



**Best Practices in Slum Improvement:  
The Case of Casablanca**

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## I. Executive Summary

A central part of the endemic poverty found across the developing world and the conditions of slum communities stems, in part, from a general denial of formal financial opportunities to large segments of the population. Slum dwellers suffer from insecure tenure, inadequate access to safe water, sanitation, and other infrastructure, as well as poor structural quality of housing construction, and overcrowding. Solving the problems inherent to these informal housing communities represents a key part of improving the general quality of life for significant segments of the underserved population.

Launched in July of 2004, the national Moroccan program *Villes sans Bidonvilles* (VSB, or literally, “Cities Without Slums”) evolves from the wide sweeping goal of “eradicating all slums by 2012” through making home ownership affordable for the urban poor.

This program can be analyzed in the broader international context of the United Nations Millennium Development Goal, which is aimed at improving living conditions of at least 100 million slum inhabitants by 2020.

### **VSB envisions upgrading all slums by 2012 and facilitating the economic integration of the urban poor, reaching 293,000 households in 83 towns and cities<sup>1</sup>.**

The program is based upon the following principles:

- “City Contracts” which bind the local authorities and other stakeholders to the success or failure of citywide programs by setting a date by which time a city should be declared a “City Without Slums”;
- The willingness to let the private sector play the lead role in housing supply; and
- An increase in affordable housing stock to meet the demand. The Government’s goal is to produce 100,000 social housing units and service land plots annually.

This paper seeks to present the *Villes sans Bidonvilles* program within the overall context of Morocco’s housing policies, programs and institutions. This endeavor offers interesting innovations in the field of housing finance and a concept which is globally transferable.

A number of key features are of particular interest to the industry, which include (i) the use of credit enhancements such as the Fogarim guarantee program to create an enabling framework for financial institutions to extend loans to a traditionally excluded target segment, (ii) Retail Platforms or “one-stop-shops” (*guichets uniques*) which tend to unite stakeholders in slum neighborhoods to facilitate administrative, legal, and financial formalities involved in a housing transaction, and, (iii) public-private partnerships.

We will progressively present and analyze the urban profile and the specificities of informal urban settlements in Casablanca. We will review the case of the *Villes sans Bidonvilles* program through an examination of its financial mechanisms, results, and impacts. We will then summarize the lessons learned from this program and highlight opportunities for replication and/or alteration.

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<sup>1</sup> Ministry of Housing and Urban Planning, Habitat et Urbanisme 2003-2007 Un secteur en mouvement.

## II. Case Study Purpose

This case study has been developed by Anne Baverel for ShoreBank International Ltd. (SBI) at the request of the Development Innovations Group (DIG) and has been funded by the Bill and Melinda Gates Foundation. This case serves as the foundation for training material for a course at the Boulder Microfinance Institute, along with an accompanying PowerPoint presentation.

The case study findings have been documented through desk study and a five day in-country field research conducted by SBI in late June 2008. This material also draws upon SBI's experience stemming from their three years of continuous presence in Morocco working with numerous stakeholders in the *Villes sans Bidonvilles* program, including commercial banks, microfinance institutions, the Ministry of Housing of Morocco, and social engagement partners under funding from USAID and the Consultative Group to Assist the Poorest (CGAP).

## III. Casablanca: An Urban Profile

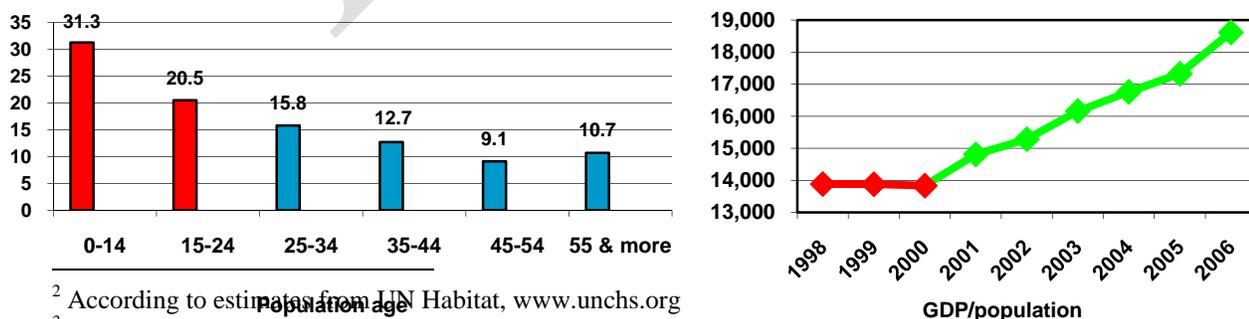
### a. Basic Country Demographics and Macro-economic Profile

The population of Morocco is over 30.5 million, with a 56%/44% urban/rural breakdown and a slum to urban population of approximately 33%.<sup>2</sup> Morocco's demographic profile is particularly young, pointing to further growth due to a moderately high birth rate coupled with population momentum, as over half of the population in Morocco is below 24 years old.

Structural adjustment policies conducted in Morocco in the 1980s have restored the main macroeconomic balances (public finance, inflation rate, balance of payments.) GNI per capita (at purchasing power parity in current international US\$) was estimated at \$3,860 in 2006 according to the World Bank (compared with \$8,700 for Brazil and \$2,460 for India).

Although GDP per capita has substantially increased over the last six years (+35.7%), the unemployment rate in Casablanca was estimated at 20% in 2005 and 15% in 2006<sup>3</sup>, and primarily affects youth.

**Graph N° 1: Demographic structure and GDP/head evolution in Morocco**



<sup>2</sup> According to estimations from UN Habitat, www.unhcr.org

<sup>3</sup> Haut Commissariat au Plan, Activité, emploi, chômage, 2006 Premiers résultats.

Source: Ministry of Finance, Treasury Direction, presentation given by Mr. Nouaman Al Aissami in May 29, 2008 at the Global conference on housing finance in emerging countries organized by the IFC, Washington DC.

## **b. *Socio-political Context***

Morocco is a constitutional monarchy. The government's Prime Minister is appointed by the King. Although the Government has increasingly shifted in favor of parliamentary elections, this has not altered the policies of *Villes sans Bidonvilles*.

There are two main local entities:

- Delegated authorities of the Ministry of Interior (*Wilaya*, Provinces, *Préfectures*) led by the *Wali* designated by the King.
- Local governments were elected in 2003 for six-year terms. Although, decentralization from central to local governments remains a recent undertaking and is far from completion. Casablanca's Urban Agency, for example, which emanates from the central government, is still responsible for substantial urban planning.

Civilian involvement in governmental decisions remains almost non-existent.

## **c. *Urban Conditions and Prevailing Urban Dynamics in Casablanca***

### **i. *Demographics –Who are the Urban Poor?***

#### **• Composition of the Urban Poor**

The slum population in Casablanca has been growing since 1974, when it numbered 42,000. Despite the efforts to mitigate this expansion, 98,128 households<sup>4</sup> are currently targeted by the slum improvement program. Assuming a typical household size of five persons, this represents a total slum population of approximately 490,640 slum dwellers in Casablanca.

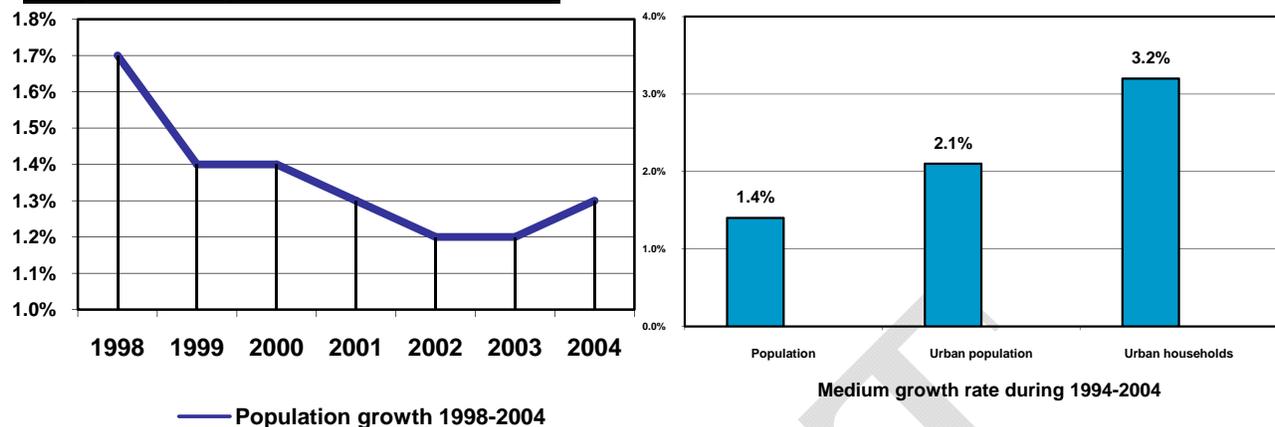
Most of the urban poor live in sub-standard housing. Some live in unsanitary conditions in the old *medinas* where part of the housing stock is chronically threatening to collapse; others live in "clandestine neighborhoods" that have been built without plans or building permits and often lack access to potable water and/or sewage. The 2004 general census indicated that 12.4% of the urban population in Greater Casablanca lives in "simple housing," referring to unsanitary conditions.

#### **• Growth trends of the urban population**

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<sup>4</sup> Source: Idmaj Sakan.

## Graph N°2: Population Growth Trends



Source: Ministry of Finance, Treasury Direction, presentation given by Mr. Nouaman Al Aissami in May 29, 2008 at the Global conference on housing finance in emerging countries organized by the IFC, Washington DC.

Casablanca, Morocco's economic hub, includes 3.5 million urban inhabitants, almost 70% of whom are of working age. Overall, in Greater Casablanca, the number of slum households increased an average of 2.6% per year between 1974 and 2007, while growth between 2002 and 2007 reached up to 7.5% per year.

Although the supply of new housing units is rapidly rising, with 93,000 new units in 2006, this increase is still insufficient to cover the housing demand created by demographic growth of an estimated 120,000 units per year<sup>5</sup>, yielding a housing shortage estimated at 27,000 units per year.

Sub-standard housing has sprawled through and around Morocco's urban areas in the form of squatter settlements and informal neighborhoods. These settlements represent approximately 18% of current housing stock in the country<sup>6</sup>, with an average yearly growth of 4%.

- Priority issues in the slums

Since 2005, the Government of Morocco has been developing an anti-poverty program through the *Initiative Nationale de Développement Humain (INDH)*<sup>7</sup>. In Greater Casablanca, this program focuses on access to basic services, improvement of housing conditions, health, schooling, and employment.

The Government of Morocco has also been developing a slum eradication program called *Villes sans Bidonvilles*, or Cities without Slums, (see section IV below). Indeed, housing provides more than shelter, representing the largest share of household wealth, including slum dweller households. In addition, the lack of decent housing has been identified as one of the main

<sup>5</sup> Ministry of Finance, April 2008.

<sup>6</sup> World Bank, Morocco Housing Sector Adjustment Loan, February 2005, quoted in OPIC report, Morocco Housing Overview, January 2006.

<sup>7</sup> INDH (or Initiative Nationale de Développement Humain) stands for National Initiative of Human Development.

obstacles to stepping out of the vicious cycle of poverty and desperation, often a source of instability and violence.

Employment is the government's second preoccupation. The *Moukawalati* program ("My Enterprise") is intended to facilitate the creation of start-up enterprises by the young population through the help of NGOs, including MFIs.

Informal settlements in Casablanca are accompanied by problems of overcrowding, drugs, prostitution, crime, disease, and family dysfunction that then leach into the larger metropolitan area. Fraudulent political practices have also become an issue, as there have been some cases of gerrymandering, whereby local politicians gain office by making unrealistic and/or unfeasible promises to slum dwellers (free housing units, for instance.) Slum dwellers are often stigmatized by the greater Moroccan society, viewed as the source of urban problems rather than the effect of broader, intrinsic issues.

#### ii. *Economic Activities of the Urban Poor*

The majority of the urban poor in Casablanca are actually wage-employed, as Casablanca is the economic hub of the country where most of the industrial and service companies are located. Nevertheless, self-employment is pervasive in small-scale animal husbandry, petty trade, and handicraft and is the second largest source of income for the urban poor. In Morocco, the informal sector employs approximately 40% of Morocco's active population, excluding agriculture<sup>8</sup>.

#### iii. *Where the Urban Poor Live*

In geographical terms, precarious housing stock is evident in all areas of Casablanca, with four main concentrations: Lahraouiyine, Sidi Abderrahmane, Sidi Moumen, and Mohammedia (for pictures refer to the Annex 1.)

The largest slums in the Greater Casablanca are Ain Sebaa and Sidi Moumen, which hold up to 7,000 households. The map of Casablanca slums also includes: Hay Hassani, Lissasfa, Sidi Maarouf, BenM'sik-Sidi Othman, Moulay Rachid, Moulay Youssef, Mediouna, Sidi Bernoussi, and Ahl Lahlam, among others.

### **IV. Informal Urban Settlements in Casablanca**

Home to one third of the total slums in Morocco, the problem of informal urban settlements in Casablanca is more complex than anywhere else in the country. This problem amplifies daily as the number of slum dwellers is increases, making it necessary for programs, government and officials to address the root of the problem rather than just the outcome.

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<sup>8</sup> Haut Commissariat au Plan, Enquête sur le secteur informel, 1999-2000.

In September 2005, there were a total of 52,000 slum households, while this number increased by an additional 45,000 slum households by April of 2008<sup>9</sup>.

There are also specific characteristics related to the precarious housing situation in Casablanca, including:

- Large and historic slums
- Strategic locations, close to the sea, the airport, or areas with high urban potential
- Inadequate urban regulation
- Communities highly integrated in their location and the immediate neighborhood

Overall, there is a wide disparity among informal urban settlements in Casablanca: slums range from high density, central city tenements to spontaneous squatter settlements in peri-urban areas. Some are over thirty years old, while others are much more recent and still growing.

As in other cities, slums in Casablanca are the result, over several decades, of an unwelcoming city, bad land policies, corruption, and an unresponsive financial system. Land is particularly expensive in Casablanca due to the city's economic importance to the country. Slums not only affect the quality of life for those who live in them, but exacerbate other social problems including illiteracy, health problems, and insecurity.

Thirteen percent of the population of Greater Casablanca live in slums and represent 9% of the housing stock in the region<sup>10</sup>

The slum improvement program described below plans to eradicate 98,128 shacks in over 400 slums in Greater Casablanca to improve the lives of over 490,000 persons living in slums.<sup>11</sup>

Paradoxically, even though Casablanca includes one-third of the country's slum population, there has been no citywide slum improvement multi-stakeholder contract signed for Greater Casablanca, as has happened in other cities, but only partial contracts.

## **V. The Case of *Villes sans Bidonvilles***

### **a. Context and Program Description**

The Kingdom of Morocco has given priority to the improvement of the living conditions of slum dwellers in the country. King Mohammed VI provided the national political imperative in August 2001 and in July 2003, identifying the need for a national program to address poor living conditions and for improved urban management. In July 2004, the government of Morocco embarked on a comprehensive national program in an attempt to address both the supply and demand sides of the housing sector. **The national program, *Villes sans Bidonvilles*, or “Cities**

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<sup>9</sup> Ministry of Housing, VSB program: state of advancement and perspectives, April 7, 2008.

<sup>10</sup> Holding Al Omrane/Ministry of Housing, Slum Resorption Program in the Greater Casablanca, State of Advancement 2007 and Perspectives 2008-2012 (in French), Khalid Nabil, March 2008.

<sup>11</sup> Idmaj Sakan and Ministry of Housing and Urban Planning, Habitat et Urbanisme 2003-2007 Un secteur en mouvement.

**without Slums”, envisions upgrading all slums by 2012 and facilitating the economic integration of the urban poor by reaching 293,000 households in 83 towns and cities<sup>12</sup>.** This program has to be placed in the broader international context of the United Nations Millennium Development Goals which aims at improving living conditions of at least 100 million slum inhabitants by 2020.

The program is based upon the following principles:

- “City Contracts” which bind the local authorities and other stakeholders in the achievement of citywide programs by a set date at which a city can be declared a “City Without Slum”;
- The willingness to let the private sector play the lead role in housing supply; and
- An increase in affordable housing stock to meet the demand. The Government’s goal is to produce 100,000 social housing units and serviced land plots annually.

#### **b. *Financial Mechanisms***

The *Villes sans Bidonvilles* program includes three different types of slum improvement programs detailed below: “re-housing”, “re-sitting”, and “re-structuring”.

#### **c. *How households financed the three types of slum improvement programs***

##### *i. Rehousing (Relogement)*

Definition: Re-housing involves the demolition of the shacks and resettlement into new housing units assigned to the former inhabitants at affordable prices, typically in 4-5 story apartment blocks.

Average cost per beneficiary household (60m<sup>2</sup>) as initially envisioned: MAD120,000 (USD 16,500).

Planned State subsidy per household: MAD40,000 (one-third) (USD 5,500).

In practice, the cost of a re-housing unit in Casablanca is estimated at MAD 157,572<sup>13</sup> (USD 21,666).

Initially, the financial mechanism envisioned for housing units estimated at MAD 120,000, was having the household, the State, and municipalities each contributing one-third of the cost (or MAD 40,000)<sup>14</sup>. In practice, housing units have been provided at a much higher cost than MAD 120,000 and municipalities have typically not contributed.

The land is usually provided at no cost to the developer. Housing units are sold at construction cost, or well below market prices (sometimes at one-third of the market price creating an immediate equity position of up to two-thirds of the total market value for the household).

<sup>12</sup> Ministry of Housing and Urban Planning, Habitat et Urbanisme 2003-2007 Un secteur en mouvement.

<sup>13</sup> Holding Al Omrane, Greater Casablanca VSB evaluation, provisional report, January 2008.

<sup>14</sup> Source: Ministry of Housing, Social Housing Directorate, interview June 2008.

Households are expected to pay their share (often much higher than the MAD 40,000 initially planned) and the state will provide a subsidy to cover the difference. Other sources of financing include (i) cross-subsidization thanks to the few housing units sold to higher-income clients (sometimes for commercial purposes) as well as (ii) financial contributions from private land owners who recover their land and/or state-owned entities recuperating their land. State-owned entities that have contributed on specific projects for which they owned the land in Casablanca include Alem, the military agency which still owns land pieces initially dedicated to military purposes, ONCF, the national train company, and the Airport Office.

ii. *Resitting (casement)*

Definition: Re-sitting involves the demolition of the shacks and relocation to another site with newly serviced plots and basic infrastructure assigned to slum dwellers. There are two types: either the plots provided are fully serviced, or partially serviced at a minimum cost. Families are responsible for building their houses on these plots. In addition, some plots are designed to be acquired jointly by two households (bi-household), while others are to be acquired by one household (mono-household).

The cost of a re-sitting unit in Casablanca is estimated at MAD 87,815<sup>15</sup> (USD 12,000 in the case of a bi-household to be divided between the two households) and MAD79,912 (USD 11,000 for a mono-household).

Planned State subsidy per household: MAD25,000<sup>16</sup> (USD 3,437).

Households are expected to pay part of the land development costs and move voluntarily. Most do (see next section on sources of finance) and are given housing plans and building codes to which they are expected to adhere. The developer provides standard plans for a two or three-story house, where the bottom floor is usually for commercial use and the next two floors for residential use. For those who resist relocation, a negotiation process starts between the developer and the household. It is required that the shack be first demolished before acquiring the new plot and starting the construction. This lag makes the transition difficult.

Re-sitting is planned as a mixed-income development, where the small plots for the poor are cross-subsidized by larger plots sold at market rate to higher-income families.

iii. *Re-structuring (Re-structuration)*

Definition: Re-structuring refers to on-site upgrading on existing settlements, including services offered *in situ* (water, sanitation, electricity, and roads) and un-crowding most populated areas. This is the least disruptive option. This consists of improving the infrastructure while allowing the residents to remain on their plots. It was initially envisioned to apply this method to 29% of participating households or 70,000 of them (source: case study, USAID). In the case of restructuration only, there is no previous requirement to acquire the land, which significantly reduces the overall cost of this type of slum upgrading.

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<sup>15</sup> Holding Al Omrane, Greater Casablanca VSB evaluation, provisional report, January 2008.

<sup>16</sup> Source: Ministry of Housing.

The cost of a re-structuring a unit in Casablanca is estimated at MAD 23,879<sup>17</sup> (USD 3,283).

Planned State subsidy per household: MAD15,000<sup>18</sup> (USD 2,062)

#### iv. *Housing option*

Typically, a single housing solution or a combination of two of them is assigned to a whole slum or sections of a slum. The solution chosen is based on land, technical, and social considerations, which depends on the specific context of each city and slum. However, the criterion is not always explicit and it is usually not easy to understand what justified the choice of *re-logement*, *re-casement* or *re-structuration*. The choice of which path to take should be based upon a consensus of all stakeholders including the slum communities, but this is usually not the case. In some instances, the possibility of implementing a specific choice might be questioned due to a lack of feasibility study and household survey.

**Table N°1: Type of housing solution initially planned for Greater Casablanca**

		<b>Restructuring</b>	<b>Resitting</b>	<b>Rehousing</b>	<b>Total</b>
Total	# of HH	23811	37164	37153	<b>98128</b>
	%	24.27%	37.87%	37.86%	
Tranche 1	# of HH	467	11576	6281	18324
July 2004	%	2.55%	63.17%	34.28%	18.67%
Tranche 2	# of HH	17735	12264	4468	34467
Septembre 2005	%	51.46%	35.58%	12.96%	35.12%
Tranche 3	# of HH	5609	13324	26404	45337
Signed Late 2007	%	12.37%	29.39%	58.24%	46.20%

HH: households; source: HAO/Ministry of Housing, March 2008.

For Casablanca, in the absence of citywide slum improvement program, a project combining diverse operations in different subdivisions of the city has been structured in three branches. If *re-casement* and *re-structuration* were initially favored for the city, *re-lodgment* is now the favored option for more than half of the last tranche, while *re-structuration* remains marginal (see section on results for more analysis).

#### v. *Overall Cost of the Housing Solution*

The overall cost of the project is now estimated at MAD 25 billion<sup>19</sup> (USD 3.4 billion). This far exceeds initial estimates for the total cost of the program. Specifically for Greater Casablanca, the investment needed amounts to MAD 7.5 billion (USD 1 billion.)

<sup>17</sup> Holding Al Omrane, Greater Casablanca VSB evaluation, provisional report, January 2008.

<sup>18</sup> Source: Ministry of Housing.

<sup>19</sup> Source : Ministry of Housing and Urban Planning, VSB Program: state of advancement and perspectives, April 7, 2008.

## vi. Sources of financing

The financial mechanism includes a combination of public funding, financial contributions from slum households (either cash or through loans), and a variety of other complementary sources (municipalities, private land owners, etc.).

In Casablanca, the breakdown of sources of funding, regardless of the slum improvement housing solution chosen is the following:

- Subsidies: 35.5%
- Self-financing: 35.5%
- Cross-subsidization: 23.3%
- Municipalities: 0.9%
- Others: 5%

Subsidies and self-financing were initially planned to equally contribute to financing the housing solutions. In practice, it has been difficult to collect the self-financing portion of the contribution with effective self-financing at 17.4%. In addition, the municipalities' involvement is negligible, as they are primarily concerned with the protection of their own urban landscapes.

Given the strong commitment to the VSB program from the highest level of the state, public funding seemed the first logical source.

### • Subsidies

The VSB program is built upon a substantial share of public funding in order to mobilize land, develop the necessary infrastructure, and improve the affordability of housing. As of April 2008, out of a total estimated cost of MAD 25 billion<sup>20</sup> (USD 3.4 billion), 40%, or MAD 10 billion (USD 1.38 billion) is estimated to be derived from state subsidy.

In the case of Casablanca, the investment needed is up to MAD 7.5 billion (USD 1 billion), of which MAD 2.5 billion (USD 343.75 million) is funded by the Ministry of Housing<sup>21</sup> (one third).

### Social Housing Fund:

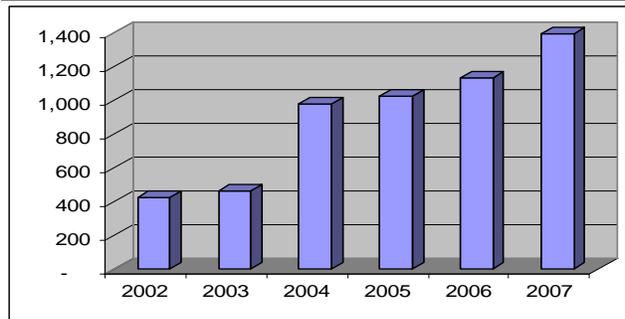
Created in 2002, the Social Housing Fund (*Fonds de Solidarité pour l'Habitat "FSH"*) is, together with the state budget, the main contributor through the collection of a special tax on cement (MAD 0.10 per kg or USD 0.01375 per kg). Thus far, FSH's resources have amounted to the equivalent of MAD 5.3 billion from 2002-2007 (USD 728 million) according to the Ministry of Housing. However, these resources are increasing with the rapid growth in cement production and have reached MAD 1.4 billion (USD 192.5 million) for 2007. Over the remaining years of the program, the Government expects to receive approximately MAD 1-1.5 billion a year to fund the program.

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<sup>20</sup> Source : Ministry of Housing and Urban Planning, VSB Program: state of advancement and perspectives, April 7, 2008.

<sup>21</sup> Same source : Ministry of Housing, Habitat et Urbanisme.

**Graph 3: Financial resources over 2002-2007 of *Fonds de Solidarité pour l'Habitat***



Source: Ministry of Housing, 2007 and World Bank

#### Ministry of Housing Investment:

The Ministry of Housing budget is expected to be approximately MAD 250 million/year (or US\$34.4 million) from 2004-2012, with the VSB program being the highest priority for allocation of resources to complement other contributions to fully fund the program.

#### Holding Al Omrane:

The parastatal housing society Holding Al Omrane was created in 2004 as a merger of the finances and staff of three state-owned housing societies, with a refocus of its mission on land development, so as to pave the ground for private developers. The state-owned regional developers (ERACs) were also merged into Holding Al Omrane, while their MAD 800 million debt (USD 110 million) to the state-owned bank CIH has been fully reimbursed. They have been recapitalized for MAD 900 million (USD 123.7 million) via a 2004 surplus from the National Fund for Land Acquisition and Equipment (FNAET).

Holding Al Omrane is in charge of the implementation of most of the VSB program: 243,639 slum households out of a total of 293,639 (or 83%) in the 83 cities targeted by the VSB program. The overall cost is MAD 24 billion (USD 3.3 billion) with a MAD 9 billion (USD 1.24 billion) state subsidy.

#### Idmaj Sakan:

Specific to Casablanca and reflecting the complexity of slum improvement in the city, Idmaj Sakan was created in January 2006 for VSB implementation as well as local stakeholders' mobilization and coordination. It is a joint-venture between the state (through the FSH), Holding Al Omrane, local governments (the Greater Casablanca region and the municipality or Commune Urbaine de Casablanca), delegated authorities (Préfecture), and state-owned banks. Its capital amounts to MAD 20 million (US\$2.75 million) and its inception business plan was MAD 746 million (US\$102.6 million) by 2010.

Idmaj Shareholders	Sakan's	Moroccan Dirham (million)	%
State (FSH)		7	35%
Holding Al Omrane		2,9	15%
State-owned banks		2,1; 2; 2	31%
Greater Casablanca Region		2	
Casablanca municipality	Urban	1	15%
Casablanca préfecture		1	
Total		20	

Idmaj Sakan has also mobilized resources from private land owners in Casablanca, helping free their land from slum dwellers. In practice, municipalities' involvement has been hard to achieve and Holding Al Omrane remains the main VSB implementer.

#### Donor support:

The VSB program has been supported by many donors including the World Bank, the EU, AFD, and USAID, mostly through concessionary loans or grants, either through the general state budget (case of the European Union grant) or through the parastatal housing company Holding Al Omrane, as the following elements extracted from the 2006 World Bank Report indicate:

- A European Union grant of EUR 90 million from the MEDA<sup>22</sup> budget was approved to support both the implementation of program's intent to fight sub-standard housing as well as the creation of socio-economic facilities close to the target neighborhoods in November 2005.
- A grant of USD 0.5 million has been approved by Cities Alliance to provide technical assistance to the Ministry of Housing for the implementation of the VSB program<sup>23</sup>.
- The European Investment Bank (EIB) approved a loan of EUR 71 million to the parastatal housing company Holding Al Omrane for the construction of off-site infrastructure for its land development and VSB operations in October 2004.
- *Agence Francaise de Développement* (AFD) approved a EUR 50 million loan to Holding Al Omrane for the implementation of slum up-grading operations in November 2004.

#### Municipalities:

Municipalities have usually not provided the financial contribution that was initially expected of them either through municipal land mobilization or through direct subsidy to individual households' contributions.

#### Municipality Equipment Fund (Fonds d'Equipement Communal):

This municipal bank provides medium to long term loans for land and infrastructure development.

#### Land mobilization:

<sup>22</sup> MEDA stands for the Euro-Mediterranean aid mechanism.

<sup>23</sup> Source : World Bank report, 2006.

Land has been mobilized primarily from the state in two segments: from 2003 to 2007, 3,400 hectares were mobilized from land pertaining to the state, and for the period from 2007 to 2012, 6,000 hectares have been identified for three new cities, one of which is close to Casablanca (called Lakhyayta).

At VSB's inception in 2004, it was envisioned that households would pay two-thirds of the land acquisition cost, whereas subsidies would cover one-third of them, as the following table demonstrates:

**Table 2. Land and financial requirements of the Villes Sans Bidonvilles program**

	Number of Households	Area of urban land needed (ha)	Cost (million MAD)	Subsidies (million MAD)	Beneficiary contributions (million MAD)
Commenced before 2004	28,290	1,663	6,537	1,818	4,719
Engaged in 2004	62,160	1,411	4,882	1,564	3,318
After 2004	81,870	2,106	5,700	2,035	3,665
<b>Total</b>	<b>212,320</b>	<b>5,180</b>	<b>17,119</b>	<b>5,417</b>	<b>11,702</b>

Source: MHU, Programme VSB, Orientations stratégiques et programmation, Septembre 2004

- **Self financing**

The VSB program is built on the assumption that slum households will financially contribute to the improvement of their housing conditions in order to build household equity and to conserve public resources.

Housing demand surveys<sup>24</sup> conducted in slums have highlighted a major finding: there is a wide disparity of income levels between households living in slums. This discrepancy spans the spectrum from those who can pay cash for the new housing units to those who would need access to loans to afford them and to those who are essentially destitute.

The financial contribution of slum households depends on the methodology (*re-logement, re-casement, and re-structuration*) as described in the previous section and has, in practice, further been tailored to each specific slum. In Casablanca, slum households' effective contribution has so far been only 17.5%, against 35.5% initially planned.<sup>25</sup>

- **Formal Savings**

A critical gap in the VSB program is the lack of an explicit savings-to-home-ownership policy as a way to demonstrate the potential borrower's ability and willingness to repay a loan.

<sup>24</sup> Examples of Housing Demand Surveys include among others those conducted by ShoreBank International in the second half of 2005 in Fez and Rabat-Salé.

<sup>25</sup> Holding Al Omrane, Casablanca VSB evaluation, provisional report, January 2008.

So far, Moroccan commercial banks have not offered savings programs to enhance home ownership. Fierce competition among banks has prevented them from requiring potential borrowers to have accumulated savings to qualify for a loan. However, since banks are not typically competing for slum dwellers as new clients, the government could offer a fiscal incentive to clients for saving and then engaging with the banking sector. The World Bank has been providing substantial help in assisting the Government of Morocco develop new legislation for savings to homeownership.

- **Mortgages**

In 2005, only two state-owned banks had made a modest number of loans (2,600) under Fogarim Guarantee Program<sup>26</sup>. Moroccan banks remembered their past experience with state-backed guarantee programs for small business lending: as portfolio quality had deteriorated, the guarantee fund had become undercapitalized and the state paid back the banks through 10-year treasury bonds. Thus, a guarantee fund such as Fogarim was considered necessary but insufficient to engage private commercial banks in new target segments which they viewed as more risky. In early 2006, private banks progressively developed housing finance products to target low-irregular-income earners in Morocco. Intensive technical assistance and training have been provided under USAID, then CGAP/World Bank funding by ShoreBank International to Banque Populaire and more intensively to BMCE Bank from late 2005 to mid-2007 to help them adapt their lending methodology to this new market segment. These loans are mostly purchase loans but also include a smaller share of construction loans (see section on Fogarim below for loan characteristics), which involve higher risks linked with potential overruns in the cost and time to completion of the construction stages.

Banks have now entered this target market considering housing finance as an entry point to provide broader financial services to a new customer segment. Banks have begun competing on rates and maturities as well. Lower interest rates combined with longer maturities (see Fogarim section below for more detail) have helped make these loans more affordable.

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<sup>26</sup> Source: Fogarim Caisse Centrale de Garantie.

- **Housing Microfinance**

The Budget Law for 2004 opened the possibility for Microfinance Institutions to make housing loans up to MAD 30,000 (USD 4,125). This ceiling has recently been raised up to MAD 50,000 (USD 6,875).

The main Moroccan MFIs (Al Amana, Zakoura, Fondation Banque Populaire, Fonddep, and Amsff) started to engage in housing finance in 2004, after having developed individual loans a few years ago. Housing loans, however, remain a relatively small portion of their portfolio.

Al Amana is the leading Moroccan MFI, founded in 1997, with 481,303 active borrowers, an outstanding portfolio of MAD 2.37 billion (or approx. USD 320 million) and as of December 31, 2007, 433 branches, and over 2,000 staff throughout the country. A fast growing institution, Al Amana has recently begun offering housing microfinance and is interested in reaching scale for poor people in Morocco by adapting its classic housing finance products and approaches to the slum context. On the other hand, Zakoura had been involved earlier in providing access to housing finance to slum households in Casablanca.

MFIs still have a limited role as far as the VSB program is concerned. They are more involved in incremental housing construction and *re-structuration* than in re-housing, although there are a few exceptions.

Typically, MFIs offer the following housing loans to non-slum clients. They are currently trying to fully tailor their product offerings and methodology to the specificities of the slum context:

**Loans for home improvement (re-structuring)** constitute the bulk of the portfolio and are increasing rapidly since a house costs much more than the maximum loan amount authorized to MFIs. **Loans for connection to basic services (electricity)** have been developed by the larger MFIs to cover the “last mile” and pay for the connection of their own dwelling to the main infrastructure when the State doesn’t provide this service. **Purchase Loans (for re-housing)** are limited due to the legal ceiling on the maximum amount of the loan provided by MFIs (MAD 50,000). They represent only five percent of total housing loans provided by the two main MFIs<sup>27</sup>. **Loans for housing down-payments (re-housing)** have started to be disbursed by a few MFIs as new housing units under the VSB program can only be secured through a deposit provided by the household to the developer: its relatively small amount cannot be easily financed by a bank. For **Construction Loans (for re-sitting)**, MFIs still feel it is too precarious to monitor the risks inherent to the construction process. MFIs would need help to better tailor their strategy and approach to the specific VSB context, better manage risks, estimate construction costs, monitor and control the construction process at the different construction stages, review their policy on guarantees, develop in-house or external technical assistance in the construction process to slum dwellers, and build the right partnerships with the numerous stakeholders. Due to these reservations, re-sitting still represents less than one percent of total loans provided by the two main MFIs<sup>28</sup>.

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<sup>27</sup> Source: Housing Finance for the Poor in Morocco, Case study developed by DAI on behalf of USAID, 2008.

<sup>28</sup> According to the Case study on Housing Finance for the Poor in Morocco developed by DAI/USAID in 2008.

## Bank/MFI partnerships

The Bank/ MFI relationship in Casablanca and greater Morocco is exemplified by the partnership between BMCE Bank and two of the main MFIs (Al Amana and Zakoura), whereby the MFIs act as service providers to the bank, with each partner focusing on their or her comparative advantages:

- MFIs tend to deal more with low-and irregular income populations such as slum households. Due to this experience, they have a methodology better suited to originating, underwriting and collecting loans for this target segment.
- Banks possess the financial resources and size to provide larger loan amounts, longer maturities, and lower interest rates than MFIs.
- The relationship between Banks and MFIs can thus be depicted as MFIs working primarily in the field with individual customers, while the banks themselves take a more behind-the-scenes role (the Service Model). Loans would be registered on the bank's books and MFIs are paid a fee for their services. Historically, the fee structure (US\$50 per screened applicant) has failed to take into account such considerations as portfolio quality, which could have been an additional interesting feature of the partnerships.

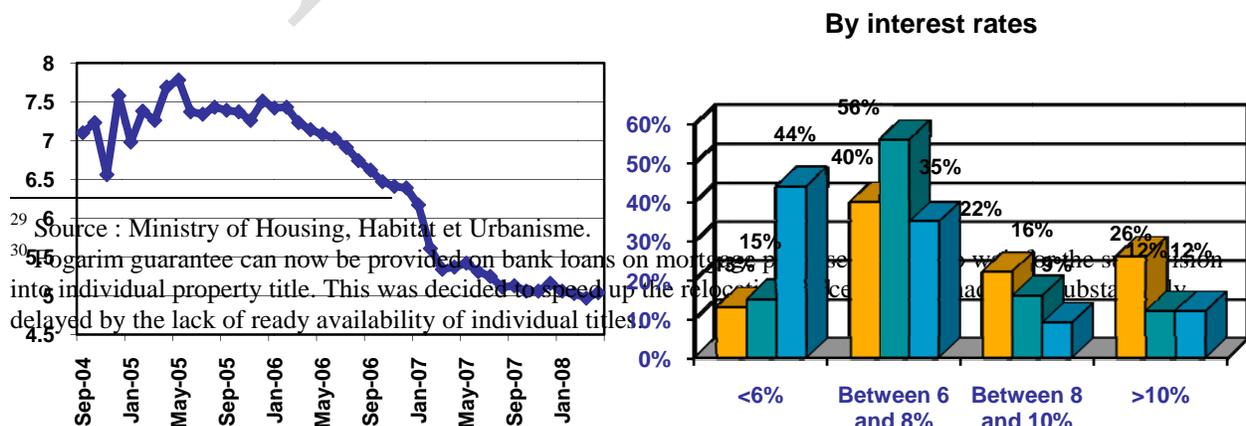
### • Fogarim (role of guarantees)

Fogarim is a state-backed guarantee program created in December 2003 to replace interest subsidies and facilitate access to housing finance for low- and irregular-income households through bank loans.

- The parameters of Fogarim are as follows:
  - Fogarim provides a 70% coverage of the principal and interest on bank housing loans for:
    - Low-income segments: Maximum monthly amount of MAD 1,500 (USD 206)
    - Irregular-income households (precondition: not to be wage-earners)
  - Fogarim-backed loans are thus not solely restricted to slum households
    - Loan purpose includes: (i) housing purchase, (ii) construction, and more recently (iii) land acquisition.
  - The loans are given with a fixed interest rates and a maturity of 2-30 years (in practice an average of 20 years).<sup>29</sup>

Mortgages as well as life insurance covering the loan period are required.<sup>30</sup>

**Table N°3: Fogarim loans evolution and structure**



<sup>29</sup> Source : Ministry of Housing, Habitat et Urbanisme.

<sup>30</sup> Fogarim guarantee can now be provided on bank loans on mortgage purchase with the same conditions as before, but the relocation of the loan into individual property title. This was decided to speed up the relocation of the loan into individual property title, which was delayed by the lack of ready availability of individual titles.

Source: Ministry of Finance, Treasury Directorate, Nouaman AlAissami

Results:

- The cumulative number of guarantees has reached over 34,600 as of late April 2008 totaling over MAD 5.1 billion (USD 700 million), or an average amount of approx. MAD 147,000<sup>31</sup> (USD 20,212).
- Four banks (CIH, BMCE, Wafa Immobilier, and Banque Populaire) are providing the bulk of Fogarim loans.
- Fogarim loans represented 16% of all housing loans in Morocco in 2007 according to the Ministry of Finance.
- Loan to value (LTV) is approximately 80% on average.
- Interest rates have dropped from approximately 7.5/8% in 2005/2006 to 5/5.5% since early 2007.
- 52% of Fogarim-backed loans targeted Casablanca.
- 96.4% of loans were allocated for re-housing, while very few (3.6%) were issued for re-sitting as of mid 2007.<sup>32</sup>
- 57% of these loans target men, while only 43% reach women.
- 10% of Fogarim-backed loans have been granted to slum dwellers (see below).
- Only 3.2% of slum dwellers that have benefited from VSB have done so through Fogarim-backed loans (see estimate below).

**Estimate of slum beneficiaries from Fogarim-backed loans:**

As banks do not specifically track loans granted to slum households, we have calculated below the estimated number of Fogarim loans dedicated to slum dwellers:

Out of a total of 26,000 Fogarim loans as of late October 2007, 2,600 loans targeted housing units with a cost below MAD125,000, the maximum cost of housing units offered by the *Villes sans Bidonvilles* program, or 10% of the overall number of Fogarim loans. If we assume that all of these loans were dedicated to slum dwellers, and because 81,000 had already benefited from VSB, we estimate that only around 3.2% of all slum dwellers who have profited from the program have done so through a Fogarim loan.

Thus, access to finance for slum dwellers remains marginal in Morocco.

- Delinquency as of April 2008 remains relatively low, but it is still too early to fully evaluate. All publicly available data comes from the Ministry of Finance which only monitors loans that have been delinquent for nine months.

<sup>31</sup> Same source: Ministry of Housing, Habitat et Urbanisme.

<sup>32</sup> Same source : Ministry of Housing, Habitat et Urbanisme.

- Please note that the 2005 data is not considered representative because it only surveys 270 loans from late 2004 which were during Fogarim's inception.
- Slightly over 1.3% of loans made in 2005 were considered delinquent as of late 2007.
- Guarantee commitments are limited to eight times the fund's equity, which is equivalent to a 12.5% credit risk.
- Fogarim is supported by the *Fonds de Solidarité de l'Habitat*, between 2004 and 2007, MAD 400 million have been transferred from FSH to *Caisse Centrale de Garantie*, which manages Fogarim, in order to cover the risks born by banks providing corresponding housing loans. According to the Ministry of Finance, by late 2008 the fund is expected to receive a total of MAD600 million.
- However, as Fogarim production rises quickly, estimated needs for resources is estimated to increase from MAD 500 million (USD 68.75 million) 2008 to MAD 6 billion (USD 825 million) in 2028 assuming it follows the ensuing trajectory: a delinquency of 10% and a production increase of 2.5% per year. (See Annex 2 for detailed data on Fogarim loan delinquency and their plans of reforms).

- **Other sources of finance**

In addition to the other sources of finance already mentioned (cross-subsidization, private promoters, municipalities), fiscal incentives benefiting developers have also emerged as a way to boost housing growth. Developers who commit to constructing 2,500 social housing units in five years are totally exonerated from taxes. Seventy-five such contracts were signed between 2000 and 2007 between developers and the State to construct 192,500 social housing units, 75,000 of which have been constructed and 58,000 of which are a work in progress<sup>33</sup>.

- d. **Key financial actors**

*Villes sans Bidonvilles* is founded on a City-Contract between multiple stakeholders as highlighted in the matrix below.

**Table N°4: Institutional Matrix of VSB Financial Stakeholders**

Financial Stakeholder	Role and Responsibilities in VSB
The King of Morocco	Initiated the new reform agenda; High level of support to the program
Ministry of Housing	Key organizer of VSB
Ministry of Finance	Responsible for the design of housing finance instruments: Fogarim and housing savings schemes; in charge of the overall State Budget
Ministry of Interior	Walis and Governors supervise the timely implementation of VSB: they preside over the regional and provincial VSB coordination and implementation committees, are responsible for ensuring land availability, local government resources mobilization, and for preventing and controlling slum proliferation

<sup>33</sup> Same source: Ministry of Housing, Habitat et Urbanisme.

Housing Social Fund (Fonds Social de l'Habitat)	Mobilize resources dedicated to social housing programs through a MAD0.10 per kg tax on cement
Local Governments	City Hall Presidents take part in the determination of intervention modes and the City-Contract. They are responsible for slum proliferation prevention and control, informing the targeted populations of the program, and helping them to get organized into local associations, financially contribute "on an as needed" basis (i) to municipal land mobilization, (ii) to primary and off-site infrastructure financing through the <i>Fonds d'Equipement Communal</i> (Municipality Equipment Fund), (iii) to ensure the financial balance of the projects and alleviate the financial contribution of slum households; speed up the delivery of authorizations and permits. In practice, varied levels of support to the VSB program
Municipality Equipment Fund (Fonds d'Equipement Communal)	Provides medium to long term loans to municipalities to finance primary infrastructure and land development
Parastatal Housing Company (Holding Al Omrane)	Responsible on technical, financial, and social levels for the implementation of slum upgrading operations until households are installed and get individual land titles; ensure financial balance of operations through the collection of households contributions
Idmaj Sakan (joint-venture specific to Casablanca)	Created in 2006 for VSB, they focus on implementation and local stakeholders mobilization in Casablanca
Contractors/Developers	Construction of units at the request of Ministry of Housing or the parastatal housing company (Holding Al Omrane) through competitive bids and incentives such as provision the of public land and fiscal rewards.
Private Land Owners	Private land owners may be asked to financially contribute to subsidize households contribution in exchange for the total or partial liberation of their formerly occupied land
Commercial Banks	Delivery of housing credit (purchase and construction) backed by Fogarim guarantee program
Microfinance Institutions	Delivery of housing credit; do not benefit from Fogarim guarantee program
Donor Community	Provide concessionary loans and/or grants to the State and through Holding Al Omrane

Source: Ministry of Housing, VSB Procedural Manual, December 2003.

### Developers:

Developers are encouraged to participate in the social housing market through incentives such as tax exemptions and land serviced by Holding Al Omrane. The parastatal Holding Al Omrane

(HOA) acts as the developer for many of the slum upgrading projects, including land servicing. HAO was created in 2004 to reform multiple, state-owned developers (ANHI, Attacharouk, SNEC, including the 10 ERAC which have been integrated into the holding). The goal is for HAO to move away from social housing construction, an area in which private developers are expected to be more involved, and toward land servicing and overall implementation of VSB operations.

Contractors and private developers are increasing their participation in social housing production. The Government via HAO is prepared to transfer serviced land to these individuals at below market value (often at no cost) or help them get back their own land in the case of private ownership, if they commit to construct a certain number of low cost housing units<sup>34</sup>. Currently, private developers are more engaged in re-housing than re-sitting.

## **VI. A Review of Results and Impacts**

### **An Ambitious National Program Emanating from the Highest Level of the State**

The *Villes sans Bidonvilles* initiative is an ambitious program that seeks to improve slum housing conditions through a tangible willingness by the State to improve living conditions of slum households in Morocco by applicable deadlines. Contrary to previous practices, the *Villes sans Bidonvilles* program is prepared to implement a number of interesting and innovative features, such as a role for the city at the core of city-contracts, a willingness to involve the private sector in the form of the financial sector and private developers, and a recognition of the need to involve slum communities the primary stakeholders in the slum improvement process.

### **The Challenge of Implementation and Timing**

After almost four years since the program's inception in July of 2004, 19 cities<sup>35</sup>, including Casablanca which has only partial contacts, and 30% of the slum population have not yet signed with the Ministry of Housing.

As of late March 2008, the number of shacks that have been either demolished or restructured was 82,000 out of a total of 293,000<sup>36</sup>.

In the Greater Casablanca area, eight operations have been instigated, targeting 13,000 households from mid-2003 to 2007. With a global cost of MAD 1.2 billion, the state has so far subsidized MAD 376.6 million of the project.<sup>37</sup> As of late 2007, only 16.4% of the proposed program for Casablanca had been completed. Around half of its operations have either run into problems or have not started yet (see below).

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<sup>34</sup> Source: Ministry of Housing, Regional Director for Casablanca, interview June 23, 2008.

<sup>35</sup> World Bank, sector policy note, April 2008.

<sup>36</sup> World Bank, *ibid.*

<sup>37</sup> Same source : Ministry of Housing, Habitat et Urbanisme.

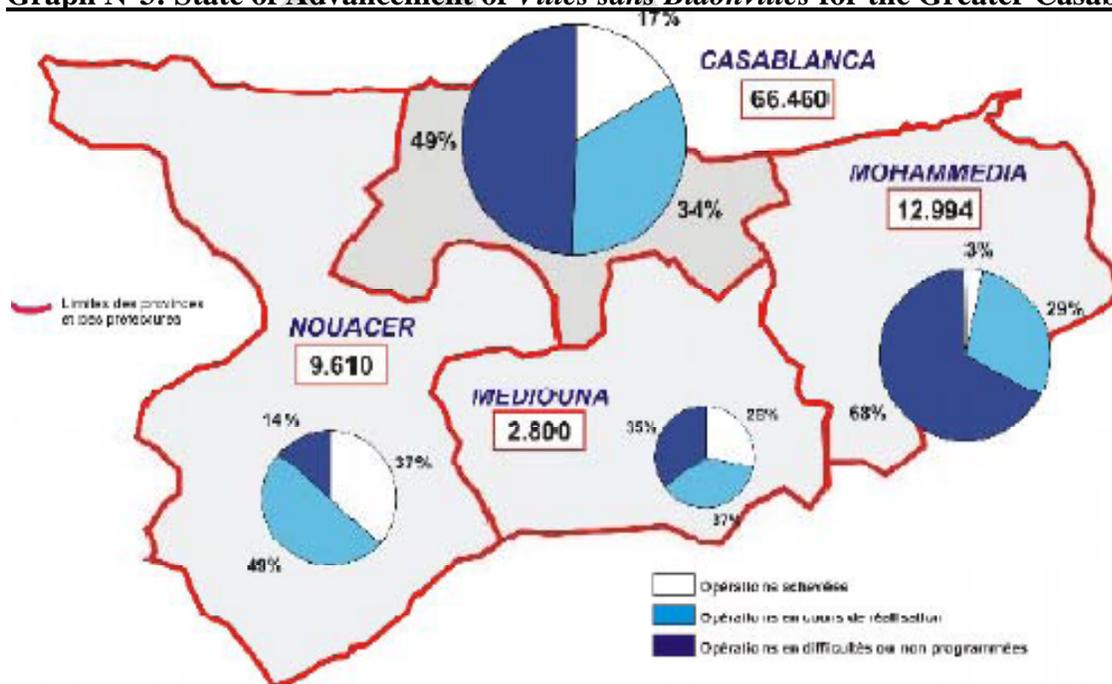
**Table N°6: State of Advancement by Tranch as of late 2007**

		Total	Achieved		Remaining	
				Of Which Transferred	On-going	Problematic or Not Started
Total	# of HH	<b>98128</b>	16087	8250	33722	48319
	%		<b>16,39%</b>	8,41%	34,37%	<b>49,24%</b>
Tranche 1	# of HH	18324	11275	6000	26254	10450
	%	18,67%	<b>61,53%</b>	32,74%		
Tranche 2	# of HH	34467	4812	2850	49,73%	19,80%
	%	35,12%	13,96%	8,27%		
Tranche 3	# of HH	45337	0	0	7468	37869
Signed Late 2007	%	46,20%			16,47%	83,53%

Source: HAO/Ministry of Housing, March 2008.

There are 82, 041 slum households which were waiting for aid as of late 2007. Thus, in order to achieve the program goal by 2012, the production growth must be equal to 16,400 units of “equivalent” housing per year over the next five years. Given that between 2004 and 2007, growth did not exceed on average 4,000 per year, the current trajectory must be quadrupled to reach its target size. In addition, in year 2005-2006, the production of equivalent housing in the greater Casablanca was only 22,000, meaning that to meet the projected goals, three-thirds of current production must be dedicated to slum dwellers.<sup>38</sup>

**Graph N°3: State of Advancement of Villes sans Bidonvilles for the Greater Casablanca**



<sup>38</sup> Source: HAO/MHU, provisional report, March 2008.

Legend: white: operation achieved; light blue: on-going operation; dark blue: operation in difficulty or not yet started; source: Holding Al Omrane, Greater Casablanca VSB, provisional report, January 2008.

### **A Distinctive “VSB” Concept:**

The official tagline of VSB is to “eradicate all slums” by 2012. Morocco’s explicit confrontation of its slum problem contrasts with other regions of the world, such as Latin America where these types of issues are perceived to be “accepted”, and India, where there has yet to be any official acknowledgement of the subject.

Urban poor tend to be perceived as a problem, a liability, rather than an asset for a developing city. Slums are often seen as “infections” which need to be “treated” by a rigid deadline, which does not always take into account the broader framework of economic development. This type of approach focuses on solving immediate consequences of the region’s economic problems, i.e. the slums, but by failing to address the root cause, tends to provide a transitory, rather than a lasting solution to the broader issues.

### **Lack of Involvement of Slum Communities:**

More often than not, communities have not been involved in the primary choices pertaining to their own development, but rather have been asked to adhere to a program that had, to a large extent, been previously defined.

Involvement of the targeted population in the implementation of slum improvement was limited to a few cases by *Agence de Développement Social*, a public agency with a mandate for poverty alleviation, and NGOs financed by USAID. This key element was only introduced after the program had been defined and appears to have not been evenly or widely implemented.

Households were typically given no input as to the type housing and its cost, factors which might lead them to default. Without direct involvement in their pay schedule, there is the risk of mass boycott of payment.

The importance of the State, which transforms slum dwellers not into citizens, but into assisted people to avoid providing incentives for these types of settlements, should be stressed.

### **Lack of Involvement of Local Governments:**

All local governments are required under the program to provide a comprehensive plan for slum eradication. They are also required to provide land free of charge for developers to re-house and/or re-sit slum populations and financially contribute to the slum eradication. In a number of cases, however, land is provided by the Central Government and/or private owners. So far, citywide slum upgrading for Casablanca has not been achieved. Partial contracts have been signed between stakeholders, who include national, regional, and local governments, as well as public and/or private developers, and other stakeholders.

*Villes sans Bidonvilles* is often perceived as a top-down approach, where the Ministry of Housing is the key player and delegates authority from the Ministry of Interior (Wilayas, Provinces, Préfectures) and the implementing agencies. Yet, the program has not been successful in ensuring local municipalities are actively involved.

The program focuses on spatial and urban considerations, without giving equal weight to economic and social concerns. Urban documents for instance have not usually taken into consideration the VSB program in their overall design.

**The Challenge of Providing Affordable Housing:**

Housing in Morocco is currently not affordable to the five lowest deciles of the population. The current price for affordable housing is around MAD 200,000 (\$27,500) and loan conditions under Fogarim (interest rate around 6% for maturities ranging between 15 and 25 years) leave clients with monthly payment between MAD 1000 and 1500 (\$137 and \$206). Assuming that a typical household contains five persons and that 30% of annual expenses are delineated as the maximum mortgage payment, almost 50% of the population cannot afford a housing loan.

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**Table N°7: Repartition of the population by maximum monthly mortgage payments**

Deciles	Average annual expenses per person in urban setting	Maximum affordable monthly mortgage payment
1	3682	460
2	4700	587
3	5690	711
4	6680	835
5	7903	988
6	9249	1156
7	11143	1393
8	14101	1763
9	19652	2457
10	-	-

Source: National survey on household consumption and expenditures, 2000, 2001 and World Bank, sector note, April 2008.

As a spread of Fogarim loans by monthly repayment distribution shows, only one fourth of all Fogarim loans have monthly payments below MAD 972 (USD 133.65).

New housing units at MAD120,000 (USD 16,500) were initially envisioned to meet the needs of the third, fourth, and fifth deciles as defined above. Unfortunately, the production of such low cost housing units has decreased over the last years, from 2,800 in 2004 to 2,200 in 2006, representing less than 2% of the overall production of new housing units.<sup>39</sup>

#### **Inadequate Housing Supply:**

There are currently 21,000 re-housing or re-sitting units that have been produced but remain vacant as of late March 2008.<sup>40</sup> This illustrates the inadequate adaptation of the loan products to meet the demand and financial capacity of households. The aforementioned unsold units are increasing, from 11,000 as of late 2005 to 17,000 as of February 2007 and 21,000 as of late March 2008, and represent one-fourth of overall production. These unsold units, which despite large subsidies have failed to arouse interested “buyers”, highlight the unease of the targeted populations in using formal market mechanisms.

While slum dwellers tend to be re-settled close to their previous location, there have been cases reported in Casablanca, for instance, where due to overcrowding, persons have migrated to new locations that are a couple of kilometers away. This type of movement involves additional costs for transportation and for informal business workers, a situation in which they are removed from their traditional marketplace. Regulations which prevent such workers from trading from their home or using their home as a workplace represent substantial additional costs to pay for a separate workplace that can't necessarily be born in addition to the housing cost.

In a number of cases, the new housing units are smaller than the slum dweller's shacks. The initial design was to build a new unit for each shack, not for each household, yet, some slum

<sup>39</sup> Source : World Bank, sector policy note, A. Bigio and M. Abdallaoui-Maan, April 2008.

<sup>40</sup> World Bank, *ibid.*

dwellers have requested several units due to the fact that their families have subdivided into new households, are refusing to resettle until they are granted that the additional housing meet their growing needs.

New homeowners are facing increasing costs (electricity and water that they previously did not pay) and have to reallocate funds that could have been used for other amenities (business, education, health).

### **The Challenge of Achieving the Right Target Population:**

Some households which have adequate or more than adequate funds are still given large subsidies through the slum improvement process, while others cannot afford the proposed process and sell their plots/new housing units despite the regulations against it, and move to another slum.

Many subsidies are not rigorously targeted to the poor and have leakages to higher-income populations due to a combination of weak enforcement such as inadequate income verification (only a “statement of honor” is required), subsidized units for re-sitting or re-housing which have been left vacant, re-sale by the poor to speculators, and sale prices which are much lower than market prices. These types of misallocations have led to many allegations of corruption within the program. Strict monitoring and oversight must be implemented to ensure that the subsidies that are given will benefit the poor. To address this problem, the Government of Morocco has recently developed a database to monitor the beneficiaries of the VSB program.

Corruption is also an issue when developers request an “unofficial” amount from clients (in the “black”) to make sure housing units exceeding the MAD200,000 ceiling required to benefit from Fogarim guarantee can be brought back under MAD200,000 to artificially qualify.

Lastly, the number of targeted households is still increasing, from 277,000 in 2007 to 293,000 in 2008<sup>41</sup> which means that not only will the current demand need to be met through a reorganization of the program, but it will need to grow to adequately address growing demand.

### **The Challenge of Accessing Capital:**

MFIs are still capital-constrained and inhibited by maximum loan size. They have not really found the right positioning in relation to the program as of yet, due partly to the fact that they are not favorably perceived in relation to banks given their higher interest rates.

Banks are still providing very few loans to slum dwellers themselves and the Fogarim guarantee system has benefited low and irregular-income earners that had previously no access to finance but who are not primarily slum dwellers. It is still too early to assess the long-term risks for Fogarim as their 20-25 years loans have been extended by almost four years. The real test will come in the next five to ten years.

Consumer education is sorely needed for the illiterate segments of the population traditionally excluded from access to finance.

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<sup>41</sup> World Bank, *ibid.*

## VII. Summary of Potential Lessons Learned

- A flexible approach and integration of the extreme diversity of demand is better tailored to the needs of slum improvements than a rigid, supply-driven, and top-down design.
- Governments will never have sufficient funds to scale up slum improvement programs to a level that parallels the rapid growth of slum populations. Only by mobilizing private capital and extending access to finance to slum dwellers to improve their housing conditions on a sustainable basis will it be possible to achieve the desired results.
- There is a market for the private sector at the bottom of the pyramid. Financial business models that are properly designed to meet a specific demand can be effective in mobilizing private sector involvement in slum upgrading at scale:
  - Retail Platforms or one-stop-shops located in slum neighborhoods that involve all stakeholders (from social engagement to utilities, from developers to financial institutions and notaries), to facilitate administrative, legal, and banking formalities involved in the housing transaction.
  - Public-private partnerships between parastatal housing societies and private developers can be achieved through a combination of competitive bids on the construction of a large number of low-cost social housing units and properly designed tax incentives. Even in a best case scenario, private developers are challenged to provide low-cost housing units required by re-logement both in terms of cost and number of units.
  - Partial credit guarantee programs are necessary but not sufficient to facilitate access to finance for traditionally excluded sectors of the economy. They are necessary, as they can be used by financial institutions as a last-resort security net to help them take the risk and learn how to safely lend to new target markets. Guarantees on their own are insufficient, as financial institutions cannot consider the guarantee a substitute for proper underwriting.
  - Thus, strengthening financial institutions capacity is key to ensuring effective delivery of financial products for slum dwellers and remains consistent with the institution's overall safety and soundness guidelines.
  - Facilitating loan repayment and better mitigation of risks are areas in need of further improvement. These improvements would be best achieved by way of innovative techniques (i.e. prepaid cards, use of alternative distribution networks for loan repayment, etc) to further secure the loan process.
  - Social engagement and financial literacy are keys to ensuring the community's involvement in the program, bringing slum dwellers closer to financial institutions, and educating them about their rights and obligations as mainstream bank clients, homeowners, and citizens.
- Not all slum dwellers have the employment/income stability necessary to become homeowners. Mechanisms such as savings-to-homeownership and a rejuvenation of the rental market are necessary to provide a transparent and fair basis equitable solutions tailored to the diverse means of slum households.

- In order to have a lasting impact beyond the original initiatives of the programs, it is necessary to complement slum improvement programs with prevention programs and overall reforms (legal, urban, judiciary) to address the root cause of the housing problem.
- “People don’t rebel because they are poor but because they are excluded from the system. To give people a stake in the economy, to prove to them that government is in the business of including them in formal society, is to put the terrorists out of business.” (Hernando de Soto, The Other Path).
- Excluded low-income masses could become the most important source of prosperity for developing countries. Conversely, if they remain excluded, one should not be surprised to see them railroaded into alternative economic, political, social, and religious paths.

### VIII. Conclusion

The *Villes sans Bidonvilles* program is an ambitious and challenging endeavor to improve the living conditions of all slum dwellers in Morocco.

It has its share of challenges and, more often than not, its strengths are at the same time potential threats:

- A comprehensive program with strong support at the national level carries the risk of being perceived as state-owned and thus a state-financed program;
- Clear and ambitious targets might pose a threat to the whole program’s credibility if the program gets substantially delayed; and
- The laudable ambition to fully eradicate slums (including those slums that have already been upgraded) might lead to overly technical and costly mechanisms posing a double challenge of timely implementation and complete financing.

There have been, however, interesting and innovative mechanisms designed, which might be worth replicating as the program moves forward:

- A smart tax on cement production to finance a large portion of the program
- Public-private partnerships with private developers
- Fogarim credit guarantee mechanism
- Retail platforms or one-stop-shops
- Bank/MFI partnerships

Due to the fact that slum dwellers have historically been excluded from access to the mainstream financial sector, creating an inclusive system that would serve the poorest segments of society is one of the remaining frontiers in access to finance. Cities are built in conjunction with the way they are financed so a comprehensive system that incorporates the slum population into the formal sector is vital to a long lasting, sustainable solution to Morocco’s housing program.

It is still too early to evaluate the VSB program as a whole. This study has, however, allowed us to learn, if not always “how to”, at least “the need to” devise ways of both integrating the urban poor into financial and housing markets as well as interacting with and involving stakeholders as diverse as authorities and locally-elected persons, private bankers, developers, NGOs and slum

communities. The *Villes sans Bidonvilles* program is also an attempt to promote longer-term solutions to the problems facing Morocco's financial and economic sectors as a whole.

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### **Annex 1: Slum Concentrations in the Greater Casablanca**

In terms of geography, precarious housing stock is present in all areas of Casablanca, with four concentrations (Lahraouiyyine, Sidi Abderrahmane, Sidi Moumen, Mohammedia)



**LAHAROUYINE**



**SIDI ABDERRAHMANE**



**SIDI MOUMEN**



**MOHAMMEDIA**



## Annex 2: Delinquency and Reform of Fogarim

Table N°4: Delinquency:

	Total production	
	Amount (in Mil)	Number
2004	28,0	270
2005	255,1	2 633
2006	1 518,4	10 522
2007	2 480,1	15 553
<b>Total</b>	<b>4 281,6</b>	<b>28 978</b>

	2005		2006		2007		Total	
	Amount	Number	Amount	Number	Amount	Number	Amount	Number
2004			4,20%	3,70%	1,24%	1,11%	5,44%	4,81%
2005	0,04%	0,04%	0,82%	0,80%	0,45%	0,49%	1,31%	1,33%
2006			0,43%	0,41%	0,59%	0,52%	1,02%	0,93%
2007					0,08%	0,07%	0,08%	0,07%

Source: Ministry of Housing, Treasury Directorate, Nouaman Al Aissami, May 28, 2008.

A reform of Fogarim fund is underway, with the upcoming implementation of a guarantee premium<sup>42</sup>.

- A premium of 0,65% applied to the guaranteed amount (70%), which corresponds to an additional interest rate of 0,46% for beneficiaries;
- The system is designed as an incentive for beneficiaries to increase their financial contribution: for a contribution of 20% of the household's income to the housing cost, a deduction of 20% is applied on the premium

<sup>42</sup> According to the Ministry of Finance, Treasury Directorate, Nouaman Al Aissami.

- This system is designed to reduce the need for public resources from MAD 6 billion to slightly over MAD 3 billion. This system, however, does not improve the housing finance affordability.

In addition, broader reforms aimed at designing incentives based on the quality of banks portfolio (modulating the premium by bank for instance) or on limiting the guarantee by bank portfolio have also been discussed. The long term objective is to transform Fogarim into a mortgage credit insurance institution and open its capital to banks and institutional investors

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