

**Document of  
The World Bank**

**Report No.: 55427**

**CLUSTER PROJECT PERFORMANCE ASSESSMENT REPORT**

**PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA  
MORTGAGE FINANCE TECHNICAL ASSISTANCE PROJECT  
(LOAN 7131-AL)**

**THE KINGDOM OF MOROCCO  
HOUSING SECTOR DEVELOPMENT POLICY LOAN  
(LOAN 7314-MOR)**

**NATIONAL SLUM UPGRADING PROGRAM  
(PSIA 36545-MOR)**

**June 29, 2010**

*Sector Evaluation Division  
Independent Evaluation Group (World Bank)*

## Currency Equivalents (annual averages)

<i>Algeria</i>			<i>Morocco</i>		
<i>Currency Unit = Algerian Dinar (DZD)</i>			<i>Currency Unit = Dirham (DH)</i>		
2002	US\$1.00	DZD 79.68	2002	US\$1.00	DH 11.02
2003	US\$1.00	DZD 77.39	2003	US\$1.00	DH 9.66
2004	US\$1.00	DZD 72.06	2004	US\$1.00	DH 8.87
2005	US\$1.00	DZD 73.28	2005	US\$1.00	DH 8.87
2006	US\$1.00	DZD 72.65	2006	US\$1.00	DH 8.80
2007	US\$1.00	DZD 69.29	2007	US\$1.00	DH 8.19
2008	US\$1.00	DZD 64.58	2008	US\$1.00	DH 7.75
2009	US\$1.00	DZD 74.14	2009	US\$1.00	DH 7.95

## Abbreviations and Acronyms

### WORLD BANK

CAS	Country Assistance Strategy
CPS	Country Partnership Strategy
DPL	Development Policy Loan
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
IEGWB	Independent Evaluation Group (World Bank)
M&E	Monitoring and Evaluation
MNA	Middle East and North Africa Region (of the World Bank)
PD	Program Document
PPAR	Project Performance Assessment Report
SIL	Specific Investment Loan
TA	Technical Assistance

### ALGERIA

CNEP	<i>Caisse Nationale d'Épargne et de Prévoyance</i> (National Saving and Providence Fund)
GOA	Government of Algeria
MOF	<i>Ministère des Finances</i> (Ministry of Finance)
MOH	<i>Ministère de l'Habitat</i> (Ministry of Housing and Urban Planning)
SGCI	<i>Société de Garantie du Crédit Immobilier</i> (Real Estate Credit Guarantee Company)
SRH	<i>Société de Refinancement Hypothécaire</i> (Mortgage Refinancing Company)

### MOROCCO

ANHI	Agence Nationale de la Lutte contre l'Habitat Insalubre (National Agency against Substandard housing)
CIH	Crédit Immobilier et Hôtelier (Real Estate and Hotel Finance Bank)
ERAC	Etablissement Régional d'Aménagement et de Construction (Regional Agency for Planning & Construction)
FOGARIM	Fonds de Garantie pour les Ménages à Revenus Modestes et Irréguliers (Mortgage Guarantee Fund for Households with Low and Irregular Incomes)
FOGALOGÉ	Fonds de Garantie pour le Logement (Housing Guarantee Fund)
GOM	Government of Morocco
MFP	Ministère des Finances et de la Planification (Ministry of Finance and Planning)
MHU	Ministère de l'Habitat, de l'Urbanisme et de l'Aménagement de l'Espace (Ministry of Housing and Planning)
PSIA	Poverty and Social Impact Analysis
SNEC	Société Nationale d'Équipement et de Construction (National Infrastructure and Construction Corporation)
VSF	Villes sans Bidonvilles (Cities without Slums Program)

## Fiscal Year

Government: January 1 – December 31

**IEGWB Mission: Enhancing development effectiveness through excellence and independence in evaluation.**

**About this Report**

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

**About the IEGWB Rating System**

IEGWB's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEGWB evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEGWB website: <http://worldbank.org/ieg>).

**Outcome:** The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Risk to Development Outcome:** The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

**Bank Performance:** The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Borrower Performance:** The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.



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<p>This report was prepared by Roy Gilbert, who assessed the project in October 2009. Maria Margarita Sanchez provided administrative support.</p>
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## ALGERIA: MORTGAGE FINANCE TECHNICAL ASSISTANCE PROJECT

### Principal Ratings Algeria

	<i>ICR*</i>	<i>ICR Review**</i>	<i>PPAR</i>
Outcome	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Negligible to Low	Moderate	Moderate
Bank Performance	Satisfactory	Satisfactory	Moderately Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Moderately Satisfactory

\* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. \*\*The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

### Key Staff Responsible

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## MOROCCO: HOUSING SECTOR DEVELOPMENT POLICY LOAN

### Principal Ratings Morocco

	<i>ICR*</i>	<i>ICR Review**</i>	<i>PPAR</i>
Outcome	Satisfactory	Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Negligible to Low	Moderate	Moderate
Bank Performance	Highly Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

\* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. \*\*The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

### Key Staff Responsible

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## Preface

This is a Cluster Project Performance Assessment Report (PPAR) of Bank assistance to the housing sector in Algeria and Morocco that used three different instruments: (i) a specific investment loan (SIL) to finance the Algeria Mortgage Finance Technical Assistance Project (Ln7131), for which the World Bank approved a Loan of US\$5.5 million on June 27, 2002—the Loan was closed on January 31, 2007, 13 months later than planned, when US\$377,490 was cancelled; (ii) a development policy loan (DPL) to finance the Morocco Housing Sector Development Policy Loan operation (Ln7314), for which the World Bank approved a Loan of US\$164.3 million equivalent on June 30, 2005—the Loan was closed on June 30, 2008, six months later than planned, when it was fully disbursed; and (iii) a poverty and social impact analysis (PSIA) of the Morocco National Slum Upgrading Program, on which the Bank expended US\$63,000 of its budgetary resources during 2005-2006.

The SIL and DPL were regular Bank lending operations, while the PSIA was a non-lending activity required under Bank policy when the poverty impact of a DPL is expected to be significant—the case of the Morocco Housing Sector DPL reviewed here.

The report is based on a review of project documents, including the implementation completion reports, appraisal reports, program documents, legal documents and project files, and on discussions held with Bank staff involved in the project. An IEG mission visited Algeria and Morocco in October 2009 to review project results and met with some 50 interlocutors including government officials responsible for housing and housing finance, bankers and housing developers. IEG gratefully acknowledges the courtesies and attention given by all these interlocutors in both Algeria and Morocco. IEG also appreciates the excellent logistical support provided to the mission by the Bank's resident offices in Algiers and Rabat.

IEG selected the two lending operations for PPAR field assessments—as recommended at the ICR Review stage—to verify the performance of this important series of housing operations. As is the case of the two lending operations, the PSIA was chosen for evaluation also to help distill sector lessons that can provide inputs into a comparative IEG analysis of Bank support for housing.

This cluster PPAR is divided into two parts. The first part addresses three performance issues that the evaluation pointed to being the most important: (i) seeding housing sector reform at an early stage; (ii) sustaining reform into the future, and (iii) large-scale slum upgrading. The second part (reported in the annexes) covers the broad assessment of all aspects of operational performance typically presented by a PPAR. Thus, the first part offers the “learning” material of the PPAR, while the second part provides the “accountability” material.

Following IEG practice, copies of the draft PPAR were sent to government officials and borrowing agencies for their review and comments, but no comments were received.



## Summary

Each from a different point of departure and on a different scale, Algeria and Morocco are both pursuing housing sector reforms to make their housing and housing finance markets work better, and to provide more good quality housing, especially to the poor. These reforms sometimes, but not always, involved greater participation by the private sector. They were supported by the three operations reviewed here. The **Algeria: Mortgage Finance Technical Assistance Project (Ln7131)**, the “**Mortgage TA Project**” that aimed to strengthen the enabling environment for a well-functioning mortgage loan market. The **Morocco: Housing Sector Development Policy Loan (Ln7314)**, the “**Housing DPL**” that aimed to strengthen the institutional, regulatory and fiscal environment for a well-functioning housing market and increase the access of low-income and severely disadvantaged households to more affordable and higher quality housing. The **Morocco: Poverty and Social Impact Analysis of the National Slum Upgrading Program**, the “**Slum Upgrading PSIA**” contributed to the ongoing policy debate, and aimed to improve and refine the instruments and operational modalities of the *Villes sans Bidonvilles* (VSB), Morocco’s cities without slums upgrading program. When a DPL like this is likely to have a significant effect on poverty, Bank policy requires that it be accompanied by instrument to analyze the distributional impact, such as a PSIA.

Strong macroeconomic performance by both countries during the 2003-2008 period covered by these operations helped move housing sector reform forward. Both are pursuing housing sector reform, with strong public sector participation still, especially in Algeria.

Overcrowding is a major housing problem in Algeria where dwelling occupancy rates are among the highest in the world. Some 6.4 percent of the population lives in slums, called *bidonvilles* in French. Having a similar number of units in the total housing stock as households in the population as a whole doesn’t resolve these housing problems. Higher income households may have several housing units, while lower income households may share single dwellings with other households. Many houses are left empty.

*Bidonvilles* are widespread in Morocco too, where nearly 300,000 households lived illegally in poorly built and inadequately served dwellings. Yet empty houses are common in Morocco as well—some 800,000 units, exceeding the estimated national housing deficit of 700,000 units. Slum upgrading has been going on in Morocco, with the help of the Bank, since the 1970s. *Bidonvilles* have several causes; poverty, high house prices, lack of rental housing and general housing supply-side constraints. The house-price—household-income ratio in Algeria and Morocco is nearly twice that of Tunisia, and even Spain when that country was in the middle of its property price bubble in 2006.

Two of the operations reviewed here posited lack of housing finance as a major constraint and sought to help overcome it. The Mortgage TA Project supported mortgage lending origination and processing mainly through training bank staff who would administer them. Mortgage lending, still mostly through state-owned banks, was introduced into Algeria in the late 1990s and is still available only on a relatively small scale, with an outstanding mortgage debt equivalent to just 1.5 percent of GDP, compared with

Morocco's 7 percent. In Morocco the Housing DPL helped mortgage lending indirectly through supporting loan guarantees to make lending to lower-income households less risky than the banks perceived it to be. The Slum Upgrading PSIA did not explicitly address the question of mortgage lending. It focused exclusively upon the VSB Program.

These operations came on top of earlier Bank assistance to the housing and urban development sectors. Since 1992, the Bank financed one cadastre and two housing projects in Algeria, two of which had satisfactory outcomes. In Morocco, since 1978 the Bank also financed three projects, two on urban development and one, in 1983, on housing finance, all of which were rated satisfactory.

The Mortgage TA Project in Algeria was a small-scale investment project of US\$8.2 million to be partly financed by a Bank loan of US\$5.5 million. Its objective of making the mortgage loan market work better was relevant to the 2003 CAS—still the most recent—and its strong housing sector focus. Looking only at mortgage lending and ancillary issues was a realistic narrowing of scope for a small operation like this.

The overall results of this project were mixed. Bankers and many staff of Algeria's state-owned banks were trained, but mortgage lending did not take off. There were simply too few new houses to finance. But, thanks to the project, title registration expanded to cover the whole country for the first time, and new legislation helped standardize registration procedures made more agile through computerization.

Most banks in Algeria, still mostly state-owned, had little experience with mortgage lending and needed the training offered by the project on a large scale. It involved a three-week intensive training program for 1,580 bank staff, still a large number but somewhat short of the 2,000 target. Why a 2,000 target? The project design was not built upon a detailed needs assessment that could help determine the target. As well as staff, the training focused upon bank managers too—a strong twin-track feature of the design. IEG met with several trainees in Algiers and the country's second city of Oran. All evaluated the training they received positively.

While the training itself was successful, an important evaluation question remains. Did it contribute to a well-functioning mortgage market, as the project intended? There is little evidence of a significant expansion of mortgage lending itself in Algeria. Only 22,900 new loans were made in 2007, well short of the target and not enough to make full and intensive use of the new skills acquired on a large scale by bank staff.

The project's attention to land ownership and titling was on target. Mortgage lenders need to be sure that the borrower is indeed the owner of the house being financed, and that a mortgage lien can be executed when needed in cases of default. Through technical assistance to the *Agence de Conservation Foncière*, Government of Algeria's property titling agency, the Mortgage TA Project helped simplify procedures and, through computerization, make the system truly nationwide and more accurate.

In two areas, the project supported housing sector reform for which Algeria was not ready. This was through technical assistance to two GOA agencies, one for mortgage guarantees and the other for mortgage refinancing. Neither significantly expanded its

business and the *secondary* mortgage markets did not prosper, not surprisingly so given the incipient nature of the *primary* markets themselves up to this point.

But overall, the Algeria Mortgage TA Project did plant these two seeds of housing sector reform, one in processing mortgage lending and the other in property titling and registration. These are necessary conditions for well-functioning markets. Whether they are enough for the seeds to germinate, we still await evidence from supporting data.

By focusing, in Morocco, upon the institutional consolidation of *Al Omrane*, GOM's main urban and housing developer, the Housing DPL helped strengthen the institutional framework for a well-functioning housing market, as the operation intended. Housing sector reform in Morocco indeed took a big step in 2004 with the establishment of the *Al Omrane* holding company (whose Arabic name means "building enterprise") to replace ten separate state agencies with often overlapping responsibilities and duplicating functions. Together, the ten agencies had anchored Morocco's institutional framework for housing and urban development for decades.

*Al Omrane* and the Housing DPL were closely tied together. Creating a new Supervisory Board for *Al Omrane* was a condition for disbursement of the first tranche of the Loan, and completing the restructuring of the former agencies a condition for the second. Major redundancies through this consolidation were unnecessary because of *Al Omrane's* strong and growing work program. But staff were in the wrong place and had to be decentralized especially from Rabat to regional offices. IEG learned that this was accomplished without major problems. Guaranteeing that working conditions, especially salaries, were at least as good as before, ensured a relatively smooth transition for most staff.

Today, *Al Omrane* has become *the* major GOM player in Morocco's housing and urban development sector. Its output, measured by the number of houses delivered, has increased. Its finances are sound, having reported a modest profit in recent years. It is now the one-stop shop for housing and urban development stakeholders and for international operators too. Factors in *Al Omrane's* success include GOM willingness to establish a new legal framework through major legislation, to follow through with major yet detailed reorganization and consolidation of the agencies involved, and actions and assurances to staff that most would be winners from the reform.

With sanction by the King himself, GOM launched its flagship VSB Program to clear its cities of slums. The launch was a prior action directly supported by the Housing DPL. VSB progress was a trigger to be met for the second tranche of the Loan. The Housing DPL was therefore closely tied to VSB. The Slum Upgrading PSIA, too, was directly linked to VSB policy and implementation.

Slums, or *bidonvilles* as they are called in Morocco, are poorly built and served dwellings that illegally occupied central or peripheral urban areas of the larger cities especially. The Ministry of Housing and Planning prepared the detailed VSB plan to improve the lives of 212,000 *bidonvillois*, or residents of slums, a target later raised to 292,000. VSB offered improvements through *in situ* upgrading, the preferred option for most residents, or re-housing them on serviced lots or in completed apartments, the least popular. Even though this involved considerable involuntary resettlement, Bank safeguards were not triggered

as they do not apply to DPL. This Housing DPL did not directly finance the VSB investments that required the resettlement. In hindsight, however, this operation could still have sought assurances up-front that VSB resettlement policies were consistent with the Bank's.

Precise data on the actual results of VSB to date is not readily available. But other sources of information point to a half-completed VSB program to date. Thus instead of ridding Moroccan cities of all slums by the end of 2010, the job is more likely to be half-done. But this is not an insignificant achievement of itself, although far short of the ambitious target set. Another challenge, however, has been a sharp increase in the number of completed VSB housing units that remain unsold.

Despite these setbacks, GOM remains committed to increasing the access of low-income households to better housing. In 2008, GOM introduced a new more affordable "140,000 dirham" model of social housing (equivalent to US\$18,050). Private developer complaints that GOM is giving too much attention to low-income housing, while not approving their own high-income projects, is additional evidence of GOM commitment to attending lower income households.

But, although comprehensive in many respects, the VSB Program did not address the important question of new slum formation and how to prevent it. Instead it treated slums as if they were a static feature of cities that, once removed, would be gone forever. If slum growth in Morocco resumed its annual 1992-2001 rate of 5.6 percent, then the formation of new slums would wipe out the VSB gains made so far in about twelve years from now.

In this PPAR, IEG pilots an evaluation of the Slum Upgrading PSIA that provided advice to the Ministry of Housing and Planning (MHU) about the responsiveness of VSB to *bidonvillois*, slum residents, and the modalities of housing provision to them. Fulfilling a Bank requirement when its associated DPL, the Housing DPL in this case, is expected to have a significant distributional impact, the PSIA aimed to assess the expected poverty alleviation and social impacts of the reforms supported by that DPL.

The PSIA report was launched during the Housing DPL preparation and its findings and results were discussed with the Borrower at workshop held at the time of the Housing DPL start-up. The PSIA included a survey of *bidonvillois* in six selected slums in three cities. Among the findings of the survey were: (i) the inability of the poorest *bidonvillois* to pay for any housing solution; (ii) the need to adjust the supply of VSB housing solutions to local demands, and (iii) the resistance of some local leaders to implementing a VSB Program they saw as dispersing electors who made up their political base. The PSIA made eight recommendations to MHU for reforming VSB policy and implementation. Ascertaining whether they were adopted or not is difficult for a VSB Program that is still incomplete, and on whose results little data is readily available. Furthermore, the MHU team that collaborated with the PSIA is no longer in place today.

On the technical side, a weakness of the PSIA (as of the DPL and VSB itself) was its lack of attention to preventing the formation of new slums. Of course, not having a random sample of slums to survey the *bidonvillois* limited the general validity of the PSIA

findings for Morocco's slums as a whole. But this PSIA was a low-budget exercise that did not have the resources for such research. The PSIA report, available both in English and French, was amply discussed in Morocco by those responsible for VSB. But the change of MHU team and the lack of a follow-on Bank lending operation, have stymied the ongoing Bank-Borrower policy dialogue begun through the PSIA.

IEG's assessment of the overall relevance, efficacy and efficiency of each operation, together with a review of the risk to development outcomes and Bank and Borrower performance, leads to the following ratings.

The **Algeria Mortgage TA Project's** objective to help strengthen the basis for a well-functioning mortgage market was *substantially relevant* to both GOA's and Bank's priorities of helping Algeria's housing sector be part of that country's transition to a market-driven economy. The project design was *relevant* too, especially for a small operation, in focusing upon a few key necessary conditions that could seed housing reform, notably in training bank staff to process mortgage loans and strengthening property titling and registration, in part to make mortgage lending less risky. Efficacy in strengthening the basis for a well-functioning mortgage market was *substantial*, even if actual mortgage lending fell short of the target, because real supply-side constraints meant that there were not enough houses to finance. The mortgage loan training, guarantees and refinancing all appear to have been done on a larger scale than warranted by the market. The project achieved its relevant objectives with moderate shortcomings, and overall outcome rating is *moderately satisfactory*. The risk to development outcome is rated *moderate*. GOA remains committed to housing sector reform, but caution by both lenders and borrowers is likely to leave the primary mortgage market weak in Algeria for some time, especially while supply-side constraints limit the number of new houses brought to that market. Bank performance is rated *moderately satisfactory*, weaker at the quality-at-entry stage, when a modest design still pursued ambitious objectives of what was intended to be a larger operation. Borrower performance was also *moderately satisfactory*. GOA had strong ownership and gave strong support to the project, but getting necessary legislation approved was more challenging. The project implementation unit did a good job overseeing project execution but keeping track of the project achievements fell short, so that even final costs were not reported by the ICR. Given the little information and data available about the project results, project M&E is rated **negligible**.

The **Morocco Housing DPL** had two *substantially relevant* objectives. The first, strengthening the housing market, was consistent with GOM policy and the 2009 CAS to deliver more housing solutions through this market. The second, increasing the access to better quality housing by poorer households supported both GOM's flagship VSB Program and also the 2009 CAS priority to provide more services to the poor. The design of the operation was also *substantially relevant* in identifying key prior actions that could help achieve the objectives. Efficacy was *substantial* through the *Al Omrane* consolidation that strengthened the market by making public sector operations more efficient, but *modest* in increasing the access of low-income households to better housing through a VSB program that achieved a lot, but only half what had been promised. Also, not addressing the issue of preventing new slums forming risks undermining the likely achievements of VSB. The overall outcome of the Housing DPL is rated *moderately*

*satisfactory*, since the operation achieved its relevant objectives, albeit with moderate shortcomings. The risk to development outcome is rated *moderate*, as GOM is likely to continue pursuing housing sector reforms, but the lack of attention to new slum formation just mentioned challenges the operation's achievements. Bank performance is on balance rated *satisfactory*, since the operation's design carefully focused upon a few realistic reform actions, although insufficient attention was paid to M&E. Bank supervision worked well, particularly in helping steer implementation toward meeting triggers for the second tranche of the Loan. Borrower performance was *satisfactory*, thanks to GOM's very strong commitment to the program and the active engagement of the two key ministries, MFP and MHU, in taking housing reform forward. Monitoring and evaluation was *modest*; its design depended too much upon a GOM capacity that proved to be weaker than expected, while little use of M&E has left the VSB with an incomplete set of data of what the program has achieved thus far.

The Bank used three different instruments—a SIL, a DPL and a PSIA—to provide its assistance. Each had obtained positive results. The range of performance among them had more to do with the local context and commitment to reform than the type of instrument per se. The following lessons emerge from the evaluation of these interventions.

#### LESSONS FROM ALGERIA

- Seeding housing reform by focusing upon a selected bottlenecks—such as in bank processing of mortgage loans and in the registration of property titles—cannot guarantee that the reform will take root. Even if they constitute necessary conditions for reform, they must be calibrated with other actions—to ease the supply of new housing, for example—to achieve the well-functioning markets promised by the housing sector reform.
- When sector reform is embryonic, support at the early stages needs to concentrate on the most basic and urgent changes and improvements. In the case of Algeria, this means focusing first upon strengthening the *primary* mortgage market. This has to be well established before reform can move on to consider more sophisticated instruments of housing finance, such as mortgage insurance and securitization. The latter did not take root in the Algerian case.
- Housing sector reforms need to be calibrated and synchronized in order to succeed. In Algeria, improving the origination and processing of mortgage loans went ahead even though demand for such loans was weak. In such cases, reform measures might need to be scaled back or delayed.
- The success (or failure) of housing sector reform requires readily available data and information to demonstrate the results of reported changes and to measure the baselines prior to these changes. The lending and other operations that support the reform can themselves support and include actions to encourage greater dissemination of data and information upon their sector.



**LESSONS FROM MOROCCO**

- Policies and programs aimed at achieving cities without slums need to treat slums as a dynamic feature of urban development. Without appropriate urban planning and land use controls, the formation of new slums can overwhelm the achievements of upgrading and redeveloping existing ones.
- For housing reform to be sustained, it is important to modernize and consolidate the institutional framework for taking the reform forward through a powerful and financially sound agency such as *Al Omrane* that enjoys full government support.
- A sector policy loan can perform well and help achieve reforms if it has realistic objectives that focus upon pursuing a few well-chosen prior actions and triggers, as was the case of the Morocco Housing DPL.
- Sector reform is more likely to succeed if harnessed to a flagship program that is well understood by all stakeholders and beneficiaries, such as the VSB Program in Morocco.

Vinod Thomas  
Director-General  
Evaluation



# 1. Supporting Housing Sector Reform in the Maghreb

## BACKGROUND

1.1 Algeria and Morocco, neighboring countries in North Africa's Maghreb, are both pursuing housing sector reform. In this Project Performance Assessment Report (PPAR) housing sector reform is understood to involve measures to significantly change housing supply in particular, in order to provide good quality housing solutions for all the population and its poorer households in particular. Usually, but not always, such reform includes greater participation by the private sector in housing supply and housing finance.

1.2 Algeria is at an early stage of housing reform, while Morocco is further down the road toward reforming its housing sector, having begun it earlier. A 2005 study supported by the Bank found that Algeria was the only country in the Middle East and North Africa (MNA) region that still followed the "public production" of housing following the economic model of the Former Soviet Union (Baharoglu 2005 p. vii). Algeria is presently engaged in exploring ways of dismantling that system, taking its first steps toward housing reform by introducing state-owned housing market players to more commercial practices. The same source noted already that "In Morocco, an extensive reform program for the [housing] sector is well under way" (op cit p. ix). Having a more established market economy in housing, Morocco is currently deepening sector reform, consolidating state-owned institutions and bringing slum dwellers under its wing.

1.3 This PPAR focuses upon Algeria and Morocco<sup>1</sup> through its review of three recently completed housing operations in those countries: (i) the Algeria: Mortgage Finance Technical Assistance Project (Ln7131), called the "Mortgage TA Project" in this report, that aimed to strengthen the enabling environment for a well-functioning mortgage loan market; (ii) the Morocco: Housing Sector Development Policy Loan (Ln7314), called the "Housing DPL" in this report, which had two objectives, namely to strengthen the environment for a well-functioning housing market with the emergence of market-based solutions to the country's housing needs, and to increase the access of low-income and severely disadvantaged households to more affordable and higher quality housing; and (iii) the Morocco: Poverty and Social Impact Assessment (PSIA) of the Slum Upgrading Program, called the "Slum Upgrading PSIA" in this report, that aimed to contribute to the ongoing policy debate, in order to improve and refine the instruments and operational modalities of the *Villes sans Bidonvilles* (VSB) slum upgrading program during the implementation of the Housing DPL.

1.4 The housing reform story told in the main PPAR report is about how these three operations contributed to housing sector reform. The performance of each operation is assessed in separate annexes to the PPAR, following IEG's standard evaluation methodology. Favorable macro conditions during 2003-2008 may have affected the results obtained.

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<sup>1</sup> Tunisia, the Maghreb country that has made most progress in housing sector reform having eliminated most slums and housed its population adequately (Baharoglu 2005 p. vii) is not covered by this PPAR, since there is no recently completed housing project in that country currently under review by IEG.

## BUOYANT MACRO CONDITIONS FAVORING HOUSING SECTOR REFORM

1.5 Helping housing sector reform the 2003-2008 period was the strong economic growth in both Algeria and Morocco (Table 1.1), significantly exceeding the projections of the respective country assistance strategies (CAS).<sup>2</sup> GDP per capita at the end of the period was considerably higher than at the beginning—double in the case of Algeria. Inflation remained low and unemployment declined. The data available show nominal deposit and lending rates interest were apt for affordable long-term mortgage financing. But real deposit interest rates (nominal rates *minus* inflation) became negative in recent years in Algeria, a disincentive to saving for housing—or for anything else. The biggest difference between the two countries is seen in the trade balance. A growing surplus in hydrocarbon-exporting Algeria no doubt stifled the country's demand for external finance. Morocco headed in the opposite direction, where increasing deficits fuelled a greater interest in it. This difference helps explain Algeria's lesser involvement in World Bank funding and Morocco's greater involvement.

**TABLE 1.1 STRONG MACRO-CONDITIONS DURING IMPLEMENTATION**

<b>Algeria</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
GDP growth (annual %)	6.9	5.2	5.1	2.0	3.0	3.0
GDP per capita (current US\$)	2,133	2,627	3,115	3,492	3,967	5,060
Official exchange rate (Dinars/US\$, annual average)	77.4	72.1	73.3	72.6	69.3	64.6
Inflation, consumer prices (annual %)	2.6	3.6	1.6	2.5	3.5	4.4
Nominal deposit interest rate (annual %)	5.2	3.6	1.9	1.8	1.8	1.8
Nominal lending interest rate (annual %)	8.1	8.0	8.0	8.0	8.0	8.0
Unemployment, total (% of total labor force)	23.7	17.7	15.3	12.3	Na	Na
External balance on goods and services (% of GDP)	14.4	14.4	23.4	27.3	23.6	34.6
<b>Morocco</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
GDP growth (annual %)	6.3	4.8	3.0	7.8	2.7	5.8
GDP per capita (current US\$)	1,688	1,909	1,975	2,152	2,434	2,764
Official exchange rate (Dirhams/US\$, annual average)	9.6	8.9	8.9	8.8	8.2	7.8
Inflation, consumer prices (annual %)	1.2	1.5	1.0	3.3	2.0	3.8
Nominal deposit interest rate (annual %)	3.8	3.6	3.5	3.7	2.7	3.9
Nominal lending interest rate (annual %)	12.6	11.5	na	na	na	na
Unemployment, total (% of total labor force)	11.9	10.8	11.0	9.7	10.0	Na
External balance on goods and services (% of GDP)	-2.8	-5.0	-5.6	-5.5	-9.1	-9.4

Source: World Development Indicators

1.6 Other country factors (not shown in Table 1.1) need to be considered while reviewing housing reform. Algeria's economy is twice as large as Morocco's—US\$174 billion GDP in 2008, versus US\$86 billion in Morocco. Both countries have similar populations, 34 million

<sup>2</sup> In Algeria, actual GDP growth in 2003, 2004 and 2005 of 6.9%, 5.2% and 5.1% was nearly twice the CAS projections of 3.4%, 3.3% and 3.1% respectively. For Morocco, actual GDP growth in 2005, 2006, 2007 and 2008 was generally higher than the respective CAS projections of 3.0%, 3.8%, 4.0% and 4.0%.

in Algeria, against 31 million in Morocco. Algeria has more of its population living in cities; 65 percent of the total against Morocco's 56 percent. Algeria's urban population growth at 2.5 percent per annum is somewhat faster than Morocco's 1.8 percent per annum.

## HOUSING SECTOR CHALLENGES TO HOUSING SECTOR REFORM

1.7 Although presently at different stages, both Algeria and Morocco are both pursuing housing sector reform to deal with the housing challenges that each one, like most developing countries, faces. In both countries, the public sector still takes the lead in housing reform.<sup>3</sup> This is particularly true in Algeria where state-owned banks still hold 93 percent of all deposits and make nearly all mortgage loans, more than 60 percent of which are on the balance sheet of one state-owned bank, the *Caisse Nationale d'Épargne de Prévoyance* – (CNEP), the national saving and providence fund.

1.8 Overcrowding is a major housing problem in Algeria, a country with one of the highest occupancy rates of dwellings in the world, and where, in 2005, 20 percent of housing units were estimated to be in poor condition or lacking some basic urban services (EIU 2008a p. 42). UN Habitat estimates that 6.4 percent of the Algerian population lives in slums, one of which in Algiers, Diar Echams, erupted into rioting at the time of the IEG mission there.<sup>4</sup> According to the Bank, slums such as this are not simply the result of poverty in relatively high-income Algeria. They have more to do with the lack of financial instruments to purchase the few expensive houses available (Mortgage TA Project PAD p. x). The apparently close match between Algeria's 5.8 million households and its total housing stock of 5.9 million dwellings hides the country's housing problems. Some higher income households have more than one dwelling while lower income households may have to share single dwellings in overcrowded conditions. Also many housing units are left empty. A recent local press report indicates that, because of disputes over who is entitled to occupy them, some 400,000 housing units—equivalent to 6.7 percent of the country's total housing stock—remain unoccupied in the capital Algiers alone.<sup>5</sup>

1.9 Slums, called *bidonvilles* in French, have been widespread in Morocco too, and represent a major challenge to housing sector reform. They consist of often badly constructed units that illegally occupy poorly serviced land in central and peripheral areas of the country's cities, the largest ones especially. Nearly 300,000 households in Morocco lived in slums in 2003, 4.8 percent of the population. In addition, a further 400,000 lived in legal, but otherwise poorly built or serviced housing, making for a total deficit of 700,000 units—15-20 percent of the housing stock (Benjelloun 2003). A striking counterpoint to this is the estimated 800,000 housing units that remained unoccupied in 2004 (Bigio 2008 op. 12). Slum upgrading and redevelopment efforts at the level of individual cities, supported by the Bank in the past, have been underway since the 1970s. At the national level a major program *Villes sans Bidonvilles* (VSB), cities without slums, was launched in 2004. The fact that

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<sup>3</sup> The International Monetary Fund recently recognized that, as a whole, the private sector in Algeria cannot yet drive economic growth.

<sup>4</sup> Riots on a larger scale occurred in 1988 in protest against poor housing conditions in Algiers and other cities.

<sup>5</sup> « *El Watan: le quotidien indépendant* » le neuf novembre 2009.

perpetrators of the 2003 Casablanca bomb attacks came from the Morocco's slums made the national program appear more urgent. This VSB Program is reviewed in detail in this PPAR.

1.10 *Bidonvilles* have several causes. On the demand side, one is poverty that currently affects 17.5 percent of the population in Morocco. The equivalent poverty figure for Algeria is not available, one example of the lack of readily available data there, a problem noted by others.<sup>6</sup> Poor households, and even those with moderate incomes, cannot afford housing that is particularly expensive in Algeria and Morocco. Even so-called “low-cost housing” is not affordable by the lowest five deciles of the urban population in Morocco (Bigio 2008. p. 8). Settling in illegally occupied *bidonvilles* even if it means foregoing some basic urban services is, the only housing option for many families. The house-price—household-income ratio, a widely used measure of affordability, was 8.1-1 in Algeria in 2002 and 9.2-1 in Morocco in 1998. This was nearly twice the 5.1-1 ratio of Tunisia, a Maghreb where housing supply and demand are more in sync (Baharoglu 2005 p. 63; and Bellal 2009). This ratio was also much higher than Spain's 5.5-1 at the height of that country's real estate bubble in 2006 (Kim 2008 p. 16).

1.11 Housing supply-side constraints are another major cause of *bidonvilles*. Inadequate urban planning, tight land use zoning and high building standards, usually imposed by municipal authorities, have prevented the adequate supply and availability of urban land for housing development.<sup>7</sup> Laws and regulations favoring tenants, such as those that support rent controls, discourage private investment in rental housing that might accommodate some households now living in slums. In Algeria a buoyant private sector developer/constructor industry has yet to develop on a large scale. Until very recently there, the government itself was the main builder. While output has increased from just 20,000 dwellings per annum in 1997<sup>8</sup> under the government production system to some 175,000 per annum over the past decade,<sup>9</sup> it is insufficient to reduce Algeria's housing deficit in a country with a rapidly growing population (Bellal 2009 p. 100). Private developers and builders have been active for longer in Morocco. But to further alleviate supply-side constraints, the Government of Morocco (GOM) found it necessary to drive reform through rationalizing and consolidating public sector involvement in the supply chain by the creation of the *Al Omrane* holding company to implement publicly funded housing (and urban development) programs. *Al Omrane* has helped ease the housing supply in Morocco, as later discussed in this PPAR.

1.12 The lack of housing finance was considered by the operations reviewed here as an impediment to a housing supply in need of reform. These operations therefore supported

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<sup>6</sup> “The availability of detailed statistical data and indicators on housing are an essential prerequisite to an analysis of the housing and situation and policies. However, such data on the housing stock and the condition of such stock are generally difficult to obtain in the country” (Bellal 2009 p. 97)

<sup>7</sup> IEG's recent special study of municipal management found urban planning in particular to be neglected among Bank assistance to municipalities (IEG 2009).

<sup>8</sup> The Government of Algeria (GOA) still produces “social housing” directly under highly subsidized terms to beneficiaries who have to pay only 10 percent of the below-market price up-front. GOA pays 50 percent, while the remaining 40 percent is financed through a below-market interest loan from a state bank.

<sup>9</sup> During its field visit to Oran, the IEG mission visited a large housing site being built by a Chinese construction firm financed by an Algerian state bank.

strengthening housing finance mechanisms and markets. The Mortgage TA Project supported long term mortgage loans for housing purchase that had begun in Algeria only in the late 1990s. They had been first introduced in Morocco in the early 1980s (Baharoglu 2005 p. 17). Mortgage lending, almost exclusively through state-owned banks, is still small scale in Algeria, where outstanding mortgage debt is equivalent to less than 1.5 percent of GDP<sup>10</sup>—against 7 percent in Morocco and 12 percent in Mexico.<sup>11</sup> Many borrowers may be keen to take mortgage loans with subsidized interest as low as 7 percent per annum, but banks can be reluctant to make such loans. Banks report that they face ambiguous foreclosure regulations. There is also the Islamic financing precept of *forbearance*—that requires easing debt repayments if a borrower gets into difficulties.<sup>12</sup> Factors such as these may help explain the little overall financial depth in the Algerian economy, where outstanding credit is equivalent to only 22 percent of GDP, compared with Morocco’s 60 percent. In the 1980s, mortgage finance in Morocco was as narrow as Algeria’s is today, when it was concentrated in one GOM-owned bank, the *Crédit Immobilier et Hôtelier* (CIH), the country’s real estate and hotel finance bank (as it is today in Algeria’s CNEP). Morocco’s broader housing financial market resulted from greater participation by private banks, made possible by legislation and regulations enacted in the late 1980s. A lack of housing finance can be a constraint upon housing demand as appears to have been the case in Algeria. On the other hand, rapidly expanding housing finance without a corresponding real housing supply response can raise property prices rapidly, as happened in Morocco. From these experiences, it is clear that housing sector reform cannot concentrate on one side only. It has to carefully calibrate both the real and financial sides of the housing market.

### **BANK ASSISTANCE TO THESE COUNTRIES’ HOUSING SECTORS**

1.13 Bank support to Algeria across all sectors over the past decade has been through a relatively small lending program with total commitments of US\$353 million. The Bank has financed projects in the housing and urban development sectors since 1992, starting with the approval of the Algeria: Cadastre Project (Ln3488) whose aim was to assist GOA in establishing a land registration system, the achievement of which was rated moderately satisfactory by IEG. In 1993, the Bank approved the Algeria: Housing Completion Project (Ln3561) that aimed to trigger a quick housing response by completing an unfinished stock of social housing and to assist GOA create an adequate policy and institutional framework for housing. IEG rated the outcome moderately satisfactory. This was followed in 1998 by the Algeria: Low-Income Housing Project (Ln4361) whose aim was to improve the living conditions of slum dwellers by providing them with affordable housing. Its outcome was rated unsatisfactory by IEG because of shortfalls of targeted deliveries and the higher income families benefited than intended.

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<sup>10</sup> OECD 2007

<sup>11</sup> In spite of this, the Government of Algeria (GOA) continues to recognize the exceptional importance of mortgage lending. Mortgage loans for house purchase were, for instance the only ones exempted from a general GOA ban on consumer lending in July 2009 as part of its credit squeeze.

<sup>12</sup> Presentation given by Dr. Sami Al-Suwailem of the Islamic Development Bank to IEG on “Introduction to Islamic Finance” November 2009.

1.14 The Bank has been more active in Morocco over the past decade through a total of US\$1.5 billion of lending commitments to all sectors. The lending program included an active portfolio of housing and urban development projects for a longer period than Algeria's, with operations that are directly relevant to the sector reform issues reviewed by this PPAR. It started with the 1978 Rabat Urban Development Project (Ln1528), one of the Bank's first urban development projects worldwide, whose objective was to pioneer innovative solutions to urban planning and development, including slum upgrading, a top sector issue today. Its outcome was rated satisfactory by IEG. A similar project in 1981, the Morocco: Second Urban Development Project (Ln 1944) had similar aims, but for different cities, namely Kenitra and Meknes. It too was rated satisfactory by IEG. Shifting attention to housing finance, the 1983 Morocco: First Housing Loan to *Crédit Immobilier et Hôtelier* – CIH (Ln2245) aimed to (i) encourage private and public developers to produce low-cost housing schemes affordable to income groups in the lower half of the urban income distribution, and (ii) develop CIH's ability to appraise low-cost housing schemes and advise private and public developers on all aspects of low-cost housing design. It was also rated satisfactory by IEG.

1.15 Prior Bank assistance to Algeria and Morocco in these sectors was primarily through specific investment loans (SILs). The assistance presently under review by this PPAR used different instrumentation for each operation, ranging from a SIL to a DPL as lending operations, to a PSIA as a non-lending activity. It is to how these different operations raised major housing sector reform themes that the PPAR now turns.

## 2. Algeria: Seeding Housing Sector Reform

### INTRODUCTION

2.1 The Mortgage TA Project was a small-scale investment project of US\$8.2 million to be partly financed by a Bank loan of US\$5.5 million. It aimed to help the mortgage loan market function better by providing technical assistance and training to housing sector agencies, banks and their staff responsible for processing them (Table 2.1). This aim was relevant to the 2003 CAS that paid a lot of attention to the housing sector and called for overcoming Algeria's economic and social bottlenecks caused by the country's inadequate housing.<sup>13</sup> The Mortgage TA Project was in sync with Algeria's plans to reform its housing sector.

2.2 This small operation's almost exclusive focus upon the supply side of mortgage financing dimension of housing reform was realistic. It could not address demand constraints—households too poor to buy a house or households reluctant to take a mortgage loan not to offend the Islamic precept against *riba*, or usury, for instance.<sup>14</sup> Nor could it

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<sup>13</sup> A keyword search of the 2003 CAS found the term “housing” mentioned 86 times—probably a record high number of references for this kind of document.

<sup>14</sup> Another reason for hesitant demand for mortgage loans with interest rates in the 7-12 percent range could be borrowers hoping for even cheaper loans, such as those reported in the local press during IEG's mission to Algeria. In one report, CNEP was to receive an additional DZD400 billion (US\$5.5 billion, equivalent to 4.1



tackle real supply side constraints, particularly in housing production and also regulation that result in shortages. Thus, this small operation tried to plant some seeds of housing sector reform through boosting mortgage lending by training bankers to grant more, and by reducing lending risks by trying to make property title registration more trustworthy.

<b>TABLE 2.1 ALGERIA MORTGAGE TA PROJECT (P064983) 2000-2007</b>	
<b>Project Development Objectives (PDOs)</b>	<b>Project Components</b>
<p>- as formulated in the PAD: To help strengthen the enabling environment for a well-functioning mortgage loan market. (PAD p.3)</p> <p>- as formulated in the Loan Agreement: To support the efforts being made by the Borrower to promote, in the housing sector, the enabling environment for the development of the mortgage loan market.</p>	<p>1. Legal and Land Titling Components (appraisal cost US\$2.1m.; actual cost US\$3.1m.) - (i) legal reform of property rights and mortgages; (ii) efficient computerized procedures for issuing property titles acceptable to mortgage lenders; (iii) training of legal professional and land administrative staff.</p> <p>2. Strategic Assistance (appraisal cost US\$2.0m.; actual cost US\$2.0 million) - (i) training of bank managers; (ii) specific advisory assistance; (iii) credit information system.</p> <p>3. Mortgage Loan Operational Training (appraisal cost US\$4.0m.; actual cost US\$3.5 million) - providing professional training in all areas of mortgage financing for bank staff.</p> <p>4. Project Management (appraisal cost: US\$0.1m.; actual cost US\$0.3m.) - the recurrent costs of project oversight and supervision.</p>
<p>Sources: Project Appraisal Document (PAD), Loan Agreement. Dec 21, 2006 Aide Memoire. Note: Actual project and component costs were not reported by the ICR. The actual cost data assembled here by the PPAR is taken from total commitments for each component reported by the last project supervision aide memoire (Dec 21, 2006). Since at that time, fully 90 percent of these commitments had already been paid, the commitments themselves provide a close approximation of the actual resources spent on this project. Total project (base) costs estimated at appraisal were US\$8.2 million. Total actual costs were US\$9.4 million. A Bank Loan of US\$5.5 million was approved at appraisal. At completion US\$5.1 million had been disbursed after which the outstanding US\$0.4 million was cancelled.</p>	

2.3 The overall results of this project, assessed within a more detailed results framework in Annex A, were positive, but with some shortcomings. Bankers and many staff of Algeria's state-owned banks were trained, but the hoped-for additional mortgage lending did not take off. In the words of one banker in Algiers, there were simply too few new housing projects to finance. But thanks to the project, title registration expanded to cover the whole country for the first time, and new legislation helped standardize registration procedures made more agile through computerization. Details of the actual results are scarce, part of the widespread lack of readily available data on the housing sector in Algeria.

2.4 Seeding the start-up of reform and laying the foundation for an enabling environment was the most that a small project like this could be expected to do in a housing sector that, until recently, was built around a completely different model; the direct production of highly subsidized housing to selected beneficiaries by the Government. Bank involvement in Algeria itself has been constrained until recently because of the nation's civil strife in the

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percent of GDP) GOA line of credit for housing finance. It would include mortgages at one percent interest per annum to finance the purchase of social housing units. « *Le Maghreb : Le Quotidien de l'Économie* » le 19 octobre 2009 ; and « *Le Quotidien d'Oran* » le 20 octobre 2009. Such a below-market interest rate is not consistent with building a well-functioning mortgage market that the Mortgage TA Project sought to enable.

1990s. Despite these constraints, the Mortgage TA Project experience helped plant two seeds of housing sector reform, one in mortgage lending and the other in property title registration, two performance themes that are reviewed in detail below (Annex A. covers other aspects of project performance).

### **TRYING TO MAKE MORTGAGE LENDING GROW**

2.5 The decision to support training of bankers and staff in mortgage loan origination and processing was a good one. Algeria's banks, most still state-owned, had little prior experience in this area. For mortgage lending to take off in the country, banking staff would have to be able and proficient to originate and process the loans. But qualified and experienced staff and managers are a necessary, but not sufficient condition for mortgage lending to take off. There also have to be houses to buy whose purchase needs financing. These remain in short supply, as already noted. Not explicitly addressing that question, the Mortgage TA Project chose as its largest component an intensive three-week program to train many bank staff in mortgage origination and processing. The training was designed and conducted by a Canadian consultant firm, who trained 1,580 bank staff altogether, somewhat short of the 2,000 target set. The lack of readily available baseline data means that we don't know how many trained staff the banks already had and, therefore, the increase achieved. Why a 2,000 target is not clear, in the absence of a detailed needs assessment.

2.6 Training on this large scale was made feasible through the collaboration of a renowned Algerian training institute, the *École Supérieure de Banque*, with the excellent



*1. New housing in Oran financed by CNEP Mortgages*

*Photo courtesy of Roy Gilbert*

infrastructure of its training center. Thanks to the Mortgage TA Project, the *École* even expanded its reach abroad through establishing a global distance-learning center. The training was open to all banks (mostly state-owned). The main beneficiary was CNEP, the state-owned bank established in 1964 that is still responsible for more than 60 percent of all mortgage loans made in Algeria (Beltas 2008).

2.7 A twin-track approach to the training, focused upon bank managers as well as bank staff, was a strong feature of its design. In addition to training the originators and processors of mortgage loans, the Mortgage TA Project also trained senior managers of commercial banks. The managers' training covered questions such as the strategic importance of mortgage lending in their banks' overall operations. The managers' training was completed over a period of 30 days, half spent in Canada and the other half in Algeria. The idea was to ensure that these senior managers would give the importance due to the potential new line of business and support their newly trained staff in it. The managers who participated in the training whom IEG met reported that the quality of the training was excellent, both for themselves and for their teams. According to their feedback to IEG, the training also gave them a better understanding of what their teams had to do and to enable them to better mentor and coach their staff.

2.8 In Algeria's second largest city Oran, the IEG mission met, as a group, with most of the CNEP staff trained there through the project. They expressed strong appreciation of the training received, the professionalism of its delivery and the way it strengthened their professional skills and, maybe, enhanced their career prospects. Most trainees were impressed by the intensity and thoroughness of the training program itself and its relevance to the new tasks they faced. The training went beyond the standard treatment of the legal framework and administrative and technical mechanisms of mortgage loan processing. It covered, for instance, how a bank should treat potential mortgage loan clients, especially the majority who would likely be unfamiliar with the instrument. More broadly, it also explained how the market for mortgage lending should be assessed. Aspects central to mortgage lending, such as confirming that a property title had been verified and that a property value had been appraised, as well as assessing the risks to borrower and lender, were fully covered.

2.9 While the training itself was successful, an important evaluation question remains. Did it contribute to a well-functioning mortgage market, as the project intended? Probably not. Subject to the data availability problems already mentioned, there is little evidence to show a significant expansion in mortgage lending itself in Algeria, to which the skills acquired through the training could apply. In 2007, the latest year for which data was available to IEG, only 22,900 new mortgage loans were issued, short of the 35,000 targeted. Even though well above the baseline of 14,000 in 2002, these are still at very low levels vis à vis the potential (and needs) of the housing market in Algeria. The limited supply and the high cost of housing units are probably the main reasons behind the lack of take up of mortgage lending in Algeria. Perhaps the project trained more bank staff than needed, given the likely low level of demand for their newly acquired skills in the local market. If newly trained staff alone were responsible for processing all these new loans, it would be at the rate of slightly more than one loan per trainee per month, not an intense utilization of these skills.

## TRUSTWORTHY PROPERTY TITLE REGISTRATION TO ENCOURAGE LENDING

2.10 The project's attention to land ownership and title was on target. Having a reliable property titling and registration is a necessary condition for a mortgage loan market to function in any country. Lenders need to be sure that a seller truly owns the property for sale, and that a prospective borrower will indeed be the owner of the house being financed. They also need to be confident that the mortgage lien can be executed in case of borrower default on loan repayments. The Bank had provided moderately successful assistance to Algeria before in the related area of property mapping through the moderately satisfactory 1992 Algeria: Cadastre Project (Ln3488). According to the evaluation at the time, it would have been more successful if it had enabled the GOA agencies involved, the National Cadastre Agency, the Ministry of Justice and the Ministry of Agriculture, to work better together. Learning from that experience, the Mortgage TA Project reviewed here tried to correct that by working directly with the *Agence de Conservation Foncière*, GOA's property titling agency now housed within the Ministry of Finance. The Mortgage TA Project thus offered GOA and the Bank a second bite at the issue of property mapping and title registration.

2.11 Through technical assistance to the *Agence*, the project helped simplify what had been unduly complex and uncertain procedures of property registration in Algeria. Prior to the Mortgage TA Project, property registration could only proceed only in geographical areas that had already been fully covered by the updated cadastre. Since the cadastre itself was not complete, this rule prevented final property registration in many rural areas especially. The rule was waived under the Mortgage TA Project, allowing registration to proceed even in those areas. Project technical assistance also helped draft the 2007 Law 07/02 that introduced a simpler procedure for registering private property rights in urban areas. It also made property titling obligatory after any real estate transaction. Prior to this law property could change hands legally through legally-binding sales contracts, but without the need for formal registration of the transaction, leaving no public record of it. The possible existence of such unregistered deals made banks wary of who was truly the owner of any particular property, and therefore, reluctant to lend.

2.12 The computerization of property registration procedures introduced by the Mortgage TA Project helped speed property title registration and make it more accurate. Lack of familiarity in Algeria with Bank procurement procedures delayed the contracting of these services somewhat, but Bank experience in this area enabled it to help the project eventually find and hire the right consultant. His main contribution, according to officials in Algiers, was to help the *Agence de Conservation Foncière* make better use of the Internet for property registration purposes. This more than anything gave Algeria a nationwide property registration system for the first time. The new systems allowed data input from any urban center, and in turn making it available nationwide to interested parties. These would range from housing program administrators wanting to know if potential beneficiaries had other properties, to mortgage lenders who wanted to be sure that ownership rights for a property to be financed would not be contested.

## **A REFORM STEP TOO FAR?**

2.13 Beyond the basic strengthening of Algeria's *primary* mortgage market, the Mortgage TA Project tried, with little success, to go further. It tried to extend the use of mortgage guarantees, mortgage refinancing and even underwriting mortgages for securitization. Such moves imply establishing a *secondary* mortgage market in Algeria, a premature move while the *primary* market itself was so little developed.

2.14 Nevertheless, the project provided some technical assistance on loan guarantee procedures to the *Société de Garantie du Crédit Immobilier* (SGCI), GOA's real estate credit guarantee company, an agency formally established in 1997, but only active in recent years. To guarantee individual mortgage loans, its main job, SGCI signs an umbrella agreement with a lending bank. To date, only two such agreements have been signed, notably not with CNEP, Algeria's biggest mortgage lender. This has meant relatively small SGCI operations, guaranteeing just 6,929 new loans in 2008—one quarter of all loans made that year—in an amount of DZD11.1 billion (US\$171 million). From its inception until end-September 2009, SGCI has guaranteed 16,308 loans in an amount of DZD27.4 billion (US\$391 million). It would have probably done more had its performance not been for its own financial crisis in 2004, when two large banks defaulted on their debt held by SGCI. It was not clear if the default was related to mortgage guarantees or not. SGCI is now back in business, but its guarantees still play only a small role in what is a small market, where most lending still takes place without SGCI guarantees.

2.15 The *Société de Refinancement Hypothécaire* (SRH), GOA's mortgage refinancing company, was also slated for support by the Mortgage TA Project. SRH was set up in 1997 and is well-funded to refinance mortgage loans, to underwrite and securitize them. The procedures are in place and well thought out, but the demand for refinancing appears to have been only on a very small scale. Securitization has not taken off. Some bank staff told IEG that they felt that mortgage refinancing and securitization were not yet needed in Algeria, given the embryonic state of the primary mortgage market. The market was less ready for the reform than the Mortgage TA Project was.

## **REFORM RESULTS IN ALGERIA**

2.16 Some necessary seeds for housing sector reform were planted in Algeria by the Mortgage TA Project, in particular making banks more able to originate and process mortgage loans and providing a broader and more trustworthy system of property titling and registration. But these are only necessary and not sufficient conditions for starting housing sector reform. Housing supply constraints remain very tight; hence the banker's comment to IEG that there are no houses to finance. With Algeria's primary mortgage market still so shallow, the prospects of developing a secondary market through refinancing and securitization, as the Mortgage TA Project's intended, remain far away. Nevertheless, planting the seeds was a worthwhile effort. We still await evidence, hopefully with more supporting data, that they have germinated.

### 3. Morocco: Sustaining Housing Sector Reform

#### INTRODUCTION

3.1 Operational performance themes of housing sector reforms that arose from two Bank-supported instruments are reviewed here. The first instrument is the Morocco: Housing Sector Development Policy Loan (Ln7314-MA). Called the “Housing DPL” in this report, it was financed by a US\$150 million equivalent Bank loan over the 2005-2008 period. It aimed to strengthen the framework of Morocco’s housing market and provide better access to it for low-income households (Table 3.1). The Housing DPL was driven, in part, by the 2005 CAS strategic pillar of increasing the access by the poor to basic services including housing (details in Annex B).

<b>TABLE 3.1 MOROCCO HOUSING SECTOR DEVELOPMENT POLICY LOAN (P083746) 2005-2008</b>	
<b>Project Development Objectives (PDOs)<sup>a</sup></b>	<b>Summary of Key Prior Actions (details in Policy Matrix in Annex B)<sup>b</sup></b>
(i) to strengthen the institutional, regulatory and fiscal environment for a well-functioning housing market and for the emergence of market-based solutions to the country’s housing sector constraints and needs	<ul style="list-style-type: none"> <li>- simplify norms for social housing site planning.</li> <li>- streamline public urban land provision</li> <li>- simplify land development approvals</li> <li>- new urban planning code</li> <li>- restructure and consolidate <i>Al Omrane</i></li> <li>- termination of interest rate subsidies on mortgage loans</li> </ul>
(ii) to increase the access of low-income and severely disadvantaged households to more affordable and higher quality housing	<ul style="list-style-type: none"> <li>- implement the <i>Villes sans Bidonvilles</i> program</li> <li>- release of large tracts of public land for urban development</li> <li>- amendments to rental housing legislation</li> <li>- establishment of guarantee fund for informal sector</li> <li>- establishment of housing savings schemes</li> </ul>
<p>Sources: <sup>a</sup> <i>Housing DPL Program Document (p.16)</i>; <sup>b</sup> <i>Annex B of this report, itself taken from Program Document.</i></p> <p>Note: A 116.1 million Euro Loan (US\$150 million equivalent) was approved in June 2005. It was disbursed in two tranches as planned: 69.7 million Euros in August 2005 and 45.9 million Euros in June 2008.</p>	

3.2 Since this DPL was expected to have a significant poverty impact, Bank policy required that it be accompanied by an analysis of the likely distributional effects of such an impact. This analysis took the form of the second instrument reviewed here, the Morocco: National Slum Upgrading Poverty and Social Impact Analysis (PSIA), called the “Slum Upgrading PSIA” in this report (Table 3.2). It was a piece of Bank Analytical and Advisory Activities (AAA) work that, including a field survey of six slums in Morocco, cost US\$63,000 to prepare. It was issued in June 2006 one year after the Housing DPL was made effective. It provided the government of Morocco (GOM) with additional advice on implementing the Housing DPL itself and the *Villes sans Bidonvilles (VSB)*, cities without slums program that it supported.

3.3 Using IEG’s results framework, the performance assessment of the Housing DPL (details in Annex B) point to reasonably good outcomes. By focusing upon the institutional

<b>TABLE 3.2 MOROCCO NATIONAL SLUM UPGRADING POVERTY AND SOCIAL IMPACT ANALYSIS (PSIA)</b>	
<b>Aims of this Slum Upgrading PSIA</b>	<b>Content of the Slum Upgrading PSIA</b>
<p>To assess the expected poverty alleviation and social impacts of some of the reforms supported by the Housing DPL.</p> <p>To bring insights to the social dynamics of neighborhoods targeted for slum upgrading.</p> <p>To contribute to the ongoing policy debate.</p> <p>To improve and refine the instruments and operational modalities of the slum upgrading program (VSB)</p>	<p>I. Morocco's Housing Sector Reform; including: (i) Housing Sector Reforms and World Bank Support; (ii) The National Slum Upgrading Program; (iii) Improving Access to Housing Finance.</p> <p>II. The Poverty and Social Impact Analysis; including: (i) Objectives and methodology of the Study; (ii) Stakeholder Analysis of "<i>Villes sans Bidonvilles</i>"; (iii) Profiles, problems and expectations of the slum population; (iv) Benefits and adverse impacts analysis.</p> <p>III. Policy Lessons; including: Limitations and risks of the current program design; (ii) Relevant international policy lessons; (iii) policy recommendations.</p> <p>Annex 1. Profiles of the six slum settlements surveyed.</p> <p>Annex 2. Excerpt from interviews with slum dwellers.</p>
<b>Purpose of a PSIA generally</b>	
<p>To analyze the distributional impacts of policy reforms (supported by a DPL) on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable</p>	
<p><i>Source: Morocco National Slum Upgrading Poverty and Social Impact Analysis (PSIA) Report 2006</i></p>	

consolidation of *Al Omrane*, as GOM's main urban and housing developer (details later in this section), the Housing DPL helped strengthen the institutional framework for a well-functioning housing market, as the operation intended. Through its support to Morocco's flagship slum upgrading program *Villes sans Bidonvilles*, or cities without slums, the Housing DPL helped many low-income households gain access to better housing, even if in smaller numbers than expected. The detailed assessment of the Slum Upgrading PSIA (Annex C) concludes that the PSIA contributed significantly toward helping keep VSB on the housing sector reform track. These assessments underline the important contribution these operations made to consolidating institutions and boosting slum upgrading. The remainder of this chapter turns to assessing these two themes, and the operations' contribution, via them, to housing sector reform in Morocco.

### **INSTITUTIONAL CONSOLIDATION TO SUSTAIN HOUSING REFORM – AL OMRANE**

3.4 The erstwhile complex and poorly articulated institutional framework of housing and urban development in Morocco had been in need of change. It included the ten separate agencies of the state often acting as if they were in competition with each other. The *Al Omrane Holding Company* newly created in 2004, consolidated and replaced them all. Seven were *Établissements Régionaux d'Aménagement de Construction* (ERACs), state construction corporations set up in the 1970s for all the main regions of the country. They often found themselves scrambling for the same GOM central funds and programs. *Al Omrane* also absorbed the *Agence Nationale de Lutte contre l'Habitat Insalubre* (ANHI), the National Agency for the Struggle against Inadequate Housing that had been GOM's principal slum upgrading agency since 1984. This meant that *Al Omrane* took on what would have been ANHI's role in GOM's huge VSB slum upgrading program. In addition, *Al Omrane*



incorporated the *Société Nationale d'Équipement et de Construction* (SNEC), the national infrastructure and construction corporation. Finally, *Al Omrane* incorporated a special GOM agency for housing and construction in Casablanca, called *Attacharouk*. Designed and driven by GOM itself, the creation of *Al Omrane* was radical public sector consolidation on a large scale. It gained Bank support when the Housing DPL identified key aspects of the *Al Omrane* consolidation as key prior actions that it supported.

3.5 Together, the ten agencies had anchored Morocco's institutional framework for housing and urban development for decades. Their multiplicity had often led Bank supervision reports to remark upon how many agencies had to be involved in relatively minor decisions affecting housing and urban development project implementation in any one city.



2. One of the few remaining bidonvilles in Meknes

Photo courtesy of Roy Gilbert

The *Al Omrane Holding* consolidation completely transformed the sector's institutional landscape. It avoided duplication and zero-sum competition among regional and sectoral agencies. It provided economies of scale for implementing large-scale programs like VSB. It also offered national and international sector interlocutors a one-stop shop for exchanges of sectoral experiences and knowledge. On top of that, it was a significant achievement in that it overcame vested interests that had become entrenched in some of the older agencies.

3.6 Thus housing sector reform in Morocco was given a big boost in 2004 when the GOM consolidated the ten existing sector agencies into a single holding group called *Al Omrane*, whose name means *building enterprise* in Arabic.<sup>15</sup> Currently reporting US\$1.7 billion in assets, *Al Omrane* has resulted from one of the most significant public sector

<sup>15</sup> The full official title of the company in French is: *Holdings d'Aménagement Al Omrane*.



consolidations in recent Moroccan history.<sup>16</sup> During its field visits to Sale and Meknes, the IEG mission found *Al Omrane* up and running in those cities, and well on its way toward overcoming many of problems of the erstwhile multi-agency arrangement.

3.7 *Al Omrane* and the Housing DPL were closely tied together. The Housing DPL recognized that *Al Omrane* could “eliminate overlaps and redundancies among their missions, mandates and territorial coverage, consolidate their financial and human resources, and eliminate outstanding deficits” (PD p.13). Furthermore, the Housing DPL made the creation of a new Supervisory Board for *Al Omrane* a condition for disbursement of the first tranche of the Loan. The idea was to ensure that *Al Omrane*, as a newly created and potentially very powerful GOM agency, should be subject to rigorous oversight by a strong and independent controlling authority. GOM duly established an inter-ministerial advisory committee empowered by having the country’s Prime Minister as Chair—more than meeting the DPL condition.

3.8 The Housing DPL also had a second tranche condition for *Al Omrane*, requiring that *Al Omrane* complete the restructuring of the former housing agencies, “according to criteria of efficiency, professionalism, market responsiveness and financial viability” (PD p. 22). Exactly how to meet these conditions and fulfill the criteria for success were not clearly spelled out, nor was IEG able to find out exactly what they were. What became evident from IEG mission visits to *Al Omrane* offices in Sale and Meknes, though—both housed in former ERAC offices—was that former ANHI and ERAC employees had fully transitioned to become *Al Omrane* staff. They told IEG that adapting to a new *Al Omrane* corporate culture had been easy. Minimizing redundancies and ensuring that new working conditions, especially salary, were at least as good as the old ones, were important factors in this successful assimilation. Getting *Al Omrane* up and running could not have been an easy task. In the corporate world it could be likened to a major merger and acquisition, consolidation and ongoing restructuring all taking place in parallel over a five-year period.

3.9 Although major redundancies were not necessary because of *Al Omrane*’s growing workload, staff were not all in the right geographical locations after the consolidation. *Al Omrane* was especially overstaffed at the center in Rabat, and there were too few cadres in the regional offices across the country. But *Al Omrane* officials informed IEG that staffing was decentralized without major problems, although detailed data on scale and timing of the staff movements was not made available to IEG. Some *Al Omrane* staff in the city of Meknes who had been transferred from elsewhere told the IEG mission that they had few complaints about their move or about their current situation. Morale seemed high, driven by the greater responsibilities for each staff member that came with *Al Omrane*’s expanding activities.

3.10 At this writing, *Al Omrane* has become *the* major GOM player in Morocco’s housing and urban development sector. It is the principal implementing agency of the flagship VSB

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<sup>16</sup> The holding company model has been used in Morocco in other sectors, public and private. Some 16 holding companies are currently listed on Morocco’s Stock Exchange. The holding arrangement is where one (umbrella) company holds the stock of another (or others), exercising shareholder and executive control over it. This model is widely used in the United States, an example being the UAL Corporation that wholly owns United Airlines. Being state-owned, *Al Omrane* is not among the 16 listed.

Program, involved in planning, seeking finance, contracting and even building housing developments to resettle displaced *bidonvillois*. In 2008, it delivered 133,943 housing units, up from 125,265 in 2007. In its first year of operations in 2004, the delivery was only of 29,954. The IEG mission visited some of *Al Omrane*'s large housing operations in the city of Meknes, where it is responsible for more than half of all social housing units delivered (the "140,000 Dirham" houses in Morocco, named after their low selling price).

3.11 Financially, *Al Omrane* now reports a modest profit and sticks to prudent financial management of its debts and other liabilities, not letting its debt:equity ratio exceed a conservative 4:1. The GOM had enabled *Al Omrane* to start with a clean financial sheet by clearing the outstanding debts of all the incorporated agencies; ANHI, SNEC, and the seven ERACs.<sup>17</sup> *Al Omrane* was itself recapitalized by the government. Thus GOM ensured that *Al Omrane* got off to a good start earning a profit of DH 41 million in 2004, its first full year of operation. As it grew and became more profitable, the *Al Omrane*'s financial performance continued to strengthen. In 2008, it reported total assets of DH 13.5 billion (US\$1.7 billion) in 2008, up from DH 12.4 billion (US\$1.5 billion) in 2007. Its after-tax profit in 2008 was DH 207 million (nearly double the 2007 figure). This gave it a net profit of 8 percent of equity in 2008 (up from 5 percent in 2007).

3.12 Today, the five-year-old *Al Omrane* Holding Company is GOM's principal housing and urban development agency. The consolidation is complete and stands ready to fulfill sector programs throughout the country. After this consolidation, sector players now have a one-stop-GOM-shop for sector planning and program implementation. Within GOM itself, it is now clearer who is responsible for these plans and programs. Municipalities can now make one single *contrat ville*, a broad agreement covering all their dealings with GOM in housing and urban development, rather than the multiplicity of agreements they had to reach with many agencies before. The World Bank and other multilateral and bilateral donors, now know where to go for dialogue on implementing housing and urban development operations.

3.13 The consolidation of *Al Omrane* has had important political consequences in refurbishing the machinery of state for housing reform in Morocco. Indeed, it is a true sector reform in its own right. The opening of a new *Al Omrane* office was taken as an opportunity to inform the public and other players about current and new directions for the sector. Such openings provided platforms for launching further public and professional discussion about reforms under way. The MHU Minister took this opportunity at the opening ceremony of *Al Omrane*'s new office in Marrakesh in 2007, for instance. There he announced a "new stage in decentralization," with *Al Omrane*'s role in it amply disseminated by the press. Officials at *Al Omrane* told the IEG mission that Bank assistance in establishing the institutional articulation of *Al Omrane* with municipalities—given less attention under the former arrangements—was another positive contribution of the Housing DPL. Even below the municipal level, *Al Omrane*'s presence is well established among the general population. The IEG mission noted that local residents in Sale and Meknes, for instance, were generally familiar with *Al Omrane* and the location of its offices. Some even knew members of *Al Omrane* staff. On the Internet too, from which the sites of the former agencies have all been pulled, *Al Omrane* is now the major point of reference, providing housing and urban

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<sup>17</sup> The main beneficiary of this debt clearance was the creditor real estate bank CIH.

development stakeholders with a virtual one-stop shop. Factors in *Al Omrane*'s success include GOM willingness to establish a new legal framework through major legislation, to follow through with major yet detailed reorganization and consolidation of the agencies involved, and actions and assurances to staff that most would be winners from the reform.

### **ANCHORING HOUSING REFORM TO MOROCCO'S FLAGSHIP SLUM UPGRADING PROGRAM**

3.14 In October 2004, King Mohamed VI gave the royal sanction to Morocco's ambitious *Villes sans Bidonvilles* (VSB), or Cities without Slums Program. VSB planned to rid the country's cities of squatter settlements, home to 212,000 households in 2004, by the end of 2010. Its mantra became: "The future of a progressive and modern Morocco can only be a Morocco without squatter settlements"<sup>18</sup> In a speech in 2006, the King elaborated this ideal further:

"What we definitively envision is not just cities without slums, nor to substitute slums with soulless concrete blocks, impervious to sociable lifestyles. We understand, rather, that it is to transform our towns into spaces apt for social interaction, warmth and dignity and, while turning cities into investment and growth poles, we ensure that they remain attached to their own specific and original styles."<sup>19</sup>

VSB was new in scale and commitment, but it reflected an old GOM aspiration. The complete elimination of *bidonvilles* was one of the goals—not achieved then—of the 1987-1992 National Development Plan. During the 1980s, some 9,000 new housing units a year were provided to re-house slum dwellers, a provision that fell by nearly half during the 1990s to 4,500-5,000 units per annum. Even at half the speed intended, the current VSB program delivery of some 12,500 units per annum (ranging from serviced lots to completed apartments) was one-and-a-half to three times greater than the earlier peaks of the 1980s.

3.15 The launch of the VSB Program was a key prior action for the Housing DPL. Assisting at least 30,000 households through VSB by 2006 was a trigger for the second tranche of the loan.<sup>20</sup> VSB was an important instrument for helping to achieve the Housing DPL's second objective of increasing the access of low-income households to higher quality housing. The Slum Upgrading PSIA, launched after the start-up of the Housing DPL, provided direct inputs to GOM for the ongoing implementation of the VSB program. In particular, it drew GOM's attention to the VSB housing solutions preferred by the *bidonvillois* and the constraints on their ability to pay for them (details Annex C). Reducing slums was incorporated as a target of the 2005 CAS that sought to see the number of households living in slums reduced by 60 percent (2005 CAS p.15), implying that VSB would benefit 127,200 *bidonvillois* households by mid-2009, well behind the original target.

<sup>18</sup> <http://www.alomrane.ma/index.php?p=1713>.

<sup>19</sup> Speech by King Mohamed VI at the National Meeting of Local Governments in Agadir, December 12, 2006.

<sup>20</sup> This 30,000 target (PD p. 24) may have been below the baseline. The ICR reports that 62,000 households actually benefited, more than double the target, but far short of the 92,700 VSB housing units and land plots already under way in 2004 (PD p. 48)



3. New housing being built for ex-bidonvillois in Meknes

Photo courtesy of Roy Gilbert

3.16 *Bidonvilles* occupy, usually illegally, both central and peripheral urban areas of Morocco's larger cities especially.<sup>21</sup> The housing unit—often no more than a flimsy shack—is generally of poor quality and overcrowded, usually lacking some basic urban service, most often sewage or solid waste collection. Other labels applied to *bidonvilles* in Morocco betray some of the problems associated with them: (i) *insalubres*—being unhealthy and unfit for habitation; and (ii) *non-reglementaires*—by not meeting normal property, urban planning and/or building regulations. Improving public health and strengthening public order are indeed underlying aims of the VSB program. So too are aims of preserving the aesthetic beauty of Morocco's famous historical cities. As the majority of *bidonvillois* is poor, the VSB Program inevitably has an important poverty reduction dimension, too.

3.17 The Ministry of Housing and Planning (MHU) prepared the detailed plan for VSB (Table 3.3) to improve the lives of 212,000 households living in 1,000 slums in 83 cities across the country.<sup>22</sup> Where the existing *bidonville* unit was in good enough condition, as it

<sup>21</sup> Most slums are found in Morocco's seven largest cities (with their respective populations in parentheses): Casablanca (3.1 million); Rabat-Sale (1.7 million); Fez (1.0 million); Marrakesh (0.8 million); Agadir (0.7 million); Tangiers (0.7 million); and Meknes (0.5 million).

<sup>22</sup> Although earlier actions to deal with *bidonvilles* were often called "piecemeal", IEG found that earlier Bank financed operations, notably the Rabat Urban Development Project (Ln1528) and the Second Urban Development Project (Ln1944) benefited significant shares of the populations of the project cities, namely Rabat 5.6 percent; Meknes 10.1 percent; and Kenitra 12.3 percent.



was reckoned to be in 30 percent of the cases, upgrading would be *in situ*, bringing services and improved access to the existing settlement. Where *bidonvilles* had to be demolished because of their poor condition or risks of the site, as happened 70 percent of the time, VSB would offer to re-house families in new lots or even complete apartments in a different location. Very low-income *bidonvillois*, about 10 percent of the total, would be given a new housing unit outright, while those with higher incomes would receive a subsidy to pay part of the house, taking out a mortgage loan to cover the remainder of the unit cost. The Slum Upgrading PSIA played an important role in updating the authorities about *bidonvillois*' constraints in this regard. Its surveys of residents showed clearly that the poorest of the *bidonvillois* were unable to pay for any kind of housing, and that the most popular option was *in situ* upgrading. Given the Bank's worldwide experience in supporting slum upgrading and new housing provision, Bank staff and consultants were able to provide technical inputs into VSB the Slum Upgrading PSIA that local authorities in Morocco found useful.

3.18 VSB planning made clear that the Program would involve the involuntary resettlement of nearly 150,000 families over a five-year period. But the Bank's safeguard policy, OP 4.12 on Involuntary Resettlement was not invoked, as it does not apply to DPLs.



*4. New housing nearer completion in Meknes*

*Photo courtesy of Roy Gilbert*

The Morocco Housing DPL, as is typical of these operations, did not directly finance VSB works that were behind the resettlement. Hence the resettlement issues were not discussed in the Housing DPL's PD, and received only passing mention in the ICR and PSIA. In fairness to the principle of a just resettlement process embodied in the Bank's policy, this Housing

TABLE 3.3 ORIGINAL TARGETS AND RESULTS OF MOROCCO'S "VILLES SANS BIDONVILLES" SLUM UPGRADING PROGRAM

<b>Targets Planned:</b>	<b>Number of beneficiary households</b>				<b>Hectares</b>		<b>Millions of Dirhams</b>		
	Upgrading existing sites	New partly serviced sites	New fully serviced sites	New Apartments	Total	Land required	Subsidies	Beneficiary contribution	Total cost
Under way by 2004	37,716	2,890	61,485	28,359	130,450	3,074	3,382	8,037	11,419
Projected for 2005-2010	24,792	28,757	12,553	15,768	81,870	2,106	2,035	3,665	5,700
<b>Total</b>	<b>62,508</b>	<b>31,647</b>	<b>74,038</b>	<b>44,127</b>	<b>212,320</b> <sup>a</sup>	<b>5,180</b>	<b>5,417</b>	<b>11,702</b>	<b>17,119</b>
<b>Results Achieved:</b> <sup>b</sup>									
Completed by 2009	na	na	na	Na	na	Na	na	na	na
Projected for 2010	na	na	na	Na	na	Na	na	na	na
<b>Total</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>Na</b>	<b>na</b>	<b>Na</b>	<b>na</b>	<b>na</b>	<b>na</b>

Source: MHU data cited in World Bank (2008) p. 12

Notes:

<sup>a</sup> In 2008, the overall target for the total number of households to be served by VSB was raised from 212,320 to 293,000. IEG could not find the specific reasons for the increase, but it could be related to the formation of new slums since 2004, when the VSB program began. The completion date, 2010, was not formally revised, however.

<sup>b</sup> IEG was unable to find data reporting the actual achievements to date of the VSB Program in the detail above. The PPAR still keeps this section of the table, even if blank, in order to illustrate the kind of data needed for a rigorous evaluation of the achievements of the Program.

DPL could have done more to reassure the Bank that the VSB approach was consistent with those important Bank policy principals and safeguards, even if formal compliance with them is not required. This could have been done through identifying prior actions and tranche conditions to demonstrate that VSB's resettlement policy is indeed consistent with those policies.

3.19 Detailed planning parameters of VSB were well worked, but data on actual achievements—number of households by types of solution, land required, costs, subsidies and beneficiary contributions, for instance—are still wanting (Table 3.3). The data were not reported in the (ICR), nor were they provided to the IEG mission. The lack of them makes the evaluation of the program results difficult. In hindsight, the Slum Upgrading PSIA could have provided more advice on the monitoring and evaluation (M&E) of the Program implementation and the collection, analysis and presentation of data on its results.

3.20 VSB planning targets, on the other hand, were clear. The respective shares of each of the four specific housing solutions to be offered to *bidonvillois* were: 29.5 percent upgrading in situ; 34.9 percent relocated on to new partially serviced sites; 14.9 percent relocated to fully serviced sites, and 20.8 percent re-housed in new apartments. A total budget of DH 17 billion (US\$2 billion) was approved, 70 percent of which was expected to come from the private sector, principally through the sale of the new housing developments. The public sector share of 30 percent would focus principally upon the *in situ* upgrading of existing *bidonvilles* through the introduction of basic infrastructure to them. Optimistically, VSB estimated that only 5,180 hectares of land would be needed to execute the program. It quickly became evident that more would be necessary. With VSB a top priority, GOM quickly made another 3,220 hectares available.

3.21 Apart from directly offering access by the poor to better quality housing solutions, the VSB Program also helped make housing finance more accessible too. This was through guarantees for mortgage lending after the merger of *Fonds de Garantie pour les Ménages à Revenus Modestes et Irréguliers* (FOGARIM) the guarantee fund for moderate and irregular-income households) and *Fonds de Garantie pour le Logement* (FOGALOGÉ) a housing guarantee fund. FOGARIM, established in December 2003, set out to bridge the informal sector-financial sector gap, but its start up was slow, having backed only 2,900 loans by 2006. FOGALOGÉ was set up in 2005 to help public sector beneficiaries, again with less growth in its business than expected. By merging these two guarantee funds in 2009, GOM wanted to provide more support for credit to *bidonvillois* relocated from slums (as well as others) as first time homebuyers. By January 2010, the joint operation had guaranteed 53,924 loans in an amount of more than DH 7.9 billion (US\$1.0 billion) mortgage loans, according to MHU.<sup>23</sup> Delinquency on these loans, defined as loans more than three months' in arrears, now amounts to less than one percent of the total outstanding.

3.22 Although comprehensive in many respects, the VSB Program overlooked one very important issue, that if not addressed, could be its undoing; namely the dynamic of new slum formation. Instead, VSB treated slums as if they were a static feature of cities, that once removed would be gone forever. But in the past, new slums have always been forming.

<sup>23</sup> <http://www.mhu.gov.ma/NR/exeres/B6E3474E-A695-40C6-A241-E4BCD6AC7ADD.htm>

Between 1997 and 2001, for instance, urban *bidonvilles* in Morocco expanded at an annual rate of 5.6 percent (World Bank 2006 p. 10). More recent data of slum growth is not readily available, but experience in Morocco and elsewhere has shown that urban slums do not constitute an immutable stock. They seem to be growing and re-forming all the time.

3.23 On the question of new slum formation, VSB could have given more attention to the role of local authorities whose urban planning and building regulations would be at the forefront of preventing the development of new slums. But municipal governments were not at the heart of either the VSB Program or the Housing DPL. Both were very much driven at the national level. VSB program design would have been stronger had it provided for an explicit role for municipal governments, especially in improving urban planning and land use regulation that can help prevent the formation of new slums. Instead, the Housing DPL reckoned that increased housing supply by itself was enough to discourage new slum formation (PD p. 30). But even with a more robust formal supply of housing supply, many *bidonvillois* might still prefer to relocate to low cost and often better located informal solutions back in other slums, especially if local authorities are unable to prevent them being set up.

3.24 Without the most urgent attention to preventing new slum formation, VSB, and hence Housing DPL, gains may be undermined, if not reversed altogether. If slum growth resumed its annual 1992-2001 rate of 5.6 percent (Benjelloun 2003), then the formation of new slums would wipe out the VSB gains made so far in some twelve years from now.<sup>24</sup>

3.25 Even though specific and detailed data on the results of VSB thus far is not readily available, it is possible to infer what some of those results might be from interpreting data from other sources. A government publication providing a 2009 VSB “balance sheet”, for instance, reports 46 percent program implementation by 2009, with 138,000 *bidonville* shacks demolished, and 50,000 new housing units under construction. This allowed 33 towns to formally declare themselves to be without slums, with another 27 expected to do so shortly (GOM 2009).

3.26 Other sources similarly point to a half-completed VSB program to date. The 2009 Morocco CAS Completion Report (CAS-CR), for instance, states that the reduction of households living in slums by mid-2009 was 28 percent, somewhat less than half the later 2005 CAS’s 60 percent target. Even with this shortfall, for reasons which the CAS-CR does not explain, the share of all Moroccans living in slums fell significantly from 4.0 percent at the beginning of VSB in 2005 to 2.5 percent in 2008, albeit still short of the ambitious CAS target of 1.5 percent. Another important reference to VSB results is the 2009 Morocco Country Partnership Strategy (CPS). Its target of reducing the number of households living in slums by 60 percent over the 2005 baseline by 2013 means that the original VSB target of 100 percent achievement by 2010 cannot have been met, even if there has been no explicit adoption of different, lower target. The 2013 CPS target is more evidence of VSB slippage. It

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<sup>24</sup> This hypothetical scenario is based upon the following assumptions: 146,500 existing slums still remain in 2010 (half the revised total of 293,000) and that the 1997-2001 annual growth rate of new slums of 5.6 percent would resume. The scenario is not based upon new empirical findings. Its aim is simply to illustrate possible downside risks if new slum formation is not prevented rigorously and continuously.



is the same as the 2005 CAS's, only pushed back four more years (2009 CPS p.94).<sup>25</sup> Also, French bilateral assistance now publicly recognizes that VSB work will only be completed long after 2012.<sup>26</sup>

3.27 Apart from the physical shortfall of supply, another VSB problem has been an increased inventory of completed yet unsold VSB housing solutions. The total reached 21,000 by March 2008, nearly double the 11,000 unsold at the end of 2005, VSB's first full year of operation (Bigio 2008 p. 10).<sup>27</sup>

3.28 VSB shortcomings noted here or reported elsewhere reflect the difficulties of meeting the ambitious program targets set in 2004. In hindsight, meeting these targets by 2010 does not appear to have been a realistic proposition. But, even so, there were important VSB achievements. The scale of VSB intervention and reconstruction has transformed and improved several Moroccan cities as never before, as the IEG mission witnessed on visits to Meknes, Fez and Sale. Both the Housing DPL and the Slum Upgrading PSIA contributed to those achievements.

3.29 The deceleration of VSB implementation and accelerating unit price increases of new housing drove GOM to launch a new model apartment unit of affordable housing in 2008. It was the *DH 140,000 unit*, named after its selling price (equivalent to US\$18,050), one that households earning 1.5 – 2.0 minimum salaries would be able to buy.<sup>28</sup> Costs and prices of such housing are kept low through the economies of scale that a large program such as VSB can bring. At this writing, some 26,000 units of this type are being built annually, more than half of them by *Al Omrane*. During its field visit to the city of Meknes, IEG could see significant private sector participation in the production of the “140,000 dirham” units there, as well as *Al Omrane's*.<sup>29</sup>

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<sup>25</sup> Confirming that there is a need for more housing work in Morocco, but without mentioning any specific Bank assistance, the 2009 CPS notes that 780,000 households still live in substandard housing (CPS p. 9). As part of its exercise of self-evaluation, it notes that the Housing DPL was able to “concretize reforms and overcome administrative inertia and disagreements between responsible departments (CPS p. 107).

<sup>26</sup> <http://www.afdturkiye.org.tr/jahia/webdav/site/afd/users/administrateur/public/Newsletter-AFD/NewsletterAFD-juillet-aout-2009-en.html>

<sup>27</sup> Several reasons are given for this backlog: (i) *the rigid supply* of slum upgrading solutions, in view of a highly differentiated demand; (ii) *household resistance to transfers* to sites often distant from workplaces, facilities, and basic services; (iii) *the extreme poverty* of a large percentage of households, which precludes their financial participation in the program; (iv) *the negotiating posture of slum households* who are opposed to paying their contribution while hoping that grant conditions will be eased by the government; and (v) *the manipulation of slum populations* by some local elected officials who prefer to keep populations in their current location, fearing the lost of large reservoirs of votes to be mobilized in advance of elections, as well as political groups of the opposition who promise “better slum upgrading” if elected.” (Bigio 2008 p. 11)

<sup>28</sup> Providing formal housing at a unit cost as low as DH 140,000 today is quite an achievement. Back in 2005, the Housing DPL PD noted that DH 200,000 was “not sufficient to acquire the cheapest formally produced unit in Casablanca and Rabat” (PD para. 26), but later notes, inconsistently, that basic units were available in Casablanca for DH 160,000 – 180,000. (PD para. 30). Prior to the DH 140,000 unit, dwellings up to DH 200,000 in price were conventional considered to be part of *Social Housing* in Morocco.

<sup>29</sup> *Al Omrane* has already made major contributions to VSB execution. By 2008 for instance, *Al Omrane* reports that it demolished 48,137 squatter shacks and registered 40,484 new property titles of resettled families. These

3.30 Private developers and constructors on site reported to the IEG mission their preference for building more profitable higher cost housing for middle and upper income families. Some complained that such higher income housing currently lacks Government support in Morocco, as GOM bureaucracy for approving them was heavier than for social housing programs. This can be interpreted as additional evidence of a genuine GOM focus upon improving access of the poor to housing, an intended result of the Housing DPL. The developers saw, for instance, that low-income social housing projects for VSB were given fast-track planning and building approvals, while processing permits for higher income housing projects languished. One developer said that it was GOM's way of forcing them to move into the low-income segment of the housing market. MHU reports that 90,000 social housing units—that includes the “140,000 dirham”—were being produced in 2009, down from 129,000 in 2008.<sup>30</sup>

3.31 Morocco's VSB Program has deservedly attracted significant attention from international and local media for the scale and scope of its interventions. In September 2009, for instance, the BBC posted an article entitled “Moroccan efforts to replace slums”. It highlighted how conditions in Morocco's main city Casablanca, formerly home to the largest slums in the Arab world, had improved thanks to VSB. The BBC also reported how private developers and banks have been able to profit from housing sector reforms—such as those supported by the Housing DPL—thanks to government guarantees of mortgage lending to low-income beneficiaries. The *Morocco Post* blog picked up this theme in January 2010 in highlighting the MHU minister's commitment to continue to invest DH 60 billion low-cost in housing over the 2010-2020 decade to reduce the housing deficit.

## 4. Conclusions and Lessons

4.1 Both Algeria and Morocco are committed to housing sector reforms, although each country finds itself at a different stage of reform; Algeria seeding it and Morocco sustaining it. The 2003-2008 period under review was a good time for housing sector reform. Economic growth of both countries was buoyant. Reform was needed because of the inadequacies of the existing housing stocks, particularly overcrowded dwellings and poorly constructed units especially in the *bidonvilles*. Good quality formal houses are in short supply, making them very expensive and inaccessible to the poor especially. Key reform themes that arise from this context include housing finance, slum upgrading and institutional consolidation. All three of the Bank-supported operations addressed one or more of these themes. Thus the Algeria Mortgage TA Project planted some seeds of housing finance reform by helping the banks manage mortgage lending and bringing greater confidence to property titles and their registration. But these were not enough for the mortgage market to function well and at scale as intended, simply because supply-side constraints meant that there were few houses to finance. The connection of Morocco's Housing DPL and the Slum Upgrading PSIA to GOM's *Villes sans Bidonvilles* Program was a sure way of harnessing these operations to ongoing housing sector reform in the country. It was a two-way interaction with reasonably

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were considerably higher than the 2007 figures of 27,140 and 25,750 respectively  
<http://www.alomrane.ma/index.php?p=1713>

<sup>30</sup> <http://www.mhu.gov.ma/NR/exeres/B6E3474E-A695-40C6-A241-E4BCD6AC7ADD.htm>

good results. The operations supporting the reforms underway, and the reforms themselves, particularly the large scale VSB and *Al Omrane* consolidation, conferred an importance upon the operations that they otherwise would not have enjoyed in the country.

4.2 Bank support came in the form of three different instruments, a SIL, a DPL and a PSIA. Although the performance across them varied, a variance that had more to do with the housing sector reform context in which they were implemented than the type of instrument used. The experience of these operations demonstrates that reform can be supported by many different types of instruments. The chances of success will depend more upon the local commitment to reform and the diagnosis of it, than the choice of instrument itself.

4.3 The PPAR draws key lessons from the performance of these operations around the three key issues highlighted in the main text of this report, as well as others deriving from the broader assessment of performance summarized in the Annexes. As the operational experience in Algeria and Morocco were so different, the lessons are grouped separately for each country.

#### **ALGERIA**

- Seeding housing reform by focusing upon a selected bottlenecks—such as in bank processing of mortgage loans and in the registration of property titles—cannot guarantee that the reform will take root. Even if they constitute necessary conditions for reform, they must be calibrated with other actions—to ease the supply of new housing, for example—to achieve the well-functioning markets promised by the housing sector reform.
- When sector reform is embryonic, support at the early stages needs to concentrate on the most basic and urgent changes and improvements. In the case of the Algeria, this means focusing first upon strengthening the *primary* mortgage market. This has to be well established before reform can move on to consider more sophisticated instruments of housing finance, such as mortgage insurance and securitization. The latter did not take root in the Algerian case.
- Housing sector reforms need to be calibrated and synchronized in order to succeed. In Algeria, improving the origination and processing of mortgage loans went ahead even though demand for such loans was weak. In such cases, reform measures might need to be scaled back or delayed.
- The success (or failure) of housing sector reform requires readily available data and information to demonstrate the results of reported changes and to measure the baselines prior to these changes. The lending and other operations that support the reform can themselves support and include actions to encourage greater dissemination of data and information upon their sector.

#### **MOROCCO**

- Policies and programs aimed at achieving cities without slums need to treat slums as a dynamic feature of urban development. Without appropriate urban planning

and land use controls, the formation of new slums can overwhelm the achievements of upgrading and redeveloping existing ones.

- For housing reform to be sustained, it is important to modernize and consolidate the institutional framework for taking the reform forward through a powerful and financially sound agency such as *Al Omrane* that enjoys full government support.
- A sector policy loan can perform well and help achieve reforms if it has realistic objectives that focus upon pursuing a few well-chosen prior actions and triggers, as was the case of the Morocco Housing DPL.
- Sector reform is more likely to succeed if harnessed to a flagship program that is well understood by all stakeholders and beneficiaries, such as the VSB Program in Morocco.

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## Annex A. Algeria: Mortgage Finance Technical Assistance Project – Evaluation Summary

### THE PROJECT

1. This stand-alone investment operation, called the “TA Project” here, arose out of an earlier plan to have a much larger operation to re-finance mortgages through the Société de Refinancement Hypothécaire (SRH) the Government of Algeria’s (GOA) mortgage refinancing company. But as preparation advanced in 2000, GOA did not want a large Bank loan for such re-financing that it considered premature at that time given the embryonic stage of Algeria’s mortgage finance market. SRH itself too was unenthusiastic, finding the initial design of the proposed refinancing project to be “too theoretical”, when set against the practical constraint limited demand for this kind of financing in Algeria. Thus the idea of a more limited Bank supported project arose, a technical assistance operation.

2. The Mortgage TA Project aimed to strengthen mortgage finance mechanisms in Algeria’s mostly state-owned banks and housing finance institutions, through training and technical assistance. This was to help instill more commercial-style practices within these agencies, if not privatize them outright. Although downsized, the TA Project still had the more ambitious objective of its predecessor larger operation, namely to strengthen the enabling environment for a well-functioning mortgage market. Its components involved technical assistance for legal and land titling, strategic assistance to housing finance institutions and training to prepare bank staff for processing mortgage loans (Table A.1).

<b>Project Development Objectives (PDOs)</b>	<b>Project Components</b>
<p>- as formulated in the PAD: To help strengthen the enabling environment for a well-functioning mortgage loan market. (PAD p.3)</p> <p>- as formulated in the Loan Agreement: To support the efforts being made by the Borrower to promote, in the housing sector, the enabling environment for the development of the mortgage loan market.</p>	<p>1. Legal and Land Titling Components (appraisal cost US\$2.1m.; actual cost US\$3.1m.) - (i) legal reform of property rights and mortgages; (ii) efficient computerized procedures for issuing property titles acceptable to mortgage lenders; (iii) training of legal professional and land administrative staff.</p> <p>2. Strategic Assistance (appraisal cost US\$2.0m.; actual cost US\$2.0 million) - (i) training of bank managers; (ii) specific advisory assistance; (iii) credit information system.</p> <p>3. Mortgage Loan Operational Training (appraisal cost US\$4.0m.; actual cost US\$3.5 million) - providing professional training in all areas of mortgage financing for bank staff.</p> <p>4. Project Management (appraisal cost: US\$0.1m.; actual cost US\$0.3m.) - the recurrent costs of project oversight and supervision.</p>
<p>Sources: Project Appraisal Document (PAD), Loan Agreement. Dec 21, 2006 Aide Memoire.</p> <p>Note: Actual project and component costs were not reported by the ICR. The actual cost data assembled here by the PPAR is taken from total commitments for each component reported by the last project supervision aide memoire (Dec 21, 2006). Since at that time, fully 90 percent of these commitments had already been paid, the commitments themselves provide a close approximation of the actual resources spent on this project. Total project (base) costs estimated at appraisal were US\$8.2 million. Total actual costs were US\$9.4 million. A Bank Loan of US\$5.5 million was approved at appraisal. At completion US\$5.1 million had been disbursed after which the outstanding US\$0.4 million was cancelled.</p>	

3. The Mortgage TA Project aimed to improve mortgage provision down to the 30<sup>th</sup> percentile of the income distribution (PAD p. 11 and 17; and ICR p. 3), an optimistically low floor of affordability. Experience in other middle income countries points to households at the 40<sup>th</sup> percentile as being those with the lowest income that can still afford such financing.<sup>31</sup>

## RELEVANCE OF OBJECTIVES AND COMPONENTS

4. Overall rating: *Substantial*

5. **Objectives:** Helping lay the groundwork for a “well-functioning mortgage loan market”, even if not achieving that market itself, was still a relatively ambitious one in a country with a near-total government control of housing production, supply and finance until recently. But it nevertheless was consistent with Bank and GOA priorities as expressed in the current 2003 Country Assistance Strategy (CAS) that considered Algeria to be at “an early stage of transition from a centrally planned economy to market-driven economy” (CAS 2003 p. i). If the project achieved its objective, it would involve shifting a system from government-produced rental housing toward one of private and public production of houses for sale. Such a change would be the housing sector’s contribution to Algeria’s broader market-oriented reforms across all sectors. The Mortgage TA Project objectives were also substantially relevant to the Bank’s priority support for better housing service delivery articulated explicitly in the 2003 CAS (p. i)—still in force at the time of project completion, and still the most recent CAS to date.<sup>32</sup> The 2003 CAS focused strongly upon housing. A keyword search reveals that “housing” shows up 86 times in the report, probably a record number of citations of housing in a document of this kind.

6. According to the 2003 CAS, the housing sector in Algeria faced many challenges. House prices were very high due to a tightly constrained housing supply. Housing finance was not available to facilitate home buying. Slums, called *bidonvilles* in Algeria, posed environmental and health risks, and their residents were vulnerable to natural disasters too. The CAS argued that solving housing problems such as these would be critical to Algeria’s future growth and development. It thus called for the Bank to help GOA better articulate a strategy for delivering housing services in the country.

7. **Design:** The Mortgage TA Project design was substantially relevant for including components that could help achieve the stated objective. Helping strengthen mortgage loan provision by training bank staff to originate and process the loans would add a necessary piece of a well-functioning market. The design would have been even stronger had it based its targets for training upon a detailed assessment of needs at the time of appraisal. Property titling and registration, helped by project technical assistance, also helped build necessary conditions for lending—namely unambiguous owners as borrowers, and trustworthy mortgage liens to use in cases of default. A later Bank study of housing in MNA confirmed that slow processing and incomplete coverage of land

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<sup>31</sup> See, for instance: IEG (2010)

<sup>32</sup> Reflecting the low level of Bank engagement with Algeria, there have only been two CAS, the first in 1996 and the second, referred to here, in 2003.



titling and registration needed urgently attention in Algeria (Baharoglu 2005 p. 13). The project also hoped to increase mortgage *refinancing* 25-fold during 2002-2005, a premature expansion of the *secondary* market while the *primary* mortgage market itself barely existed.

## EFFICACY

8. ***Strengthening the enabling environment for a well functioning mortgage loan market – Substantial:*** Algeria may not yet have the well-functioning mortgage market on the scale hoped for and needed, but the project helped put in place necessary elements for its foundation. Of the 35,000 mortgage loans a year targeted, 22,900 were made in 2007, far below the mortgage market's potential, given the scale of Algeria's economy and its level of economic development. But key elements are now in place for that market to develop, such as the standard mortgage loan documentation introduced by the project and the training of commercial bank staff now qualified to originate and process the loans. Thanks to the project, 1,580 bank staff were trained in mortgage loan origination and processing, somewhat short of the 2,000 planned. But even the smaller number of staff actually trained may have been more than needed, since that mortgage lending did not expand to the degree expected.

9. Nevertheless, the still large-scale training was made feasible through the collaboration of a renowned Algerian training institute with its excellent infrastructure, the *École Supérieure de Banque*, a training center of the *Banque d'Algérie*. Thanks to the TA Project, the *École* expanded its reach abroad through establishing a global distance-learning center. The training was open to all banks, although the main beneficiary was the *Caisse National d'Épargne et de Prévoyance* (CNEP), GOA's national savings and provident fund, established in 1964 that is still responsible for more than 60 percent of all mortgage loans in Algeria 2006 (Beltas 2008).

10. The twin-track approach to the project training was a strong part of its design. As well as the large-scale training of the bank staff who would become the originators and processors of mortgage loans, the TA Project also trained senior managers of commercial banks. The managers' training focused on the strategic importance of mortgage lending in the overall lending operations of their banks. It was provided over a period of 30 days, half in Algeria and half in Canada, where the consultants were based. The idea was to ensure that these senior managers would be able to assess the importance due to the potential new line of business and to support their newly trained staff in administering it. The managers who participated in the training whom IEG met reported that the quality of the training both for themselves and for their teams was excellent. They told IEG that it gave them a better understanding of what their teams had to do, thereby enabling them to better mentor and coach their staff. Some managers suggested that more effort could have gone in to adapting the training program's Canadian model to the specific needs and conditions of Algeria. On the other hand, the trainees readily incorporated universal principles of mortgage lending, through the Canadian model, into their own tool kits.

11. In Algeria's second largest city Oran, the IEG mission met with most of the staff of CNEP who had been trained through the project. During a group meeting with them, they expressed strong appreciation of the training received, the professionalism of its

delivery and how it may have enhanced their own professional skills and career prospects. Most trainees were impressed by the thoroughness of the training program, and its relevance to the new tasks they faced. The training went beyond the standard treatment of the legal framework and standard mechanisms of mortgage loans to cover a bank's approach to its mortgage clients and assessments of the potential market for mortgage lending. Trainees were also made familiar with aspects of this market that were relatively new to most banks in Algeria, such as the appraisal of real estate property and the assessment of long-term risks for both the borrower and the lender.

12. In itself the training was successful, but to what extent did it benefit the well-functioning mortgage market that the project sought to establish? No doubt, having professional cadres in the banks with the necessary expertise removes an important bottleneck to the future expansion of housing finance in Algeria. But IEG found no available evidence of a significant market expansion underway. In 2007, the latest year for which data was available 22,900 new mortgage loans were issued, short of the 35,000 targeted. Although higher than the baseline of 14,000 in 2002, the number of loans is still at a very low level vis á vis the potential of the housing finance market in Algeria, and the needs in the sector.

13. A step toward enabling well-functioning mortgage loan market was taken by the enactment of Law 07/02 of February 27, 2007 on property rights and titles that project technical assistance helped draft.<sup>33</sup> While approved two years later than planned, Law 07/02 standardized property titling procedures and requirements throughout the country for the first time. Previously, property could change hands through legally binding sales contracts without needing the formal registration of the transaction, leaving no public record of its current owner. The possibility of such deals made banks reluctant to accept old titles as a guarantee of that the current holder was indeed the owner. The new legislation consolidated the legitimacy of titles issued by the *Agence de la Conservation Foncière*, GOA's title administration agency and of the public records of them. In making mortgage loans, banks accepted them as liens on the property being financed.

14. Administrative measures to support the new responsibilities included the expansion of regional offices of the *Agence Nationale du Cadastre* and the *Conservation Foncière*. This helped ensure that local representative offices were operating in all of the country's 48 provinces—the first time this happened. Officials of these agencies told IEG that the Mortgage TA Project technical assistance helped computerize all registries, enabling them to function together at the national level. Just how well the system was performing was not clear, however. IEG did not see M&E reports that could have demonstrated this. One related yet unexpected result of the Mortgage TA Project, however, was the creation of an industry of professionally recognized appraisers in Algeria for the first time.

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<sup>33</sup> The full name of the law in French was: *Loi 07-02 du 27 février 2007 - Institution d'une procédure de constatation du droit de propriété immobilière et de délivrance de titres de propriété par voie d'enquête foncière : Intervention et rôle du géomètre expert foncier*. This could be translated as: 'Instituting a procedure to affirm property rights and the delivery of titles by means of land surveys: Intervention and Orole of land surveyors.'

15. The Mortgage TA Project's effort to improve property titling in Algeria was a "second bite" at the subject of property mapping and registration. An earlier (1992-2000) Bank financed Algeria Cadastre project (Ln3488) helped set up the national land registry and cadastre systems that the country had lacked at that time. As with the Mortgage TA Project presently under review, the earlier Cadastre project achieved most success through its training components. It was less successful in bringing together all the GOA agencies with responsibilities in this area—the National Cadastre Agency, the Ministry of Justice and the Ministry of Agriculture. Their reluctance to buy into the technical assistance meant that that component was only partially implemented. Also, collaboration and communication between the different players was far less than expected, especially at the crucial municipal level. Furthermore, a national property title information system that was planned did not make it beyond the pilot phase. The Mortgage TA Project removed this bottleneck by working more closely with fewer agencies.

16. Other actions by the Mortgage TA Project had much less impact upon enabling the mortgage market. Thus, pilot efforts to support SGCI's mortgage work and SRH's mortgage refinancing produced only small scale business that had little impact upon the functioning of the mortgage loan market. But SGCI management told IEG that it had received valuable technical assistance through the project helping SGCI apply and adapt the principles and procedures of mortgage guarantees used elsewhere to the conditions in Algeria. But the level of SCGI operations remains very small. Since starting business in 2001, SGCI has guaranteed 16,307 mortgage loans. In 2008 and 2009 only 3 guarantees had to be called due to borrower delinquency on individual mortgage loans. This points to a good quality portfolio, albeit on a very small scale only.

## **EFFICIENCY**

17. Overall rating: *Non-evaluable*

18. Assessments of efficiency through cost-benefit analyses especially, are generally not made of Bank-financed technical assistance projects, operations whose benefits are considered difficult to identify and measure.

## **OUTCOME**

19. Overall rating: *Moderately Satisfactory*

20. The project achieved its substantially relevant objectives, but with moderate shortcomings. The project was successful in helping lay the foundation for a well-functioning mortgage loan market. Its impact on the actual functioning of that market would have been greater if project activities had been better calibrated with the potential demand for credit. Thus, training and mortgage refinancing went ahead of the real need of the improved services offered.

## **RISK TO DEVELOPMENT OUTCOME**

21. Overall rating: *Moderate*

22. Despite pervasive housing shortages in Algeria, household demand has not engendered a scramble for the mortgage instruments introduced and improved by the Mortgage TA Project. Caution by both lenders and borrowers in Algeria toward the use of debt instruments for house purchase is likely to leave the primary mortgage market weak for some time, and the secondary market even more so. Their strengthening is likely in the medium to long-term, when a more buoyant housing supply and continuing low delinquency rates loans will help increase the demand for housing finance.

### **BANK PERFORMANCE**

23. Overall rating: *Moderately Satisfactory*

24. **Quality at entry - Moderately Satisfactory:** The final design of the Mortgage TA Project focusing upon a few key activities was the best solution to help maintain a modest momentum of housing reform in Algeria. The Bank had initially hoped for more, particularly through a larger operation to fund mortgage refinancing through SRH. But when neither GOA nor SRH wanted to take a large loan, the offer of a downsized Mortgage TA operation was a realistic response by the Bank. More care could have gone into setting targets derived from a more thorough assessment of shortcomings and needs and into designing monitoring and evaluation (M&E) in order to strengthen project design. For instance, the 2005 targeted total annual production of 80,000 houses was below the baseline figure of 100,000 for 2002, both cited by the Program Document (PD p.3). At the same time, the design reports that the target for additional houses would be 25,000 units higher per year. But the target for additional mortgage loans was only 19,000 per year. How the TA Project would contribute to the extra 6,000 houses produced was not made clear. The design would have been stronger had targets been set clearly as responses to overcoming deficits on the demand side, and taking into account the production potential on the supply side. Without this analysis, how targets for housing finance and production, and for the numbers of people to train were chosen remains unclear.

25. **Supervision - Moderately Satisfactory:** Bank supervision missions were fielded regularly and appeared to obtain regular and significant access to key officials of the two ministries—housing and finance—responsible for the project. All supervision had to be fielded from Washington as the Bank's Algiers office lacked the professional staff to help with this work. Supervision was effectively used as a means for transferring know-how and technology on the one hand, but it was less than fully effective in monitoring the inputs made into the project efforts.

### **BORROWER PERFORMANCE**

26. Overall rating: *Moderately Satisfactory*

27. **Government - Moderately Satisfactory:** Once it was downsized to become the small technical assistance operation it wanted, GOA gave the project strong political support. Getting the necessary legislation approved, however, was more challenging. The decision to rewrite all aspects of property law through a new and all encompassing *Loi Unique*, rather than make minor amendments to numerous existing laws, was a bold step

in principle, but in practice, it brought more delays. Overall responsibility for the project remained with MOF and MOH, appropriate choices given their oversight responsibilities for the financial and supply sides of the housing sector in Algeria.

28. **Implementing agency - Moderately Satisfactory:** The project-implementing unit (PIU) worked well and was effective in implementing the main project components largely as planned, especially the large training program. On the other hand, keeping track of the project's achievements fell short, leaving a dearth of information about the project.

## MONITORING AND EVALUATION

29. Overall rating: *Negligible*

30. **Design:** The design of M&E was weak for focusing too much upon measuring outputs—such as the number of bank staff trained—rather than the achievement of the intended project outcomes—such as impact of the trainees' new work on mortgages upon the market. Even when outputs were treated explicitly, the choice of targets was not very clear.

31. **Implementation:** For the output indicators, some data was collected and made available. Up to date data and information was not readily available on key areas such as the size and performance of the mortgage loan market, and the performance of the property titling and registration system.

32. **Utilization:** Given the general scarcity of outcome data of Algeria's housing sector, the M&E was little utilized. In this sense, the project M&E performance reflects a broader issue about the lack of readily available data in Algeria about the performance of the country's housing sector and emerging housing market.

## Basic Data Sheet: Algeria

### Algeria: Mortgage Finance Technical Assistance Project (Loan 7131)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	8.2	9.4	115
Loan amount	5.5	5.1	93
Cofinancing	-	-	-
Cancellation	-	0.4	-

#### Cumulative Estimated and Actual Disbursements

	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>
Appraisal estimate (US\$M)	1.1	2.7	4.4	5.5
Actual (US\$M)	2.0	3.4	4.1	5.1
Actual as % of appraisal	182	126	93	93
Date of final disbursement:	March 15, 2007			

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Negotiations	01/29/2000	05/21/2002
Board approval	03/29/2001	06/27/2002
Signing	-	03/17/2003
Effectiveness	03/17/2003	03/17/2003
Closing date	12/31/2005	01/31/2007

## Mission Data

	<i>Names</i>	<i>Title</i>	<i>Unit</i>
<b>Lending</b>			
<b>Supervision/ICR</b>	Zoubida Allaoua	Sector Manager	MNSEED
	Didier Debals	Senior Financial Management – TTL	MNSEED
	Radia Benamghar-Lalouani	Procurement Analyst	MNAPR
	Catherine H. Burtonboy	Consultant	MNSEED
	Olivier Hassler	Senior Housing Finance Specialist	FPDSN
	Fatouma Toure Ibrahima Wane	Special Assistant to Vice President	SECVP

## Staff Inputs (staff weeks)

	<i>Staff weeks</i>	<i>USD Thousands (including travel and consultant costs)</i>
<b>Lending</b>		
	FY99	2.2
	FY00	17
	FY01	22
	FY02	33
	<b>Total:</b>	<b>72</b>
<b>Supervision/ICR</b>		
	FY03	27
	FY04	11
	FY05	26
	FY06	26
	FY07	11
	<b>Total:</b>	<b>101</b>





## Annex B. Morocco: Housing Sector Development Policy Loan – Evaluation Summary

### THE PROJECT

1. The choice of a policy rather than an investment loan from the Bank was the Government of Morocco's (GOM). While other donors continued to provide investment loans to Morocco across different sectors, GOM preferred to have the Bank in a role of policy advisor and donor coordinator, rather than investment project supervisor. The Morocco Housing Sector Development Policy Loan (Ln7314), called the "Housing DPL" here was designed to have two tranches of disbursement, a provision that enabled the Bank to remain active engaged in policy dialogue during Morocco's ongoing housing reform. From the Borrower's perspective, Bank financing of US\$150 million was a significant absolute amount, but only a fraction of the costs of reform. It was equivalent to just 7.5 percent of the original budget for of GOM's flagship *Villes sans Bidonvilles* (VSB – Cities without Slums) program, for instance. But the investment enhanced what is often termed the "convening power" of the Bank when an operation such as the Housing DPL can bring different stakeholders round the table to further sector reform.

2. The Housing DPL used this convening power in seeking to achieve its twin-track objectives of having a well-functioning housing market in Morocco and increasing the access of poorer households to better housing (Table B.1). For this it identified key prior actions to support ranging urban land development procedures to housing subsidies and from urban planning to institutional consolidation. Such actions involved many different agencies, notably *Al Omrane*, GOM's main implementer of the country's housing and urban development, newly created shortly before this project (details: Chapter 2). For the second objective, more poor households to access better housing, the Housing DPL identified key actions in Morocco's flagship *Villes sans Bidonvilles* slum upgrading program (details: Chapter. 2), land development measures and new legislation on rental housing.

<b>Project Development Objectives<sup>a</sup></b>	<b>Summary of Key Prior Actions (full details in Policy Matrix)<sup>b</sup></b>
(i) to strengthen the institutional, regulatory and fiscal environment for a well functioning housing market and for the emergence of market-based solutions to the country's housing sector constraints and needs	<ul style="list-style-type: none"> <li>- simplify norms for social housing site planning.</li> <li>- streamline public urban land provision</li> <li>- simplify land development approvals</li> <li>- new urban planning code</li> <li>- restructure and consolidate Al Omrane</li> <li>- termination of interest rate subsidies on mortgage loans</li> </ul>
(ii) to increase the access of low-income and severely disadvantaged households to more affordable and higher quality housing	<ul style="list-style-type: none"> <li>- implement <i>Villes sans Bidonvilles</i> program</li> <li>- release of large tracts of public land for urban development</li> <li>- amendments to rental housing legislation</li> <li>- establishment of guarantee fund for informal sector- establishment of housing savings schemes</li> </ul>

Sources: <sup>a</sup> *Housing DPL Program Document (PD p.16)*; <sup>b</sup> *Full details in Annex B of this report, itself taken from PD.*  
 Note: A 116.1 million Euro Loan (US\$150 million equivalent) was approved in June 2005. It was disbursed in two tranches as planned: 69.7 million Euros in August 2005 and 45.9 million Euros in June 2008.

## RELEVANCE

3. Overall rating: *High*

4. **Objectives:** At appraisal, the objectives of the operation were highly relevant to the 2006-2009 CAS, notably its priority of improving access to public services by poorer groups in the population. While these objectives set an ambitious direction for reform, they fully supported GOM's own strong commitments at the highest level of the state to improving housing and living conditions in the cities, especially for the poor. Relevance was evident from the Housing DPL's focus on priority areas that clearly had strong GOM backing. Two of these stand out; namely the VSB Program and the institutional consolidation of the sector into the *Al Omrane* holding company. Moreover, the Housing DPL objectives were well harnessed to key prior actions that demonstrated GOM's commitment.

5. **Design:** This link demonstrates the high relevance of an operational design that ensured that pursuing the prior actions could be instrumental in achieving the objectives. To its credit, design did not try to cover every possible aspect of reforming Morocco's large and complex housing sector—with its 7.0 million households, and growing. Instead, the Housing DPL design ensured a focus upon those few actions already identified by GOM as priority. For an operation so closely linked to resettlement through slum upgrading, the design could have paid more attention to the Bank's policy issues on involuntary resettlement, even if Bank safeguard policies do not formally apply to DPL operations. But the design paid close attention to the logistics of project implementation generally, through three key stages: (i) an overall agreement with GOM over the reforms supported by the project, succinctly summarized as seven items in Schedule 3 of the Loan Agreement; (ii) completing a first set of reforms through six actions spelled out in the Program Document (PD) which would trigger the first US\$90 million disbursement; and (iii) completing a second set of reforms through seven more actions, also listed in the PD, that would trigger the second and final disbursement of US\$60 million. Conditional disbursements such as these help keep the design of a multi-tranche DPL focused upon sector reform.

6. Implementation responsibilities were appropriately assigned and separated at the same time, with *Al Omrane*, GOM's prestigious new urban and housing developer leading the institutional consolidation of the sector and the implementation of VSB, with the Ministry of Housing and Urbanism (MHU) taking charge of policy and sector reform itself. The Ministry of Finance and Planning (MFP) was also closely involved in implementation through helping reform housing subsidies, real estate taxation and housing finance, especially loan guarantees and savings.

## EFFICACY

7. Overall rating: Substantially achieved

8. **Strengthening the environment for a well-functioning housing market – Substantial:** Particularly through its support of the consolidation of *Al Omrane*, the Housing DPL helped build a stronger housing market in Morocco, especially on its

supply side (details: Chapter 3). *Al Omrane* itself is now the major public sector housing developer in Morocco.<sup>34</sup> It consolidated the work and responsibilities of what had been ten separate state agencies that had anchored Morocco's institutional framework for housing and urban development for decades.<sup>35</sup> Their consolidation into *Al Omrane* avoided duplication and overlapping roles that Bank supervision reports of earlier projects often remarked on. Very quickly, it made *Al Omrane* one of the principal executors of the VSB Program.<sup>36</sup> Thus *Al Omrane* could “eliminate overlaps and redundancies among their missions, mandates and territorial coverage, consolidate their financial and human resources, and eliminate outstanding deficits” (PD p.13).

9. *Al Omrane* and the Housing DPL were closely tied together. The creation of a new Supervisory Board for *Al Omrane* was a condition for disbursement of the first tranche of the loan. Completing the restructuring of the ten agencies that *Al Omrane* replaced—especially clearing outstanding debts and credits—was a trigger for disbursement of the second tranche of the loan. These conditions were fully met. In addition, *Al Omrane* officials informed IEG that Bank assistance had been useful in easing *Al Omrane*'s articulation with its municipal clients, a result beyond the design of the operation.

10. Getting *Al Omrane* up and running was no easy task. It did not involve major redundancies since the workload was growing fast. Staff of the former agencies were successfully incorporated into *Al Omrane*. Having the same or better conditions of employment was key to the smooth transition and high morale of the workforce. But many had to be reassigned to regional offices, as the central offices, particularly in the capital Rabat, were over-staffed. IEG met several re-assigned staff in Meknes who had few complaints about their moves.

11. To date, *Al Omrane*'s results have been good. By 2008, it had delivered 133,943 housing units as developer and/or builder (compared with 125,265 units in 2007), far higher than the 29,954 housing units delivered in 2004, its first full year of operations. *Al Omrane* is now responsible for more than half of Morocco's 140,000 Dirham (per unit) social housing program. *Al Omrane* now reports a modest profit and prudent financial management keep its debt:equity ratio down to a conservative 4:1. Its after-tax profit in 2008 was DH 207 million (nearly double the 2007 figure), giving it net profits of 8 percent of equity in 2008 (up from 5 percent in 2007). Also, in 2008 it reported total

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<sup>34</sup> Private developers and construction companies too have also played a more important role in increasing the supply of housing in Morocco in recent years, thanks principally to increased spending in this area.

<sup>35</sup> They included: (i) seven *Etablissements Régionaux d'Aménagement de la Construction* (ERACs), state-owned developers set up in the 1970s for each of the main regions of the country; (ii) the *Agence Nationale de Lutte contre l'Habitat Insalubre* (AHNI), the national agency for the struggle against inadequate housing since 1984; (iii) the *Société Nationale d'Équipement et de Construction* (SNEC), the national infrastructure and construction corporation; and (iv) *Attacharouk*, the special GOM housing agency for Casablanca.

<sup>36</sup> *Al Omrane* has already made major contributions to VSB execution. By 2008 for instance, *Al Omrane* reports that it demolished 48,137 squatter shacks and registered 40,484 new property titles of resettled families. These were considerably higher than the 2007 figures of 27,140 and 25,750 respectively <http://www.alomrane.ma/index.php?p=1713>

assets of DH 13.5 billion (US\$1.7 billion) in 2008, up from DH 12.4 billion (US\$1.5 billion) in 2007.

12. The *Al Omrane* consolidation provides a one-stop-GOM-shop for sector planning and program implementation in Morocco. This helps GOM itself, Morocco's municipalities and international financiers, including the World Bank. They all know where to go to discuss plans and program investments in housing and urban development. The consolidation provides an opportunity to refurbish the machinery of state in the housing sector. Very public openings of new *Al Omrane* regional offices, for instance, provided opportunities for inclusion of the local community in this process. During field visits to both Sale and Meknes the IEG mission could see how *Al Omrane* had already become part of the urban communities in those cities.

13. The Housing DPL also supported other institutional strengthening measures beyond *Al Omrane*. It encouraged more mortgage guarantees for lower-income borrowers through GOM's mortgage guarantee fund (FOGARIM). By January 2010, it had guaranteed 53,924 mortgage loans in an amount of more than DH 7.9 billion (US\$1.0 billion) since 2006, according to MHU. This is an important start, albeit still modest in scale thus far.

14. Another important step for market strengthening supported by the Housing DPL was the 2004 Budget Law. It allowed micro-credit institutions to finance housing for the first time in Morocco. This included GOM actions to clear up past housing liabilities resulting from earlier programs. In particular, outstanding debts to the main state-owned mortgage bank and partner in earlier Bank-financed projects since 1983, the *Credit Immobilier et Hotelier* (CIH), were all fully paid off in 2004.

15. ***Increasing low-income households' access to housing – Modest:*** The *Villes sans Bidonvilles* (VSB) program represented a major scaling-up of slum clearance and upgrading in Morocco's cities. VSB increased the access of poorer households to better housing, although far short of the scale intended, thus far. The original (2004) target of ridding the country's cities of 212,000 slum dwellings by 2010 was raised, upon further diagnostics of the problem, to 293,000. Detailed data on the actual VSB results thus far is scarce. But in its "balance sheet" of the VSB Program, GOM reports 138,000 *bidonville* shacks demolished, some 46 percent of the program's final target. But this was at a time in late 2009 when the VSB program would have been nearing completion, according to the original 2004 plan (GOM 2009). But IEG was unable to obtain data from GOM showing a breakdown of the progress made thus far. Other sources, from the Bank itself and other donors, point to a program running at only half its intended rhythm, which, if maintained, points to a completion of VSB around 2016 instead of 2010.

16. One important shortcoming of the VSB Program was, however, that it overlooked the process of the formation of new slums, that if not prevented, might wipe out the VSB gains twelve years from now.<sup>37</sup> During the early 1990s, urban *bidonvilles* in Morocco

<sup>37</sup> This hypothetical scenario is based upon the following assumptions: 146,500 existing slums still remain in 2010 (half the revised total of 293,000) and that the 1997-2001 annual growth rate of new slums of 5.6 percent would resume. The scenario is not based upon new empirical findings. Its aim is simply to illustrate possible downside risks if new slum formation is not prevented rigorously and continuously.

expanded at an annual rate of 4 percent accelerating to 5.6 percent between 1997 and 2001 (World Bank 2006 p. 10). Thus urban slums in Morocco (as elsewhere) do not constitute an immutable stock that, once eliminated, would disappear forever. In hindsight, VSB could have given more attention to local authorities. Their urban planning and building regulations tools place them at the forefront of preventing new slums from developing. But municipal governments were simply not the key stakeholders of the VSB Program or the Housing DPL. Both efforts were driven very much at the national level. Instead, the Housing DPL design reckoned that an improved housing supply would discourage new slum formation, by itself (PD p. 30). But with a formal housing supply still unaffordable to many, poorer households might prefer lower cost and often better-located *bidonville* solutions, especially when local authorities are unable to prevent them being set up. Without priority and urgent attention to the prevention of slum formation, VSB and hence Housing DPL gains may be undermined, if not reversed altogether.

17. Although far short of what had been promised in 2004, VSB achieved a lot. In 2009, there were 65,000 fewer low-income households living in slums, bring the share of all families living in slum to 2.5 percent, down from 4.0 percent at the time of project appraisal in 2004. The scale of VSB intervention and reconstruction has transformed several Moroccan cities as never before, as the IEG mission witnessed on visits to Meknes, Fez and Sale. GOM took a stronger stand against the inadequate housing conditions for the poor than before.<sup>38</sup> Indeed, King Mohamed VI, known as the “King of the poor”, was right behind the VSB Program. During site visits, IEG heard private developers’ complaints that GOM was only interested in low-income housing, to the point of stalling permits and infrastructure support for their more profitable high-income developments.

18. After the start-up of the Housing DPL, the Morocco Poverty and Social Impact Analysis (PSIA) of the National Slum Upgrading Program, called the “Slum Upgrading PSIA” provided additional support to the implementation of VSB. A detailed review of the performance of that support is provided in Annex C. of this report.

19. Because of the highest level support it received, VSB was a top priority GOM program. It was given full support by all sectoral ministries. As the Slum Upgrading PSIA found, it also had greater credibility among affected communities than GOM programs often have among a somewhat skeptical public. MHU had prepared the VSB Program thoroughly, carefully assigning targets and resources to four solutions offered to *bidonvillois*, namely *in situ* upgrading, new partly serviced lots, new fully serviced lots and new apartments (details Table 3.1 of main text). But, as noted earlier, less care went into monitoring and evaluating (M&E) the results obtained and reporting the progress made.

20. Even the considerable attention VSB has enjoyed internationally has not made up for the lack of M&E. Among donors, VSB garnered support from the European Investment Bank, the French Development Agency and the Cities Alliance, whose “Cities without Slums” work program logo inspired the naming of the VSB Program.

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<sup>38</sup> Even at “half-speed”, VSB’s provision of 12,500 low-income housing solutions (ranging from serviced lots to completed apartments) was 1.5-3.0 more than in the earlier peaks of the 1980s.

There has been media interest too. In September 2009, a BBC article entitled “Moroccan efforts to replace slums” reporting how, thanks to VSB, conditions in Casablanca, Morocco’s commercial center and erstwhile home to the largest slums in the Arab world, had improved. The *Morocco Post* blog picked up this theme in January 2010 and the MHU minister’s commitment to invest DH 60 billion more over the 2010-2020 period.

21. An important initiative supported by the Housing DPL with positive results was providing guarantees to poorer and less credit-worthy borrowers through the *Fonds de Garantie pour les Ménages à Revenus Modestes et Irréguliers* (FOGARIM), a guarantee fund for modest and irregular income households. Although state-owned, FOGARIM originally focused upon private sector clients, but later merged with its public sector counterpart, the *Fonds de Garantie pour le Logement* (FOGALOGÉ), a housing guarantee fund. By January 2010, the joint operation had guaranteed 53,924 loans in an amount of more than DH 7.9 billion (US\$1.0 billion).<sup>39</sup> With outstanding mortgages the equivalent of 7 percent of GDP, it would mean that around ten percent of all mortgage lending in Morocco is guaranteed by FOGARIM, quite an achievement. The guarantees are rarely called, since delinquent loans, defined as those with more than three months’ arrears, now amount to less than one percent of the total outstanding. But to know the extent to which this achievement contributed to the Housing DPL objective of increased low-income household access to housing, it would be important to know the income levels of the beneficiaries of FOGARIM guarantees, data for which was not reported by the ICR, nor readily available to IEG.

## EFFICIENCY

22. Overall rating: (not applicable to policy loans)

## OUTCOME

23. Overall rating: ***Moderately Satisfactory***. The Housing DPL achieved its relevant objectives, albeit with moderate shortcomings. It performed better in contributing to the strengthening the institutional, regulatory and fiscal environment for a well-functioning housing market, particularly through the *Al Omrane* consolidation. Through its support to the VSB Program, the Housing DPL also helped make housing more accessible to many lower-income households, but to only about half the number intended.

## RISK TO DEVELOPMENT OUTCOME

24. Overall rating: ***Moderate***

25. Morocco’s pursuit of housing reform leading to well-functioning markets with access by low-income groups is likely to continue. A new consolidated institutional arrangement through *Al Omrane* is in place and operating at a higher level and more efficiently than the agencies it replaced—a sustainable arrangement for GOM. While the flagship VSB program may face some shortfalls, it has set in motion a reform dynamic that is driving for results on the ground, even if their full achievement may be later than

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<sup>39</sup> <http://www.mhu.gov.ma/NR/exeres/B6E3474E-A695-40C6-A241-E4BCD6AC7ADD.htm>

originally intended. Most evidence points to GOM still wanting to get the job done. On the other hand, risks are greater for the lack of attention to preventing the formation of new slums that, if continued, could undermine what the VSB Program has achieved thus far.

## **BANK PERFORMANCE**

26. Overall rating: *Satisfactory*

27. **Quality at entry - Satisfactory:** thanks to the careful thought given to realistic project objectives and to support for a limited array of prior reform actions whose continuation would likely contribute to the operation's success. For the most part the project design was strong, and harnessed to institutional and program interests of GOM. It also addressed issues arising from prior experiences and evaluations of earlier Bank financed urban development programs in Morocco. A design weakness was the lack of attention to preventing the formation of new slums in Morocco's cities, which if unchecked, could wipe out the gains made by slum upgrading and removal. The design would also have been stronger had it given more attention to M&E, and made a more accurate assessment of GOM's limited capacity in this area.

28. **Supervision - Satisfactory:** worked well and was made meaningful by the need to monitor GOM's meeting the conditions of the second tranche disbursement of the loan. GOM ministry officials whom the IEG mission met were full of praise of the Bank's work on the Housing DPL: "We could not imagine a more professional team. They were diplomatic, and well versed in the sector in Morocco." The Bank deployed significant resources for supervision, appropriately in view of the need to monitor GOM progress toward meeting the conditions required to trigger the second tranche of the DPL. In view of the weakness of M&E in Morocco, the Bank team itself undertook monitoring of the project. While this helped track the achievement of the results of the operation, it did highlight the weakness of local capacity and the failure to transfer this important know-how to the Borrower.

## **BORROWER PERFORMANCE**

29. Overall rating: *Satisfactory*

30. **Government - Satisfactory:** GOM commitment to the sector reform supported by the Housing DPL was very strong indeed, as demonstrated by the political, institutional, and program actions taken to move the reform forward. As mentioned earlier in this report, commitment at the highest level through the King of Morocco himself to the VSB Program was the strongest possible signal of Borrower ownership and commitment. GOM deployed two important ministries, MFP and MHU to ensure political support to the program throughout implementation.

31. **Implementing agencies - Satisfactory:** These two ministries—MFP and MHU—were also implementing agencies for the operation. They took all the necessary administrative steps to ensure that progress was made on the reform agenda. Of particular note was the MFP work on the reform of mortgage guarantees and subsidies Morocco. On the MHU side, efforts to reform the urban development code, that still has to be

approved by Parliament, are particularly important contributions, even if they still have to fully bear fruit.

## MONITORING AND EVALUATION

32. Overall rating: *Modest*
33. **Design:** M&E was designed to incorporate appropriate output indicators that helped measure project performance, such as the number of slum dwellers gaining access to urban land and the number of mortgage loans guaranteed by FOGARIM. The PD's claim that the chosen monitoring indicators were, for the most part, already covered by ministry tracking systems proved unrealistic. In discussions with MHU and MFP, IEG found that these ministries were not equipped to track progress through measuring these indicators. In hindsight, M&E design could have been more realistic as far as existing local implementation capacity was concerned. Thus M&E weakness derives, in part, from the Bank's unduly optimistic assessment that strong M&E systems already existed in Morocco, not seeing that they needed re-tooling to meet the needs of the Housing DPL.
34. **Implementation:** Difficulties in implementing M&E meant that it could barely be used to provide feedback to guide the authorities in implementing the DPL itself. The continuing lack of readily available data on the VSB progress thus far is a clear illustration of the shortcomings of this area.
35. **Utilization:** Similarly, there were shortfalls in utilizing the M&E for measuring the reform results obtained. Where it worked best was in tracking the achievement of the triggers that had to be met in order to allow the second tranche of the loan to be disbursed.



## Basic Data Sheet: Morocco

### Morocco: Housing Sector Development Policy (Loan 7314)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	150.0	158.5	105.7
Loan amount	150.0	158.5	105.7
Cofinancing	-	-	
Cancellation	-	-	

#### Cumulative Estimated and Actual Disbursements

	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>
Appraisal estimate (US\$M)	90.0	90.0	150.0	150.0
Actual (US\$M)	84.9	84.9	84.9	157.7
Actual as % of appraisal	94	94	57	105
Date of final disbursement: June 30, 2008				

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Negotiations	05/12/2005	05/12/2005
Board approval	06/30/2005	06/30/2005
Signing	07/18/2005	07/18/2005
Effectiveness	08/24/2005	08/24/2005
Closing date	12/31/2007	06/30/2008

## Mission Data

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	<i>Names</i>	<i>Title</i>	<i>Unit</i>
<b>Lending</b>	Anthony G. Bigio	Senior Urban Specialist-TTL	MNSSD
	Loic Chiquier	Lead Financial Specialist	GCMNB
	David Le Blanc	Urban Economist	MNSSD
	Fatouma Toure Ibrahima	Financial Specialist	CFO
	Kishor Uprety	Senior Legal Counsel	LEGES
	Claude Taffin	Financial Spec, Consultant	MNSSD
	Bernard Worms	Consultant	MNSSD
	Franck Daphnis	Consultant	MNSSD
	Fouzi Mourji	Consultant	MNSSD
	Fathi Kraiem	Consultant	MNSSD
	Driss Ben	Consultant	MNSSD
	Jacques Barbier	Consultant	MNSSD
	Thouria Nana-Sinkam	Language Program Assistant	MNSIF
<b>Supervision</b>			
	Anthony G. Bigio	Senior Urban Specialist-TTL	MNSSD
	David Le Blanc	Urban Economist	MNSSD
	Loic Chiquier	Lead Financial Specialist	GCMNB
	Claude Taffin	Financial Spec, Consultant	MNSSD
	Pierre Demangel	Consultant	MNSSD
	Mokhtar Abdallaoui-Maan	Junior Professional Associate	MNSSD
	Driss Benjelloun	Consultant	MNSSD
	Jacques Barbier	Consultant	MNSSD
	Farouk Tebbal	Sr. Urban Specialist	Cities Alliance
	Mohammed Taamouti	Economist, Consultant	MNSSD

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**Staff Inputs (staff weeks)**

	<i>Staff weeks</i>	<i>USD Thousands (including travel and consultant costs)</i>
<b>Lending</b>		
FY04	23	215
FY05	32	262
<b>Total:</b>	<b>55</b>	<b>477</b>
<b>Supervision/ICR</b>		
FY06	14	111
FY07	18	128
FY08	12	77
FY09	5	45
<b>Total:</b>	<b>49</b>	<b>361</b>

**POLICY MATRIX** <sup>40</sup> (with IEG PPAR COMMENTS)

<p><b>A. Development Objective: Strengthen the institutional, regulatory and fiscal environment for a well-functioning housing market and for the emergence of market-based solutions to the country's housing sector constraints and needs.</b></p>						
Policy Areas And Objectives	Reform Actions	Conditions For Board Presentation	Conditions For 2 <sup>nd</sup> Tranche Disbursement	Expected Outcomes	Indicators	IEG PPAR Comments (Details in PPAR)
<p><b>1. Modernize urban planning standards and regulations</b></p>	<p>Simplification of norms for the site planning and construction of social housing</p> <p>Streamlining of the allocation of land reserves for public facilities</p> <p>Establishing land development control mechanisms and simplification of approval processes (Law 04/04 approved in 2004)</p> <p>Development of the new urban planning code</p>	<p>Approval by MHU of the Circular on social housing and construction norms</p> <p>Approval by MHU of the Circular on revised norms on land reserves for public facilities in residential developments</p> <p>Launch of the studies for the reform of the urban planning legislation by MHU</p>	<p>Adoption by Government and submission to Parliament of the new comprehensive urban planning code</p>	<p>More efficient use of public resources devoted to social housing</p> <p>Higher land-use ratios applied to residential developments</p> <p>More stringent control over illegal construction activities and faster approval of legal ones</p> <p>Increased urban land supply and higher affordability of land and housing supply</p>	<p>Percentage drop in construction costs of new social housing at end of 2006 vs. end of 2004</p> <p>Land-use ratio in newly planned social housing developments increased by end of 2006 vs. end of 2004</p>	<p><b>Data on social housing construction costs point to increases of the order of 10 percent per annum. Increases could be due to the limited response capacity of existing construction firms to respond to the surge in demand caused by the VSB program.</b></p> <p><b>Detailed data on land-use ratios of social housing not available across the country.</b></p>

<sup>40</sup> from Morocco Housing DPL PD pp. 39-41. Here, exactly as per the PD, "Conditions" (in the two shaded columns) in bold font are Conditions for Disbursement, while those Conditions in normal font are simply milestones that do not serve as triggers for disbursement.

Policy Areas And Objectives	Reform Actions	Conditions For Board Presentation	Conditions For 2 <sup>nd</sup> Tranche Disbursement	Expected Outcomes	Indicators	IEG PPAR Comments
<b>2. Restructure and refocus public sector housing agencies and enterprises</b>	Restructuring of parastatal housing companies -- OPH (first phase completed in 2004)	Creation of the Supervisory Board of the Holding AI Omrane Reimbursement of the debt of the OPH to CIH	Satisfactory implementation of restructuring plan by MHU and MFP certified by international audit	Financially sound, efficient and well-managed AI Omrane Holding and regional affiliates	AI Omrane key financial ratios improvement by end of 2006 vs. end of 2004	<b>No explicit targets for AI Omrane's performance targets were set. ICR reports no data. IEG found that profitability improved in 2008 over 2007 and debt:equity ratio remains conservative.</b>
<b>3. Rationalize and simplify real estate taxes and subsidies</b>	Termination of interest rate subsidies on mortgages (completed in 2004)	Definition of Terms of Reference for the study on the impact of tax subsidies on the housing sector by MFP and MHU	<b>Reforms of the real estate tax system adopted by Government in the budget law 2007 or other ad hoc legislation</b>	Budgetary savings Better targeting of subsidies for low-income social housing		<b>No estimates of budgetary savings. Precise data on subsidy targeting not available.</b>

<b>B. Development Objective: Increase the access of low income and severely disadvantaged households to more affordable and higher quality housing</b>						
<b>Policy Areas And Objectives</b>	<b>Reform Actions</b>	<b>Conditions For Board Presentation</b>	<b>Conditions For 2<sup>nd</sup> Tranche Disbursement</b>	<b>Expected Outcomes</b>	<b>Indicators</b>	<b>IEG PPAR Comments</b>
<b>1. Expand urban slum upgrading and social housing programs</b>	Implementation of national flagship slum upgrading program <i>Villes sans Bidonvilles</i> (prepared in 2003 and launched in 2004)  Release of large tracts of public land for residential development, including low-income housing (completed in 2004)	Approval by MHU of the detailed implementation plan for the VSB program  Preparation by MHU of a credit education program for VSB beneficiaries to be relocated into housing units	Satisfactory implementation of slum up-grading program VSB during 2005 and 2006	Improving living conditions and gradual elimination of slums  (i) VSB beneficiaries receive better access to housing finance; (ii) Improved affordability and cost recovery  Increased formal land supply and substantial reduction in creation of informal settlements and slums	Number of slum dweller households who gain access to VSB housing units (goal: 30,000 by end of 2006)  Yearly number of low-cost land and housing units produced by public and private sectors developers	<b>62,000 VSB housing units actually delivered by 2006, more than twice the original target.</b>  <b>No explicit target set. But GOM released 8,400 ha. of urban land, considerable more than the 5,000 ha expected.</b>
<b>2. Improve the efficiency of the residential rental market</b>	Amendments to the legislation concerning the residential rental sector	Launch of the study on the residential rental market by MHU	Approval by Government and Parliament of the new legislation regulating the residential rental	Increase of formal rental housing supply		<b>Time series data on performance and annual supply of formal rental units not available to IEG.</b>

<p><b>3. Expand access of informal sector and low-income households to housing finance</b></p>	<p>Establishment of Guarantee Fund for the informal sector (established in 2004)</p> <p>Establishment of housing saving schemes</p>	<p>Evaluation report on FOGARIM performance and proposed adjustments prepared by its Steering Committee.</p> <p><b>Decisions by MFP on the creation of housing saving schemes and on the type of financial incentives</b></p>	<p><b>sector</b></p> <p><b>Agreed adjustments to the FOGARIM charter introduced by the MFP in 2006 and insurance premium introduced by 2007</b></p> <p><b>Financial incentives for housing saving schemes and common parameters adopted in the 2006 Budget Law</b></p>	<p>Improved access to housing loans by the informal sector and the low-income groups</p> <p>Encouraged savings, increased access to credit for lower and informal income groups</p>	<p>Number of loan guaranteed by FOGARIM by end of 2005 and 2006 (including % of VSB beneficiaries)</p> <p>Number of new housing saving contracts opened in 2006</p>	<p><b>Housing DPL set no explicit targets. FOGARIM was inactive until 2006, with number of loans guaranteed rising thereafter: 70 in 2007; 324 in 2008; and est. 406 in 2009. Numbers are very small as is volume: est. DH 41.8 million (US\$5.3 million), vis as vis the size of Morocco's housing finance market.</b></p>
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## **Annex C. Morocco Poverty and Social Impact Analysis of the National Slum Upgrading Program – Evaluation Summary**

### **INTRODUCTION**

1. This Annex presents an example of a pilot IEG evaluation of the performance of piece of Bank Analytical and Advisory Work (AAA), a newer area of review for the Bank beyond the traditional assessments of projects and programs. The evaluation framework used here is based upon a draft template for IEG assessment of AAA prepared by IEG in June 2009. The template focuses upon four areas of review, namely: (i) Results (of the AAA itself); (ii) Strategic relevance and ownership; (iii) Technical quality; and (iv) Dissemination and sustained dialogue.

### **THE POVERTY AND SOCIAL IMPACT ASSESSMENT (PSIA)**

2. The Morocco Poverty and Social Impact Analysis of the National Slum Upgrading Program, called the “Slum Upgrading PSIA” here, met a requirement to complement the Morocco Housing Sector Development Policy Loan (Ln7131), called the “Housing DPL” here. When a DPL is likely to have a significant poverty impact, as the Housing DPL was expected to, Bank policy requires an analysis of the likely distribution of that impact.<sup>41</sup> A PSIA, one possible instrument among several, was chosen as the tool for the analysis needed in this case.<sup>42</sup> Although meeting a formal Bank requirement, the Slum Upgrading PSIA was aimed principally at the Borrower, the Government of Morocco (GOM), to help it fine tune housing policy affecting the *Villes sans Bidonvilles* (VSB), the cities without slums slum upgrading program, and to help program implementation. It was not specifically requested by the Borrower, nor should it have been since it met an internal Bank requirement. The Slum Upgrading PSIA was timely, bringing its findings to bear upon the early implementation of the Housing DPL and the VSB Program it supported.

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<sup>41</sup> Using a PSIA instrument is one possible response to the Bank Operational Policy 8.60 requirement that the poverty and social impacts of development policy loans (DPLs) be analyzed: “The Bank determines whether specific country policies supported by the operation are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups. For country policies with likely significant effects, the Bank summarizes in the Program Document relevant analytic knowledge of these effects and of the borrower’s systems for reducing adverse effects and enhancing positive effects associated with the specific policies being supported.” OP 8.60.(9)

<sup>42</sup> The analysis can take several forms, ranging from a formal AAA product discussed at the Board, or it can be an internal operational note circulated only within the respective Regional Vice-Presidency (RVP). As in this case a PSIA is used to should analyze the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable groups. Details are in the PSIA Users’ Guide: <http://go.worldbank.org/F7JZCJ2RA0>

3. Most of the work on the Slum Upgrading PSIA was conducted during 2005 when the preparation of the Morocco Housing DPL was already well advanced. The PSIA analysis was completed as the Board was approving the Housing DPL in June 2005, so that its findings were directed more to implementing the DPL than to the DPL design itself. The PSIA was a very low-cost operation of US\$63,000, financed from the Bank's administrative budget. A lot was accomplished with such a small budget. A larger budget would have been necessary, of course, for a PSIA survey of *bidonvilles*, as slums are called in Morocco, to draw generally valid conclusions for *bidonvilles* as a whole through a sufficiently large and randomly selected sample of sites across the country. The main PSIA activities included fieldwork to conduct surveys of six *bidonvilles* in the cities of

<b>TABLE C.1 MOROCCO NATIONAL SLUM UPGRADING POVERTY AND SOCIAL IMPACT ANALYSIS (PSIA)</b>	
<b>Aims of the Slum Upgrading PSIA</b>	<b>Content of the Slum Upgrading PSIA</b>
<p>To assess the expected poverty alleviation and social impacts of some of the reforms supported by the Housing DPL.</p> <p>To bring insights to the social dynamics of neighborhoods targeted for slum upgrading.</p> <p>To contribute to the ongoing policy debate.</p> <p>To improve and refine the instruments and operational modalities of slum upgrading program (VSB)</p>	<p>I. Morocco's Housing Sector Reform; including: (i) Housing Sector Reforms and World Bank Support; (ii) The National Slum Upgrading Program; (iii) Improving Access to Housing Finance.</p> <p>II. The Poverty and Social Impact Analysis; including: (i) Objectives and methodology of the Study; (ii) Stakeholder Analysis of "<i>Villes sans Bidonvilles</i>"; (iii) Profiles, problems and expectations of the slum population; (iv) Benefits and adverse impacts analysis.</p> <p>III. Policy Lessons; including: Limitations and risks of the current program design; (ii) Relevant international policy lessons; (iii) policy recommendations.</p> <p>Annex 1. Profiles of the six slum settlements surveyed.</p> <p>Annex 2. Excerpt from interviews with slum dwellers.</p>
<b>Purpose of a PSIA generally</b>	
<p>To analyze the distributional impacts of policy reforms (supported by a DPL) on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable</p>	
<p><i>Source: Morocco National Slum Upgrading Poverty and Social Impact Analysis (PSIA) Report 2006</i></p>	

4. Agadir, Casablanca and Larache in early 2005 and a workshop held in Rabat in mid 2005 to discuss the preliminary survey results. The survey was carried out by a Moroccan firm specifically hired for this purpose. The analytical work and report drafting was done by Bank staff and consultants. The first draft of the PSIA report was completed at the end of 2005. The Ministry of Housing and Planning (MHU) provided comments on the report, and then publicly disseminated in gray cover in June 2006.

5. The PSIA report consisted of 50 pages of main text, in three parts: (i) Morocco's Housing Reforms; (ii) The PSIA per se; and (iii) Policy Lessons that included eight policy recommendation to further improve VSB. The 30 pages of Annexes include profiles of the six slum areas surveyed for the PSIA, excerpts from interviews with slum-dwellers, and references to slum upgrading experiences in Brazil and Thailand that the PSIA considered to be relevant to Morocco.

6. According to the PSIA report (p. 18): “The purpose of the Poverty and Social Impact Analysis (PSIA) is to assess the expected poverty alleviation and social impacts of some of the reforms supported by the Housing DPL”<sup>43</sup>, a pro forma restatement of the purpose of PSIA in general. Specifically under this Slum Upgrading PSIA, the assessment of impacts focused primarily upon identifying the types of housing offered by the VSB and better matching them to demand conditions offered by the *bidonvillos*, or slum dwellers. “Some of the reforms” in its objective statement meant concentrating the PSIA upon the VSB Program itself.

7. The objective of the Slum Upgrading PSIA was articulated more clearly by the Foreword of the report, signed by the Country Director:

“We hope that that this study will bring some insights on the social dynamics of the neighborhoods targeted by the (VSB) program and on the impacts to be expected from the upgrading operations. Our ambition is to contribute to the ongoing policy debate, in order to improve and refine the instruments and operational modalities of the national upgrading program.” (PSIA p. 1)

But the Slum Upgrading PSIA had no formal results framework or monitoring and evaluation system, through which to evaluate its performance. Of course, having such a framework has not been a requirement for PSIA to date.

8. Considering the results that the PSIA was aiming to achieve, as expressed above, the IEG present assessment will review the poverty alleviation, social impact and housing reform results of the Slum Upgrading PSIA in each of the following declared areas of interest, namely: (i) a better understanding of the dynamics of *bidonvilles*; (ii) the housing policy debate; and (iii) improving upgrading instruments. IEG’s assessment also reviews the strategic relevance and ownership of the PSIA, the technical quality of the work, and its dissemination. This evaluation framework follows a Template for an IEG Assessment of AAA, attached as Annex D to this report that was prepared by IEG in December 2009.

## RESULTS

9. Subject to the limitations imposed by a lack of a results-framework and M&E, this section tries to organize a review of the results of the Slum Upgrading PSIA around the three areas of interest just mentioned. Since there has been no attempt, thus far, to monitor and evaluate the results of the Slum Upgrading PSIA, the present assessment cannot build upon an existing set of data or findings.

10. ***Understanding bidonvilles better:*** Especially through the surveys of the six slum areas selected for its field research, the Slum Upgrading PSIA provided some added value to understanding about the dynamics of *bidonvilles* in Morocco, and the aspirations and

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<sup>43</sup> The Slum Upgrading PSIA was unusual in having a formalized objective. IEG recently completed review of a representative sample of 58 pieces of PSIA out of the Bank’s total of 158 worldwide, found that PSIA rarely had formal objectives. In order to understand more clearly the purpose of a PSIA and to evaluate its performance systematically, the IEG study recommended that each PSIA should clarify its operational objectives (IEG 2010 p. 39).

expectations of the *bidonvillois* residents. Strikingly, the survey results demonstrated that the *bidonvillois* interviewed had little awareness of the VSB Program, despite its striking visibility in some cities (such as Meknes, for example), its high profile internationally and the broad dissemination by GOM. The findings highlighted, too, that the poorest *bidonvillois* would be unable to pay anything for any kind of new housing solution. But this seems to have been well understood at the outset of the VSB program that had contemplated 100 percent subsidies for these cases. What is missing, however, both from the VSB results themselves and from the PSIA, is a better understanding of the scale of this problem, particularly the number of poor households affected. Surprisingly, the PSIA survey found some local resistance to the VSB program, among *bidonvillois* themselves, private developers and financial institutions.

11. There are two important caveats to consider in interpreting these findings. The first is that the sample of six *bidonvilles* surveyed is not representative of *bidonvilles* in Morocco generally. The Slum Upgrading PSIA report does not claim that it was a representative sample. Not being so, however, means that we cannot generalize and apply these findings to all Moroccan *bidonvillois*, nor can we know how widespread beyond six chosen slums the problems and opportunities identified by the survey are. The second caveat is the Slum Upgrading PSIA took a qualitative approach to housing affordability. The report is candid about this, making it very clear. But qualitative evidence, especially through declarations of income by interested parties, can provide only weak evidence about what *bidonvillois* can and cannot afford for their housing solutions. Findings on the affordability of housing need to be based upon quantitative assessments of household incomes with cross checks (triangulation) to verify the reliability of the answers given. One way could be through surveying household expenditures, deducing incomes from that.

12. Even with these caveats, the findings can be of use to GOM in taking VSB forward. How far they were taken on board by GOM is therefore an important question to consider. In principle, it could provide GOM with insights into the needs and aspirations of selected *bidonvillois* that MHU could apply to the VSB implementation. But this channel of communication is no longer in place because of a turnover of the responsible team in MHU. The team that partnered the PSIA work is no longer in place in the ministry. The new team that came with the change of government, was not involved in the work, but demonstrated in discussions with the IEG mission that they were aware of its contents and recommendations. But the PSIA report, published four years previously, was not at the top of their desks. Nevertheless, it is possible to hypothesize that the PSIA findings are behind recent MHU moves to increase housing subsidies for the poorest *ex-bidonvillois*, but convincingly attributing such a result to the PSIA is not easy. There have been many other studies of *bidonvilles* and housing affordability phenomena in Morocco (see, for instance, Benjelloun 2005). The bibliography of the PSIA itself refers to many other sources.<sup>44</sup>

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<sup>44</sup> Among the sources cited by the Slum Upgrading PSIA, the following are of particular note: (i) ANHI (2002) *Les interventions en bidonville au Maroc - Une évaluation sociale*, Rabat: Imprimat ADS (2004) *Monographie sociale du bidonville Douar El Kora*; (ii) AI Omrane (2004) *La maitrise d'ouvrage sociale au Maroc : un état des lieux* if AREA (2005) *Enquête socio-économique- Diagnostic et Analyse de l'état des lieux du Douar Ouled Maaza*; (iii) Benyahia, M.N. (1999) *Journal d'un architecte - Réflexions sur le développement urbain de la ville de Meknes*, Rabat : Imp. El Maarif al Jadida; (iv) DHSAF (2004) *Etude relative a la résorption de 1*

13. **The housing policy debate:** It is perhaps too soon to judge the policy consequences of the PSIA in Morocco, since several of these consequences will only become clearer after the results of the VSB Program itself become better known. There are, however, several indications of PSIA *attempts* to influence sector policy.

14. For instance, the PSIA recommended adjusting VSB supply to more closely match demand for the kind of housing solutions most sought after by *bidonvillois*. The survey found that the shares of each of the four VSB sub-programs—on-site upgrading, serviced lots only, serviced lots with starter units, and completed apartments—did not match the aspirations of the *bidonvillois* themselves. Up to 30 percent of *bidonvillois* surveyed said that they could not afford VSB's most expensive solution, namely an apartment unit. They preferred to be upgraded *in situ*, according to survey responses. Whether the PSIA had an impact on the configuration as a whole of the range VSB solutions offered will only become known after VSB is completed, probably well beyond 2010. Even detailed data on the partial results achieved thus far is not readily available. The reported results of the program will be needed to be able to judge the effect of this PSIA may have had upon MHU policy toward each of the different VSB solutions on offer.

15. Another important PSIA input into the housing policy dialogue in Morocco, already mentioned in this report, was to note that, despite strong GOM support for the VSB, there was some local resistance to it among local officials and even within affected communities themselves. In some cases this opposition was driven by local landowning interests or the negative electoral implications of dispersing a political base through the resettlement of a community elsewhere. Nevertheless, IEG found that, in the cities of Sale and Meknes visited by its mission, VSB program interventions had been widely discussed with the affected communities and local political leadership prior to implementation. But, for lack of M&E, broader evidence of stakeholder awareness up-front of the VSB Program is still not there. Convincing evidence will have to await more detailed reports of VSB program results and the evaluation of them.

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'habitat insalubre - redéfinition des méthodes d'intervention - Synthèse générale; (v) Haut Commissariat au Plan, Direction de la Statistique (2002) Enquête Nationale sur la Consommation et les Dépenses des Ménages 2000/2001; (vi) Ministère de l' Aménagement du Territoire, de l'Environnement de l'Urbanisme et de l'Habitat; (vii) Secretariat d'Etat de l'Habitat (2000) Convention nationale - Pour la lutte contre l'habitat insalubre, <http://www.seh.gov.m-Habitat%20Insalubre/charte%20nationale/Atelier%20foncier.pdf>; (viii) Ministère de l'Aménagement du Territoire, de l'Environnement de l'Urbanisme et de l'Habitat Secretariat d'Etat de l'Habitat (1999) Etude relative am aspects financiers et jscaux du jancement du logement au Maroc; (ix) Ministère de l'Habitat (1997) Etude sur l'aménagement des terrains résidentiels pour le développement de la promotion immobilière; (x) Ministère de l'Habitat, de l'Emploi et de la Formation professionnelle (1997) Etude sur l'aménagement des terrains résidentiels pour le développement de la promotion immobilière; (xi) Ministère de l'Habitat et de l'Urbanisme (2001) Exploitation des données sur le logement dans les recensement généraux de la population et de l'habitat de 1982 et 1994 - Synthèse des résultats; (xii) Ministère de l'Habitat et de l'Urbanisme Etude Identification Sociale - Bidonville Dayday, Rapport Final 82; (xiii) Morocco's National Slum Upgrading Program - Poverty and Social Impact Analysis Report; (xiv) Ministère Chargé de l'Habitat et de l'Urbanisme (1998) Etude sur l'aménagement des terrains résidentiels pour la promotion immobilière; (xv) Navez-Bouchanine, F. (1997) Habiter la ville marocaine, Paris : L'Harmattan; (xvi) Navez-Bouchanine, F. (2005) Gestion du développement urbain et stratégies résidentielles des habitants Paris : L'Harmattan; (xvii) United Nations Human Settlements Program (2003) The challenge of slums: global report on human settlements, London: Earthscans Publications

16. Another PSIA recommendation for housing policy changes as far as VSB is concerned appears to have achieved limited results. The Slum Upgrading PSIA recommended, for instance, that the needs for access to municipal and community services and to income-generating activities by *bidonvillois* should be addressed by VSB. IEG found no evidence of this from its field visits to Sale and Meknes. Indeed, as noted in this PPAR's assessment of the Housing DPL (Chapter 3), the absence of municipal involvement remains a weakness in the design of the VSB Program.

17. ***Improving upgrading instruments*** The PSIA was not explicit about the instruments and operational modalities of VSB that it most wanted to improve. The majority of them was already in place and supported by the Housing DPL. They included the four housing modalities that VSB offered to the *bidonvillois*. There is no evidence about the actual use of each of these solutions, and how it may have changed from the original plan. But the PSIA did come close to proposing a fifth VSB modality when it called for the parallel provision of municipal services of social protection and income generating activities. Again, IEG gleaned no sign of the implementation of this recommendation from its field inspections. Nor is data available to show such a result at the level of the program overall.

18. The PSIA did not propose additional new legal instruments for VSB, because the legislation necessary for the program was already in place.

19. On the financing side, the VSB program was fully budgeted. Additional financial instruments were not needed to make implementation feasible. Thus, the PSIA did not recommend new ways for GOM to mobilize resources for the VSB program.

20. ***PSIA Recommendations:*** The Slum Upgrading PSIA made eight recommendations, directed principally at MHU, covering the responsiveness of the VSB Program to the slum population and sustainability of the Program itself. The degree to which the recommendations have been adopted is difficult to ascertain while data on the actual results of the VSB Program is not readily available and the Program itself is incomplete. Furthermore, current MHU team is not the same one that collaborated with the preparation of the PSIA, and was not aware of the impact a specific PSIA recommendation may have had upon their housing sector policy.

21. On the responsiveness of VSB itself, the PSIA recommended more flexibility and less uniformity across the VSB housing solutions provided. MHU officials met by the IEG mission were unable to affirm that there had been a change of policy in this direction. Clearly, the profile of the final results of VSB, across housing types offered, will provide answers, when the program is completed. The PSIA also recommended that the requirements of the most vulnerable segments of the slum population should be addressed at the planning stage of VSB. MHU interlocutors told IEG that they were aware of the income constraints of the poorest families that prevented their financial participation in the solutions offered. But this recognition seems to have been already factored into the design of VSB at the outset. For IEG, such a recommendation would have greater meaning had it been based upon quantitative evidence of VSB Program shortcomings, of the kind that was not gathered by the PSIA. Two other PSIA recommendations, on scaling up social support to slum dwellers and ensuring better access by them to local municipal services, appear not to have been adopted.

At least, IEG found no evidence of this, nor did it hear claims for such results from its interlocutors.

22. On the sustainability of VSB, the PSIA recommended revising the target that 70 percent of all contributions to VSB cost should come from beneficiaries. Whether this should be an upward or downward revision was not clear. But there is no clear evidence of a change in either direction of a target that relates to a mean value of VSB Program as a whole, on which evidence is still wanting. The PSIA recommendation that access to housing credit be rapidly scaled up to improve housing affordability for *bidonvillois*, has been adopted, but with little consequence for most *bidonvillois* households in the lower half of the income distribution who have limited access to housing credit. The PSIA recommended that MHU should invest more resources in VSB; a difficult one to adopt without the quantitative markers of baseline and target resources that the PSIA did not provide. Finally, the PSIA recommendation that the VSB Program's timetable be revised has been overtaken by the slowdown of VSB execution, leaving a half finished program at a time when it should have been fully completed.

## **STRATEGIC RELEVANCE AND OWNERSHIP**

23. In this section, IEG assesses how well the PSIA was anchored to housing sector reform in Morocco and to Bank assistance for sustaining it. Through its direct link to the flagship VSB Program, supported at the highest level within Morocco, it was highly relevant to the GOM's own sector priorities. At the same time, the Slum Upgrading PSIA was highly relevant to the Bank's own support for improving the access by poorer households to better housing, through providing an additional opportunity for the Bank to help the ongoing VSB implementation. Being an element of the Housing DPL, the PSIA was equally relevant to the priorities of the 2006-2009 Country Assistance Strategy (CAS) as the DPL was, in meeting this objective. It was thus well anchored in the Bank's assistance strategy for Morocco's housing sector.

24. Through this support to VSB, the Slum Upgrading PSIA was therefore strategically important for Morocco's housing sector reform. With support from the highest levels within Morocco, VSB was clearly a top GOM priority.

25. Borrower ownership of the PSIA came principally through MHU's feedback on early drafts of the PSIA report and participation in the mid-2005 workshop in Rabat.<sup>45</sup> The Housing DPL program document reported (PD p. 23) that the PSIA was to be carried out *jointly* by the Bank and MHU, something apparently confirmed by the PSIA report too (PSIA p. 49). In practice, however, most of the work was done by the Bank and Bank-appointed consultants. The feedback loop ensured, however, that MHU came on board as the work was being finalized. But where does ownership of this PSIA work stand in Morocco today? The

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<sup>45</sup> IEG takes the view, as noted at the beginning of this annex, that the analytical work and drafting of the PSIA was done by Bank staff and Bank-hired consultants. MHU's feedback and commentary on an earlier draft report is evidence of MHU not having authored the report, whose introduction acknowledges that MHU was involved in all stages of the work (PSIA p. 2). Thus, Borrower ownership was built through involvement with and feedback to the Bank's work.

change of team at MHU, mentioned earlier, is likely to have diminished it, since it has no more members who were involved in the PSIA preparation.

26. Ownership of the PSIA exercise and its findings among *bidonvillois* surveyed appears to have been significant. Although the PSIA does not report response rates among the *bidonvillois*, they appear to have participated enthusiastically in the survey. They were quite frank and forthcoming in their opinions about the VSB program, especially what they saw as its shortcomings. In survey responses, they reported that they felt largely uninformed about the VSB program itself. They had little knowledge about VSB plans for their areas, nor were they convinced that much would be done. But Royal support marked the VSB out as a different kind of government program, one that was more than just a promise that had a real chance of being implemented. This gave the respondents the belief that it would indeed be implemented, unlike many conventional programs announced by local leaders that rarely led to action, according to the *bidonvillois* respondents.

### TECHNICAL QUALITY AND CONTENT

27. The Slum Upgrading PSIA was appropriately focused upon policy priorities and implementation imperatives of the VSB Program. The PSIA report maintained this focus throughout, always keeping MHU in mind as the principal client. The PSIA report keeps its focus upon its immediate policy and operational goals to help VSB. Thus the scope of the Slum Upgrading PSIA was appropriate except in one important respect. Like the Housing DPL itself, it overlooked the important question of preventing the formation of new slums that, if unchecked could wipe out the gains of the VSB in the medium-term. This was the same shortcoming of the VSB program itself and the Housing DPL that supported it (details: Chapter 3 of PPAR). For the most part, the technical quality of the work was good. It would have been stronger had there been sufficient budgetary resources to draw a representative random sample of *bidonvilles* whose survey could have led to findings generally applicable to the national level for the *national* VSB Program across Morocco as a whole. The PSIA report did well to introduce international examples of slum upgrading, but their relevance was uneven.

28. ***Lack of attention to preventing new slum formation;*** A main weakness of the VSB program itself was that it overlooked the process of formation of new *bidonvilles*, and how to prevent this. The PSIA similarly ignored this important sector issue that, if not addressed, could see the upgraded and demolished *bidonvilles* being replaced by other new ones. This most important question was also not addressed by GOM, as noted earlier in the main report.

29. Thus, like the VSB program it was supporting, the PSIA failed to flag the need for Morocco's housing sector strategy and policy to incorporate instruments for preventing the formation of *new* slums. VSB was only about dealing with upgrading or removing *existing* slums. It said nothing about how better urban planning and land use controls by local administration could help prevent further slums from developing. This oversight was perhaps the result of the preventative measures—urban planning and land use controls—being largely in the hands of local municipalities, who were not key VSB players as noted earlier.



30. The PSIA's omission in this regard is more surprising than the VSB's. The PSIA itself goes to some length on its page 10 to critique the inadequacies of earlier GOM efforts to contain and prevent the development of slums in Morocco's cities. Despite that, it gave no clear guidelines for how to address prevention into the future.

31. **Survey of bidonvillois:** A major part of the PSIA work was its survey of the *bidonvillois*' attitudes towards VSB in six urban slums selected for the survey in the cities of Agadir, Casablanca, and Larache. These cities—medium, large and small-sized settlements, respectively—were chosen jointly by MHU and the Bank. Two slums were selected in each city, one on the urban periphery, and another nearer the respective city center. These were not random selections that might have yielded findings representative of national slums as a whole about the VSB program. The PSIA report acknowledges that the selection was not random and hence not representative. But the style of reporting the findings might lead a reader to believe that conclusions from the PSIA survey would indeed be applicable to the *bidonville* population as a whole throughout Morocco.

32. The technical quality of this work would therefore have been enhanced and its findings made more persuasive if there had been more caveats reminding the reader that the survey findings cannot be generalized to the population as a whole. In fairness to the level of effort made possible under this PSIA, though, many more resources than those available would have been needed to draw and survey a representative sample of Morocco's 885 urban slums across 70 cities where 212,000-292,000 *bidonvillois* households lived. A sampling frame of 885 slums with reportedly high variances across socio-economic characteristics, might require a relatively large sample for the selected slums to be representative, certainly more than the six surveyed by the PSIA. It would also have required a larger budget. To obtain findings that are generally valid for a national program such as VSB, it might have been better to draw a larger more representative sample of *bidonvilles* with less in depth analysis of each one.

33. The PSIA survey reports quantitative results from what it calls its "qualitative survey". Its survey of the six *bidonvilles* found that 10-20 percent of bidonvillois were too poor to finance new housing for themselves. The PSIA reports this as if it were a finding valid for the country as a whole. Much is made of this finding in the report, to be confident of this being a precise and generally valid benchmark of affordability, we quantitative data collected from a randomly selected sample of respondents.

34. To collect data in the three chosen cities, the enumerators made contacts in the selected slums through 30 focus group meetings with local residents. Enumerators asked these residents to gather impromptu into focus groups at the time of the researchers entering the slums. After the focus groups discussions, men and women were interviewed separately. This informal approach to the *bidonvillois* probably elicited less contrived and more spontaneous responses from the respondents.

35. The PSIA report criticized the lack of reliable quantitative data on Morocco's housing sector and its slums. But it did not specify exactly what kind of data was missing, and what kind of data was most needed. Thus, while the overall critique was valid, it would have had a

greater impact if the PSIA had recommended, in some detail, how information flows and data could better inform housing sector policymakers and also VSB implementers.

36. ***International experience of slum upgrading:*** The report cited the experience of the national Baan Makong slum upgrading program in Thailand introduced by the Thai government in 2003. It was relevant to the Moroccan case for being a national program that involved the active participation of slum dwellers from the planning to the implementation stages of the program. The report also referred to the *Ribeira Azul* program of slum upgrading in the State of Bahia, Brazil. Although this *local* program had enjoyed some success, its relevance to Morocco's *national* VSB was limited by being restricted to just one small part of one city alone, Salvador.

### **DISSEMINATION, SUSTAINED DIALOGUE AND FOLLOW-UP**

37. A draft version of the Slum Upgrading PSIA was amply discussed at a stakeholder workshop in Rabat at the time of the approval of the Housing DPL in mid-2005. Since it was aimed principally at MHU, the final version of the Slum Upgrading PSIA was not widely disseminated in Morocco beyond GOM, nor did it need to be. Although originally written in English, it was translated into French to make it more readily accessible to more users in Morocco, especially in MHU. Thus, dissemination was adequate for the purpose of bringing the attention of MHU officials to the sector policy issues it raised. Its purpose was not to bring these issues to a broader audience, beyond those with the authority to guide policy changes. The change of guard at MHU brought in new teams unfamiliar with the preparation of the PSIA, yet still aware of its policy prescriptions, did interrupt a sustained dialogue with the Bank that could at least be expected to continue until the completion of the VSB Program, if not beyond.

38. The PSIA was publicly disclosed in gray cover in June 2006, in good time for consideration by MHU as VSB implementation forged ahead. Since then, English and French versions of the document have been made publicly available on the Bank's external website. Given the Slum Upgrading PSIA's specific purpose to support housing policy development dialogue in Morocco specifically, wider dissemination may not be necessary. During the mission to Morocco, IEG inquired about the PSIA during meetings with other housing sector agencies, but found none of them familiar with its findings and policy prescriptions.

39. With the MHU today, we cannot conclude that there is an ongoing Bank/Borrower dialogue about the PSIA findings and recommendations. The PSIA report is treated by MHU as an important but historic document. Apart from the change of team at MHU, there is another important reason for the stalled dialogue. Without a follow-on Bank financed operation to the Housing DPL, there is no longer an operational *raison d'être* for continuing engagement in this area. For a relatively short but crucial period, however, between 2005 and 2007, the Slum Upgrading PSIA did provide a professional forum, in which Bank and GOM teams could gather to help ensure that both sides' had a similar understanding of sector reform processes and the Bank's support of them. Two complementary results, no doubt, ensued. The Bank team became better informed about VSB, and the GOM team better understood what the Bank wanted to achieve through its assistance.