financing methods differ across approaches to meet diverse needs and resources. Government projects utilize national budgets, sometimes supplemented by international loans. Public-private partnerships blend government funds, private investment, and buyer contributions. NGO and IO-led projects often rely on funding partners initially, followed by collective funding from housing communities to ensure future maintenance. Community-led housing typically combines community savings, NGO support, and micro-credit. In IO-led projects, for instance, UNDP's NUPRP, loans are provided through community-managed financing mechanisms like the Community Housing Development Fund (CHDF), enhancing accessibility for low-income groups.



Construction: Construction processes vary depending on the approach. Government projects usually contract private firms and oversee their work. In public-private partnerships, private developers manage the building process, often bringing efficiency and expertise. NGO and IO initiatives often engage local architects and builders, promoting local economic development. Community-led housing frequently involves residents in construction, guided by technical experts with low costs, which can support building valuable skills. IO-led projects particularly emphasize sustainable design, energy efficiency, and climate-resilient infrastructure, enhancing long-term affordability and resilience.



Affordability: Each approach employs different strategies to ensure affordability. In public-private partnerships, because lands are acquired with reduced or

none costs, flats can be sold at prices affordable for low-income groups. Government-led multi-story projects typically have beneficiaries pay affordable monthly rent. IO-led multi-story projects, for instance, UNDP's NUPRP offer long-term leases (e.g., 99 years) with minimum costs for extremely low-income groups, such as sanitary workers.

Government-led single-story projects often provide homes free of cost to homeless individuals, addressing acute homeless challenge. IO-led single-story projects may combine beneficiary land contribution with accessible loans. NGO-led projects frequently utilize micro-credit and savings schemes to enhance affordability while promoting financial responsibility.

Community-led projects reduce costs through community involvement in land provision and construction, making housing more affordable while building community's self-management capacity.

In these different approaches, stakeholders bring in their unique strengths and challenges. Government projects can build on a large scale but may struggle with upkeep and community integration. Community-led initiatives offer tailored, participatory approaches but can be hard to scale up. Public-private partnerships harness private sector efficiency but need careful oversight to maintain affordability. NGOs showcase innovative micro-credit financing but often have limited reach. International collaborations bring global expertise and substantial funding but must navigate complex local contexts.

What are the key challenges and opportunities?

CHALLENGES

Housing buyers: rising costs, limited access to land and finance

➤ **Affordability:** For urban residents, especially those climate change-displaced migrants, housing payment is the biggest concern. These climate refugees often lack the resources needed to access housing markets. The temporary or uncertain status of these migrants complicates their ability and willingness to secure long-term housing solutions or access housing finance options. Further, rising living costs, driven by inflation, make buying a place increasingly out of reach. Land costs, consuming up to 40% of construction expenses,²¹ push the market prices stubbornly high.

➤ **Land ownership:** Most public lands are owned by various government ministries; city corporations own far less. Currently, many urban poor groups live on government-owned or unregistered land in informal settlements. This lack of legal ownership discourages individuals to make permanent investments in their housing, alongside public investment in infrastructure and services.

➤ **Mortgage accessibility:** Bangladesh's mortgage penetration rate is 3%, significantly lagging behind regional averages - 4.9% in South Asia and 8.9% in emerging markets.²² About 80% of urban dwellers in Bangladesh rent due to barriers in accessing affordable mortgage finance.²³ Home loans account for only 6% of total loans in the financial sector, highlighting a significant shortage of housing

finance. Consequently, poor communities often finance their homes through informal channels and from individual endeavors.²⁴

Government: budget constraints and regulation challenges

➤ **Government budget:** Limited fiscal resources constrain government funding for affordable housing. This creates a reliance on private sector involvement and community-based approaches to affordable building. The insufficient budget also fails to support strong policy signals at the macro level, which could otherwise encourage high-level, multi-stakeholder initiatives in affordable housing.

➤ **Market regulation:** How to manage the competition between market-rate and affordable urban housing developers is a key regulatory challenge. Market-rate housing developers often design profit-prone projects that don't meet low-income populations' needs or budgets. Fundamentally, there's a lack of a business model allowing affordable housing to be profitable and sustainable while competing with high-end housing. The country's income disparities at the demand side also tilt the market further towards high-end housing.

➤ **Regulatory frameworks and enforcement:** There is a lack of regulation enforcement in the process of planning, building and delivering housing projects. As a result, legal status and activities become interwoven with illegal ones. For instance,

inconsistent application of zoning regulations leads to unauthorized constructions and inefficient land use, exacerbating the housing crisis in urban areas. In public-private partnerships, weak enforcement capacities already led to cases such as the Bhashantek Rehabilitation Project, in which profit-seeking developers overruled set affordable prices. One of the root causes is that there are different policy and implementation entities²⁵ involving in affordable housing sector, often with fragmented yet sometimes overlapping mandates.

Housing developers: land availability and minimal guidance

- **Land availability:** Imbalanced rural-urban development has led to severe land scarcity in major cities like Dhaka, where housing demand is highest. Developers struggle to secure land at reasonable prices in urban areas due to intense competition, while vast underutilized land in rural regions remains unattractive due to lower demand.²⁶ This imbalance disincentivize affordable housing projects in both urban and rural areas.
- **High-level guidance:** A country-level guideline on how to build affordable housing projects and associated standards on housing sustainability remain unattended. On the other hand, certain rules such as restrictions on high-rise buildings, and the focus on plot-based development, caused by land scarcity, further restrains affordable housing developers.

Financial institutions: funding constraints and regulatory hurdles

- **Long-term funding:** Banks and other financial institutions struggle to secure long-term funds necessary for housing loans. The mismatch between short-term deposits and long-term housing loans creates a significant challenge. This “tenor mismatch” is worsened by the underdeveloped capital market, which lacks instruments to provide stable, long-term funding sources.²⁷
- **Regulatory process:** Financial institutions face tight directives that limit their ability to focus on housing finance. For banks, housing finance portfolios are capped at 10% of total advances, pushing them to prioritize other sectors like agriculture. This limit hinders their capacity to meet the growing demand for affordable housing loans.

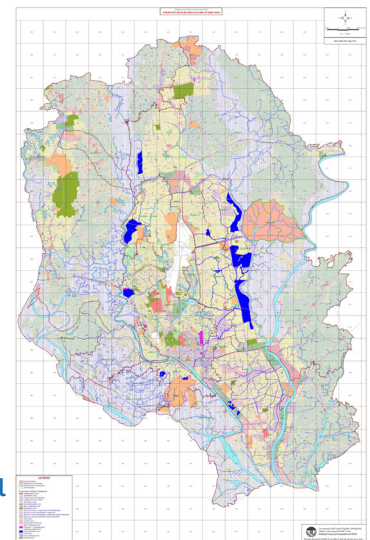
OPPORTUNITIES

➤ **Policy commitment:** Government policies increasingly recognize the importance of affordable housing. The first Five-Year Plan introduced co-operative housing for urban poor and lower middle-income groups. Building on this, the 8th Five-Year Plan prioritized land pooling and guided development strategies. The 2016 National Housing Policy addressed urgent challenges like rapid urbanization and inadequate housing supply. It aims to improve sector governance, promote inclusive urban development, and encourage public-private partnerships. These policies signal a growing commitment to tackle housing issues.

➤ **Diversified affordable housing projects:** As previously mentioned, various affordable housing initiatives are underway, led by the government, private developers, international partners and communities. These projects are offering valuable lessons not only for future scale-up programming, but also Bangladesh context-specific sustainable approaches. The key challenge is identifying which approaches can be effectively scaled to meet Bangladesh's growing affordable housing needs.

➤ **Detailed Area Plan (DAP) 2022-2035:** The DAP proposes 58 locations in greater Dhaka for lower-income housing. These sites provide a basis for creating affordable housing plans such as subsidized flats for low-income groups.

➤ **Targeted financial services:** Domestic financial institutions and international partners are starting to address low-income housing needs through microfinance initiatives.²⁸ Expanded loan portfolios now offer small-scale financing for home improvements and new construction, especially in rural areas.²⁹ However, broadening access to traditional banking loans remains necessary for those lacking collateral and steady income.



What can we do about it?

Addressing the affordable housing crisis in Bangladesh requires a collaborative effort from different stakeholders. The following recommendations outline key areas where government and development partners (e.g., bilateral development assistance agencies, multilateral organizations and development banks) can contribute to creating solutions:

Integrate affordable housing into urban planning

➤ The integration of affordable housing into overall urban planning strategy should be prioritized. This could begin with the finalization of Bangladesh's National Urban Policy. Under the overarching urban policy framework, development partners could also support in establishing a clear national definition of "affordable housing" that specifies housing types and sizes, which should be given equal importance to other sector developments, with a potential recommendation that certain percentages of land in new developments to be set aside for affordable housing. Further, in collaboration with Local Government Institutions (LGIs), partners can support in preparing master plans that emphasize balanced urban-rural development. These plans could include innovative land use strategies, particularly crucial in alleviating housing pressures on densely populated areas like Dhaka.

Promote sustainable urban housing design

➤ Development partners can offer technical advice on designing affordable housing that is sustainable, climate-resilient, and inclusive. Working with local architectures and construction companies, technical knowhow of building sustainable features can be effectively transferred through on-the-ground project implementation, as shown in the UNDP NUPRP. Implementing pilot housing projects is also an efficient way to demonstrate the feasibility and benefits of these approaches, encouraging wider adoption. Additional efforts can be facilitating knowledge exchange with international peers on green and affordable building practices. Working together with academic, partners could also help bridge the gap between local research and project implementation, facilitating sustainable research to be translated into real-world solutions.



Multi-story building under construction in Chandpur District, as part of UNDP's NUPRP affordable housing.

Allow more people to access housing loans

➤ Partners should work closely with local financial institutions to develop accessible housing loan products tailored to low and middle-income groups, especially those in the informal economy without bankable documentations.

A plan for systematic housing financing model, including policy reform, should be formulated with broad consultations with different finance institutions and the central bank. For instance, in many countries, central banks would take a key role in providing subsidized credit or special discount, which help encourage lending to the affordable housing project. Development banks can also play a crucial role in this ecosystem by providing long-term, low-interest financing to local banks and micro-finance institutions specifically for affordable housing initiatives

These efforts should aim to overcome the current limitations on long-term local currency funding and restrictions on foreign borrowing, while balancing regulatory requirements for priority sector lending. Drawing inspiration from successful local and international models, partners can fetch ideas for innovative strategies in the Bangladeshi context. Examples include community-owned financial mechanisms like the Community Housing Development Fund (CHDF) in the UNDP NUPRP, and pension-linked housing loan systems as seen in Singapore.



Community workshop on CHDF management and use, as part of UNDP's NUPRP affordable housing activities.

Facilitate public-private partnerships (PPPs)

➤ Development partners can leverage their expertise to provide guidance on effective PPP in the affordable urban housing projects, balancing profit motives with social responsibilities. For instance, partners could organize governmental level international experience learning sessions, promote understanding of similar affordable housing schemes such as Singapore's Design, Build and Sell Scheme (DBSS), which involved private developers in public housing construction while maintaining affordability through government oversight. The key is to ensure that these PPP maintain a focus on affordability and quality, potentially through performance-based incentives or regulations.

Strengthen governance in housing policy

➤ It is obvious that affordable urban housing can be improved through many different aspects. The sequencing of actions, along with coherence and coordination among stakeholders, therefore, is crucial. In Bangladesh, the absence of a central ministry or agency responsible for housing sector development illustrates a crucial gap, which often leads to fragmented and ineffective policy implementation. This structural challenge underscores the need for a new agency specialized in housing, which can be composed by officials from different ministries and agencies that are already working on related themes.

Another crucial area is supporting local governments in generating income to fund affordable housing initiatives. This could include exploring innovative financing mechanisms and improving local tax collection systems. Concurrently, strengthening governance capacities through targeted training sessions and peer-learning exchanges for government officials is essential. These capacity-building efforts should be available at various levels of administration, focusing on implementation strategies, monitoring, transparency, and accountability. These efforts can help prevent issues similar to those encountered in the Bashentek Rehabilitation project.

Encourage holistic urban development

➤ Finally, affordable urban housing is not just about buildings, it's a linchpin in Bangladesh's development trajectory. It's both a cause and effect of broader urban dynamics. For instance, urban livelihood improvements can lift the financial capacities of low-income groups. The associated steady income flow and job guarantee can then become steppingstones to housing loans and affordability. This interconnectedness calls for initiatives that address affordable housing alongside other urban challenges such as traffic congestion, pollution, livelihoods and public services. In advancing affordable housing initiatives, development partners should always consider whether their plans fit into a Bangladesh's own model for sustainable urban growth.

Bangladesh is standing at a crossroads of challenges and opportunities. Climate change, rapid urbanization, and new government priorities are reshaping the country. By 2050, 17% of the Bangladesh's land may be submerged due to rising sea levels, potentially displacing 20 million people.³⁰ This looming prospect underlines the urgent need for climate-resilient and affordable housing solutions. Looking ahead, we must also ask: how can affordable housing policies catalyze broader urban transformation towards sustainability? The path forward will need collaborative actions from all of us.



Photo from UNDP's NUPRP

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ANNEX

UNDP's Approaches to Affordable Urban Housing in Bangladesh

As Bangladesh grapples with rapid urbanization, a housing crisis looms large. Led by the Local Government Division (LGD) and supported by the Government of Bangladesh, UK's Foreign, Commonwealth and Development Office (FCDO), and UNDP Bangladesh, the National Urban Poverty Reduction Programme (NUPRP) aimed to address this pressing issue.

Climate resilient affordable housing is one of the key pillars of NUPRP, comprising two modalities: single-story community housing and multi-story buildings. These approaches not only provide immediate housing relief, but also offer innovative ways to tackle urban poverty and climate vulnerability.

Single-story Community Housing

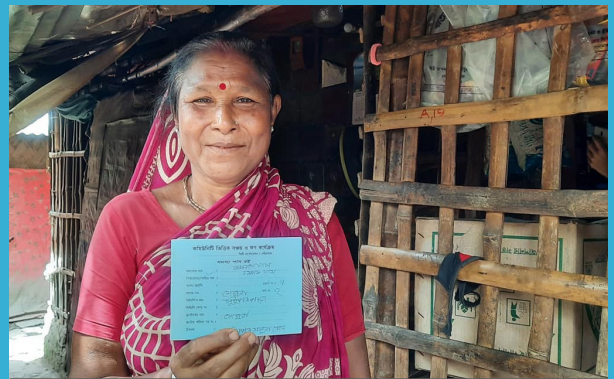
Empowering communities through financial innovation

NUPRP's single-story community housing demonstrates a case of community empowerment and financial innovation. The linchpin is the Community Housing Development Fund (CHDF), a city level community-led autonomous financial mechanism providing accessible housing finance to urban poor, accredited by the departments of cooperatives, Bangladesh.

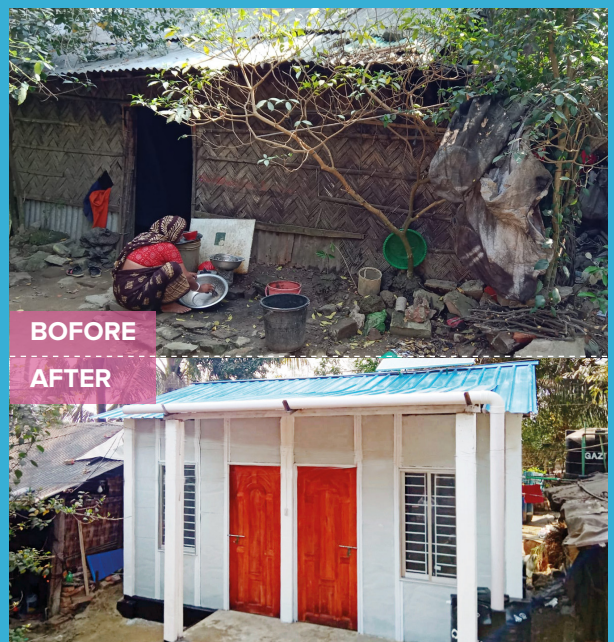
The CHDF now operates within the administrative boundaries of City Corporations and Paurashavas, with a robust governance structure ensuring transparency and community representation. The fund offers collateral-free loans ranging from 50,000 to 250,000 BDT, with flexible terms and low interest rates, making home improvement accessible to those often considered uncreditworthy by formal financial institutions.

In establishing the CHDF in three cities - Chattogram, Rajshahi, and Naranaganj, UNDP provided initial seed funding (BDT 7.5 crore) and expertise in setting up the fund management structure. UNDP also offered technical support, helping community members understand shelter upgrading processes tailored to their needs, as well as loan borrowing practices. Regular audits and annual general meetings are conducted throughout the project cycle.

Communities now possess the expertise to manage and sustain the fund independently. CHDF assists families with housing material procurement, reducing unexpected expenses from damages, and connecting them with local architects and builders, which ultimately results in more accumulative savings. This approach not only provides necessary financing but also builds community capacity for long-term self-management. By this year, a total of 1,355 families have received loans to construct or upgrade their housing.



Community member shows her CHDF document in front of her home, which will be upgraded with the funding.



Featured with: disaster-resilient design; innovative with ferro cement technology; solar panel; rain-water harvesting; and improved cook stove

Multi-story Buildings

A model of sustainable urban living

NUPRP's multi-story building represents a notable sustainable housing model. Leveraging government-provided land and fund, as well as UNDP's technical expertise, the project has been creating 846 climate-resilient housing units across five cities: Rangpur, Chandpur, Noakhali, Kushtia, and Gopalganj.

These vertical communities range from 4 to 6 floors. Each family receives a 220 square feet unit on a 99-year lease, with minimum charges. These charges contribute to a collective fund for housing maintenance and future upgrades. This arrangement provides long-term housing security for the urban vulnerable. In a nod to gender equity, ownership is jointly shared between the household head and his/her spouse.

The highlights of the buildings are climate-resilient architecture adapted to local contexts, incorporating energy-efficient elements, and environmentally friendly materials. Take the use of hollow grey blocks instead of traditional burnt bricks – a simple switch that helped reduce carbon footprints.

Beyond individual units, the multi-story buildings also include community-enhancing features such as kitchen gardens, community centers, and integrated ponds for groundwater recharge and flood mitigation. Universal accessibility features and child-friendly spaces ensure that these housing solutions cater to all, setting a new standard for inclusive urban living.



Beneficiary registration



Hollow blocks



UNDP NUPRP's affordable housing in Noakhali District, with 102 units.

NUPRP's approach to affordable housing addresses Bangladesh's diverse urban housing needs with versatility. The multi-story buildings initiative creates new, sustainable housing stock. Meanwhile, the CHDF empowers communities to bring new life into existing dwellings. With decent housing and associated facilities, families can now make long-term plans for their livelihoods.

Climate resilience, community engagement, and long-term sustainability are deeply embedded in both approaches. Ultimately, affordable housing is about building resilient communities. The success of the NUPRP offers valuable lessons for urban development projects in countries of similar contexts. The project illustrated how innovative financing, community empowerment, sustainable design, and, importantly, collaborative efforts of different stakeholders can come together to create positive changes in urban communities.

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