

Report No: ACS9438

Republic of Iraq

IQ-Provision of Affordable Housing

June 11, 2014

MNSSU

MIDDLE EAST AND NORTH AFRICA



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Potential for Improved Affordable Housing Provision in Iraq through Private Sector Participation (PSP)

Policy Brief

ACKNOWLEDGEMENTS

The production of this report was completed in two phases that were implemented sequentially. The first phase involved mobilizing both Iraqi and International experts in order to deepen the understanding of the sector issues, to gather best international practices from comparative country examples , and to formulate preliminary policy options and recommendations. The second phase focused on adapting the appropriate policy options and recommendations to the context of Iraq.

The first phase was led by Sateh Chafic El-Arnaout with inputs from Ali Ammar, David A. Smith and Gerald Erbach. The second phase was led by Ellen Hamilton with support from Max Budovitch and Bernadette Baird-Zars. The implementation of the overall activity was supervised and guided by Sateh Chafic El-Arnaout with support from Lana Salman and Lamia Zaki.

The team would also like to acknowledge the following peer reviewers for the valuable guidance provided: Sorya Gaga (Lead Urban Specialist, ECSUW); and Mila Freire (Urban and Housing Consultant). Finally, the team is grateful to the support received from Franck Bousquet (Sector Manager, MNSSU) during the implementation of this activity.

Abbreviations and Acronyms

AFH	<i>L'Agence Foncière d'Habitation</i> (Urban Land Agency)
ANHI	National Shelter Upgrading Agency
ARRU	<i>L'Agence de Réhabilitation et de Rénovation Urbaine</i> (Urban Rehabilitation and Renovation Agency)
BH	<i>Banque de l'Habitat</i> (Housing Bank)
CPS	Country Policy Strategy
CSO	Central Statistical Office
DH	Moroccan Dirham
FOPROLOS	<i>Fonds de Promotion des Logements pour les Salariés</i> (Fund for the Promotion of Housing for Wage-Earners)
GCC	Gulf Cooperation Council
GDPP	General Directorate of Physical Planning
GDRE	General Directorate of Real Estate
GHDC	Government Housing Development Company
GoI	Government of Iraq
ID	Iraqi Dinar
IDP	Internally Displaced Person
LGAF	Land Government Assistance Framework
LPAC	Land Policy Advisory Committee
MEHAT	<i>Ministère de l'Équipement, de l'Habitat et de l'Aménagement de Territoire</i> (Ministry of Public Works)
MoF	Ministry of Finance
MoCH	Ministry of Construction and Housing
MMPW	Ministry of Municipalities and Public Works
NHF	National Housing Fund
NHP	National Housing Policy
NHS	National Housing Strategy
NIC	National Investment Commission
ONAS	<i>Office National de l'Assainissement</i> (National Sanitation Utility)
PPP	Public Private Partnership
PSP	Private Sector Participation
RFP	Request for Proposal
RFQ	Request for Qualification
SME	Small and medium enterprises
SNIT	<i>La Société Nationale Immobilière de Tunisie</i> (National Housing Company)
SNEC	National Company for Development and Construction
SOE	State Owned Enterprise
SONEDE	<i>Société Nationale d'Exploitation et de Distribution des Eaux</i> (National Water Distribution Utility)
SPROLS	<i>La Société de Promotion des Logements Sociaux</i> (National Social Housing Company)
SPV	Special Purpose Vehicle
TD	Tunisian Dinar
TL	Turkish Lira
TOKI	Turkish Mass Housing Association
US\$	United States Dollar

Introduction

1. **At the request of the Government of Iraq (GoI), the World Bank commissioned reviews of regional best practices to increase Private Sector Participation (PSP) to improve access to affordable housing.**¹ Affordable housing is a key priority of the GoI's National Strategy Plan 2013-2017 and the World Bank's Iraq country policy strategy (CPS), and is increasingly recognized globally as an important catalyst of health, upward mobility, economic development and capital formation. This brief draws on the findings of two background papers prepared for the World Bank in 2013.²
2. Increasing private-sector participation in housing, including partnerships, has potential synergies with the broader GoI involvement in housing. As such, improvements to the existing housing policies and programs can often complement and build capacity to create PSPs.
3. **The first sections of this paper identify (a) the large scale demand for housing solutions and where it is concentrated (b) the national goals and strategy for housing and (c) how these goals are realized by the current programs. Structures and key ingredients for affordable housing PPPs are described in (d), followed by an analysis of the (e) key areas for regulatory and institutional reform in Iraq to grow and expand meaningful PSP for housing, along with (f) options for national-level coordinating entities. Lastly, recommendations identify (g) short, medium and long-term actions for the GoI to develop new supply-side mechanisms to deliver decent and affordable housing at a national scale.**

A. Iraq has a large, diverse and growing housing deficit

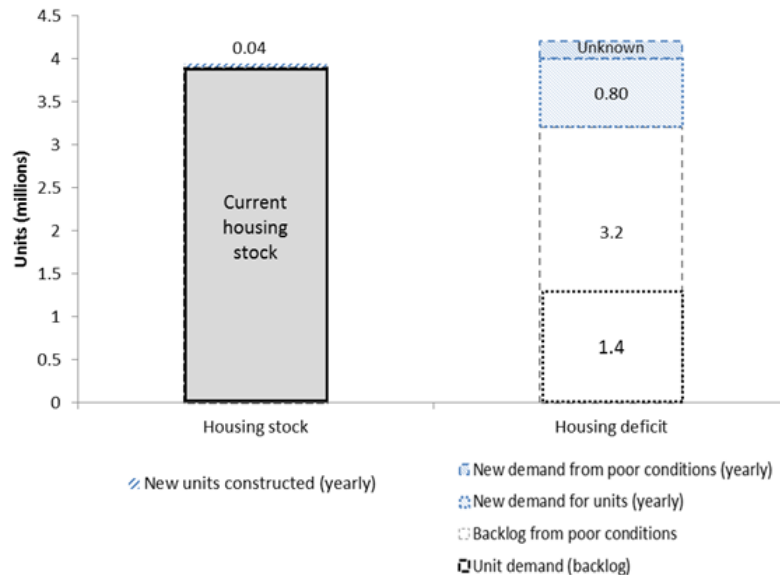
4. **After decades of sanctions and conflict, the housing sector in Iraq faces an estimated deficit of 1.4 million units.** In addition to the existing deficit, new household formation will generate demand for an estimated, additional 670,000 new units annually. New household formation from continued population growth – 2.9 percent in 2012 – will likely be accelerated by household size decreases (6.7 in 2007, down from 7.6 in 1997) and ongoing urbanization. These factors will create the need for at least 6 million more units by 2020.³
5. **Further, many of the existing housing supply options are not affordable and place a burden on household budgets of the poor.** According to the 2012 report from the Central Statistical Office (CSO) low and middle-income families spend nearly half of their monthly funds on food, and nearly all the rest, over 35 percent, on housing, including utilities and maintenance. Over one-third has pending unpaid debts or other financial obligations.

¹ In this paper, Private Sector Participation (PSP) refers to the broad spectrum of arrangements by which the private sector partners with a public entity in order to provide a service. PSP in the housing sector can include the formation of a centralized housing agency, tenders, concessions, build-operate-transfer arrangements, joint-stock and market rate schemes. Public private partnership (PPP) refers to a specific contractual partnership along the PSP spectrum aimed at project implementation.

² This brief was developed by a team led by Ellen Hamilton (Lead Urban Specialist, Land and Housing, UDRUR) and Sateh Arnout (Sector Leader, SD Nigeria) with the assistance of consultants Max Budovich and Bernadette Baird-Zars. Content was drawn from two background papers commissioned by the World Bank in early 2013: Erbach, Gerard "Iraq Capacity for Provision of Affordable Housing Project: Draft Report" February, 2013 and Smith, David. "Public Private Partnerships for Housing Delivery in Iraq," March 2013.

³ MoCH. National Housing Policy Iraq, 2010.

Figure 1: Unmet demand for housing and formal supply.



Source: Data from GoI 2007; Minister of Housing, 2013.

6. **Formal supply of housing continues to be low, especially for low and middle-income households.** Formal private developments continue to be rare and serve limited higher-end market. The dominance of public developers has left little market space for private suppliers. Iraq has a long-standing legacy of public housing provision for civil servants and middle-income households. Today, public programs provide limited supply and make few provisions for lower-income households.
7. Although not in the scope of this paper, there is also significant unaddressed need for improvement of dilapidated privately held housing stock. There are no established procedures to improve this housing stock or informally settled areas that have the potential to be regularized. A need for housing rehabilitation and rebuilding persists overall; a large number of the total housing stock (63 percent or 2,500,000 units) is totally or partially destroyed or in poor condition due to the effects of war and neglect.
8. **As a result, housing stock is primarily informal, and has little variation in tenure.** Between 80 and 90 percent of homes built in the last 30 years were self-constructed, either by the owner or through contracted labor. Most were likely informal. Between one-fifth to a quarter of Iraqi households rent, but very little formal rental stock is produced by the private sector.⁴ Instead, a 2006 UN HABITAT report found that older units are often converted into rental, especially in central cities. In urban areas, including government centers, 15 percent of urban households are renters; an additional 8 percent are tenants but do not pay rent.⁵ Still, revenues from residential rental make up 19 percent of all Iraqi

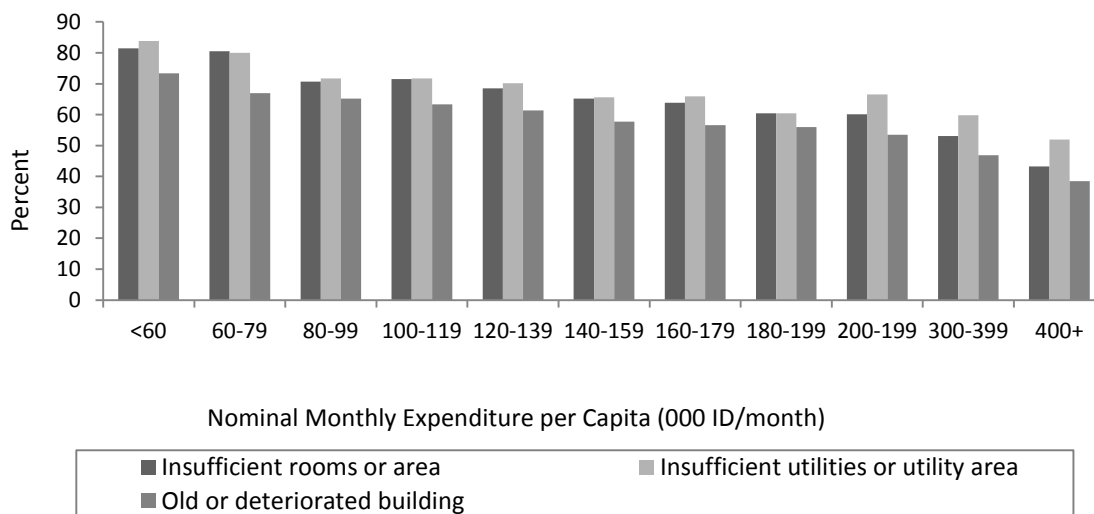
⁴ Since only 16,000 individuals reported receiving income from residential rentals in cities in 2012, the private rental sector is either highly concentrated or a fraction of the public rental. Table 9-000, Central Statistics Office, 2012.

⁵ Central Statistics Office, 2012

households reported income in 2012. Rental is more common among smaller and middle-income households, as illustrated in Table 2.

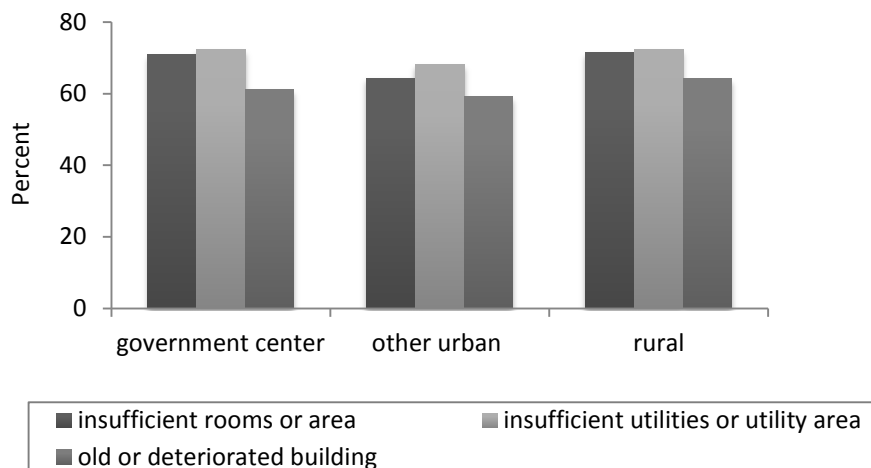
9. Current housing deficiencies appear to be concentrated among lower-income households, and slightly more in urban areas and government centers. The three official categories for ‘deficiencies’ in housing as defined by the 2012 Census are strongly correlated with expenditure (Table 1). Poorer households have less space and services, and are more likely to live in unsafe conditions. For example, one in four households in the lowest three census groupings of expenditures, earning less than 100 ID/month/capita, live in homes with less than 10 square meters of floor space per person. One third of these poor households had 3-4 people per room. In contrast, just 5 percent of households in the top three categories of income expenditures had overcrowding.

Figure 2: Households with housing deficiencies by expenditure category, 2012.



Source: Data from “Iraq Household Socio-Economic Survey IHSES-2007; Tabulation Report” Annex II

Figure 3: Households with Housing Deficiencies by location.



Source: Data from “Iraq Household Socio-Economic Survey IHSES-2007; Tabulation Report” Annex II

10. Similarly, low-income households are more likely to have poor access to basic services, transport and other amenities. According to 2012 CSO estimates, two-thirds of homes in urban areas have no paved road or sidewalk access, and just one-eighth are connected to the public sanitation network. Also, while nearly all households in cities have public water, over 75 percent experience interruptions in service once a week or more. Electricity is more limited; just 66 percent of all households in government centers rely on the public network as their main source of power, although this rises to 81 percent in other cities. Low-income families face challenges in getting to other urban amenities; 28 percent of the poorest three deciles live further than a kilometer from a bus or car service and face double the level of ‘transport barriers’ as higher-income households.⁶

B. Increasing access to affordable housing as a national priority

11. The GoI’s National Housing Strategy aims to increase access to housing for all Iraqis, and improve supply-side capacity to create a diverse array of quality and affordable units. In 2010, the Government of Iraq drafted a National Housing Strategy with six key objectives: to increase (i) access to decent housing for all Iraqis, (ii) efficiency in housing production, (iii) choice in type of housing, location and tenure characteristics, (iv) ability of the Government to address the needs of special groups and those unable to afford suitable housing, (v) quality, including energy efficiency and environmental impacts, of new housing and (vi) ability of homeowners to improve and expand existing shelter.⁷

12. The Strategy’s principles encourage focusing the role of the GoI and promoting partnerships with the private sector and local governments. To complement the focus on growing a healthy supply-side delivery chain, the NHS underlines the need for options to share risk and investment with

⁶ CSO 2012

⁷ MoCH, assisted by UN HABITAT and AECOM, National Housing Policy Iraq, 2010.

the private sector. Local and state governments are identified as key actors as well, especially in the decentralization of land and planning. The policies themselves underscore the importance of land management and information systems, planning and servicing, as well as valuing and taxing land (policy 2.1). Strengthening the private supply chain is a second policy area of focus, and includes a specific policy for encouraging PPP capacity for greenfields and redevelopment to “mobilize expertise and capital for housing development” (policy 2.2.3).

13. **As a result of the National Housing Policy pivot to enabling private-sector provision, two new entities were established to facilitate finance and land subsidies.** The Iraq National Housing Policy (NHP), endorsed by the Iraq Council of Ministries in November 2010, recommended that the government gradually evolve from a direct provider of housing to an enabler for private sector provision of housing. As such, the government established two new entities to stimulate housing solutions: the National Housing Fund (NHF) and the National Investment Commission (NIC).

C. Current programs

14. **The Ministry of Construction and Housing recognizes that current programs cannot operate at the scale needed to address the housing “crisis”.**⁸ Over the next 2-3 years, the MoCH estimates that the public sector will complete 30,000 housing units per year and the private sector will complete 100,000 per year, totaling less than 5 percent of estimated demand. Total demand is estimated at 670,000 units per year or approximately 2 million homes by 2016.⁹ Also, the public programs are not targeted to the population with the greatest need, and are costly. Even over the next two years, this translates into large-scale investment needs; the MoCH estimates that US\$ 14 billion will be needed between 2013 and 2015 simply to ease the crisis in housing.¹⁰
15. **Although the ongoing initiatives represent an ambitious commitment of resources, they struggle to fulfill their mandate.** Current GoI support for the housing sector faces significant barriers to (a) catalyze units at the scale needed, as discussed above, (b) reach the groups with the most need, that is the low and middle-income households with the highest rates of housing deficit, or (c) track and understand the extent of the large government funding. And across programs, public initiatives appear to systematically ‘crowd out’ private sector initiatives rather than encourage the development of a healthy market of suppliers that can serve middle and low-income Iraqis.
16. **Nearly all programs benefit primarily upper income households.** No current programs explicitly target the bulk of their resources to areas of most need - low and middle-income households. NHF loans can only be used for housing acquisition and by most accounts, the program has primarily benefitted middle and higher-income households. NIC downpayments still exclude all who can’t access finance. House costs, along with requirements for a 25 percent down payment and secured financing – have meant that nearly all of this investment aims for middle and upper-income units.¹¹

⁸ Lee, John. “Minister declares housing crisis.” *Iraq Business News*. September 2013. <http://www.iraq-businessnews.com/2013/09/23/minister-declares-housing-crisis/>

⁹ Combined Background Report, P.36

¹⁰ Gerald Erbach, “Iraq Capacity for Provision of Affordable Housing Project: Draft Report” February, 2013. 8.

¹¹ National Investment Commission. Retrieved from <http://www.investpromo.gov.iq/>; from Smith, 6.

17. Direct public spending on housing is already high with implicit subsidies in current housing programs more than double the GoI support. Direct government subsidies to housing appear to total over US\$ 1 billion yearly, with another estimated US\$ 2 billion in implicit interest rate and land grants. Channeled through the present programs, these funds could reach at most 40,000 households per year, not including potential NIC market-rate units in large developments. Similarly, analysis of the previous National Development Plan estimates that the total cost of government support to housing at US\$ 150 billion, or five times larger than that budgeted, due to the opportunity costs of land and interest, as well as the supply and demand risks taken on by the GoI.¹²

18. Current programs miss opportunities to strengthen private initiatives throughout the housing supply chain. By bundling significant subsidies for a limited number of large developments, only a few companies are ‘brought in’ to the affordable housing segment, and the business models they develop cannot be replicated outside the single subsidized project. Ongoing initiatives have strengthened capacity to intervene at key points in the housing supply chain: land, servicing, construction and finance. The large infusions of public capital, however, tend to flow through isolated structures, missing key opportunities to build a healthy framework for a healthy private housing supply market with a wider playing field for new and smaller developers– and areas for potential partnerships.

(i) Land and servicing

19. NIC is a new attempt to use public lands and reduced regulatory barriers as incentives for housing development. The NIC program was created to provide a one-stop shop and low-cost public land incentives to spur foreign investment in large-scale housing developments. The NIC aims to leverage Iraq’s extensive public lands, by some estimates up to 85 percent of national territory, to incentivize developers to construct large-scale new projects. Under the 7/2010 Investment Law, the Council of Ministers called on public landholders to provide land for housing projects valued at over US\$ 250,000, and authorized the NIC to give land to investors at nearly-free prices if they allocated between 1-12 percent of housing to low-income residents, albeit the definition of the latter target group remains vague.¹³

20. The NIC also offers developers fast-tracked licenses and tax incentives for 10 years to developers, 15 years if the company is more than 50 percent Iraqi owned. By most accounts, this has triggered a ‘boom’ in foreign investment in housing; an estimated US\$ 14.524 billion was committed to housing in 2011, primarily by GCC developers. NIC is promising, but yet to be seen if can deliver. While most NIC-subsidized developments are ambitiously scaled, nearly all remain in progress (Table 1).

¹² Ernst and Young, 2012. “Meeting the Iraqi Housing Challenge: Policy Options and Development Scenarios.

¹³ Major landholders identified were the Ministry of Finance (MoF), The Ministry of Municipalities and Public Works (MMPW), municipalities, and other public landholders

(ii) Construction

21. The long-standing MoCH delivery program primarily partners with public subsidiary companies for fully-subsidized projects for relatively few units at a high cost. Through the State Commission for Housing (al-Hei'a al-Aama lil Iskan), all new MoCH projects are put out for competitive bids, but nearly all were awarded to the major state-owned subsidiary companies of the MoCH such as Al Fao and Al Mansor State Contracting Company.¹⁴ A 2004 World Bank analysis identified 15 companies associated or formerly associated with the MoCH as large, employing an average of 800 employees each.¹⁵ MoCH publications placed completed units at just under 3,000 for last year. Approximately 25,000 homes are in the current pipeline, and tender estimates suggest each unit costs US\$ 90,000 on average.¹⁶ This places them out of reach for Iraqi households which, as measured by a 2007 World Bank survey, averaged US\$ 9,072 in yearly income.¹⁷

(iii) Finance and demand-side assistance

NHF zero interest loans provide 'double subsidies' for relatively few middle-income households – and do not strengthen the financial system. Since 2005, the NHF has delivered over US\$ 200 million in 39,000 0-6 percent interest loans averaging around US\$ 5,000 per household. Although lending increased to about 8,000 originations per year since 2008, maintaining this volume would address less than 3 percent of forecast new demand. Importantly, the loans provided by the NHF have zero-interest. Interest subsidies for 15-year loans of US\$ 27,000 will likely exceed US\$ 40,000 per loan. High rates of late or non-payment translates into 'double subsidy'.

Table 1: Snapshot of major ongoing housing programs, 2013

Program	Target and mechanism	Beneficiaries to date	Direct Funding and Implicit Subsidies
National Housing Fund loans ¹⁸	Provide 15-year interest-free loans to individual home-buyers, targeting low-income groups.	Middle and income buyers; those who qualify for housing finance. Over last 2 years, 40,000 loans granted, averaging US\$ 25,000 for small and medium cities, US\$	Estimated US\$ 500-600 million in direct commitments, and over US\$ 1 billion per year in implicit

¹⁴ See <http://www.almansourco.moch.gov.iq/>; <http://www.faoco.imariskan.gov.iq/>

¹⁵ World Bank 2004. "State Owned Enterprises Reform In Iraq." Reconstructing Iraq Working Paper No. 2 <http://siteresources.worldbank.org/IRFFI/64168382-1092419012421/20266668/SOE%20Reform.pdf> JULY 26, 2004

¹⁶ MoCH 2013. "Programs and plans" and 'Bayanat al khata al mustaqbaliya fi qataa al sakan l wizara al amal wa al iskan', 2013.

¹⁷ Note that average size of households measured was 6.9 members. World Bank, 2007. Iraq Household Socio-Economic Survey - IHSES-2007. http://siteresources.worldbank.org/INTIRAQ/Resources/ihses_part2-9.pdf.

¹⁸ See Iraq Housing Fund Activities, Ministry of Housing and Construction. Accessed 2014. http://sandoq.imariskan.gov.iq/?page_id=130

		30,000 for government centers. 15,000 loans were issued between 01/-09/2013.	subsidy. ¹⁹
Public rental housing	Low-income groups; publicly constructed units.	Previously low-income; now many informal occupants.	Unknown
NIC Housing Program	Undefined, but lower prices if 1-12 percent of units are affordable. NIC announced bidding process for 1 million houses proposed, to be sold for less than US\$ 50,000.	All of US\$ 14.524 invested in housing in 2011 went to market's high end (MoCH, National Housing Policy Iraq, 2010). Purchasers required making 25 percent downpayment and securing financing.	Large implicit subsidy from value of land cost of facilitation.
MoCH direct production	Public tenders, most to SOEs. Buyers solicited and qualified by agencies: 42 percent by the Housing Commission Fund, 40 percent by the General Union of Cooperatives, 18 percent other ministries. 25,000 homes in the current pipeline that cost on average US\$ 90,000 each.	Middle and high-income buyers of units over 100 m2.	US\$ 2.25 billion in 2012-2013 pipelines; approximately US\$ 1.1 billion/year.
Real Estate Bank loans	Qualified recipients of loans up to US\$ 25,000	Middle and high-income buyers.	Interest rate subsidy, risks.

Source: Adapted from Erbach 2013 and Smith 2013.

D. Private sector participation (PSP) and Public-Private Partnerships (PPP) for housing provision

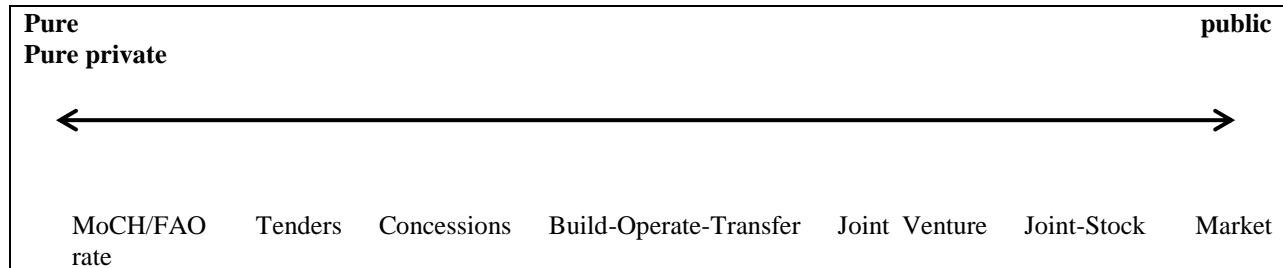
22. By sharing risks and capital with the private sector, the GoI can leverage the impact of both its financial resources and its capacity for housing delivery. PSP can provide an opportunity for Iraq's extensive public lands to be leveraged in development initiatives and can encourage other players to enter the market so that low-yield high-cost initiatives no longer dominate supply.

23. However, PSPs require appropriate regulatory and administrative elements to be in place. The many structures that can be classified as PSP are often understood on a scale, from projects that are

¹⁹ Or approximately 40,000 USD/unit in interest rate subsidies if lending continues at current rate of approximately 20,000 loans issued per year of an average size of between \$25,000 – 30,000 USD, with 15-year terms and zero-interest and assuming market lending rate of 14%. Public funding increases with unpaid or late loans, likely high due to NPLs. Low and waived fees further increase subsidy.

fully financed by the public sector to fully private projects. Tools that are common to all types of PSP arrangements are discussed below and can be introduced in a phased approach.

Figure 4: Housing PSP arrangements on continuum of risk and project control



24. PSP in housing provision can deliver both new housing and housing redevelopment to address the goals of the National Housing Policy without increasing the need for additional public resources. In general, governments are better partners than direct developers of housing. Involving the private sector through PSP can accelerate quality and quantity of housing delivery. This is especially true where the private sector can be more innovative and provide homes faster and of higher quality and if PSPs incorporate competition by implementing a bidding process. Further, ongoing PSP engagements can improve private sector capacity to develop quality affordable housing.

25. Public-private partnerships (PPP) are PSPs that are contracts for project implementation. PPPs are often used to describe a wide swath of private sector participation. In this brief, PPPs describe a smaller group of more complex contracts that involve long-term risk-sharing between the public and private sectors. More specifically, PPPs are understood as contractual arrangements between a government entity and a private company whereby the private company uses government resources according to government rules to deliver quality housing affordable for a target population. A Development Agreement binds the parties to the following general framework.²⁰

Table 2: Roles of the public and private counterparts in all housing PPPs

Partner	Relationship	Responsibilities	Project Incentives
Public body (autonomous semi-government agency funded by relevant ministry; public-public framework)	Enter into PPP with private developer. Share in profits according to pre-determined scheme.	Provides trunk infrastructure to keep costs down and to attract PSP.	Incentives for construction of affordable housing include tax breaks or free land.
Private developer	Enter into PPP with public body through RFQ and RFP. Share in profits according to pre-determined scheme.	Provides project details, expertise, and financing.	Can implement cross-subsidization in order to ensure affordability for a proportion of units.

²⁰ Development Agreements are proposed by the NHP Policy 2.2.3 on PPPs, though this PPP contract agreement is common to all regional implementation of formalized PSP.

Source: Adapted from Smith 2013.

26. In general, PSP utilizes cooperative frameworks as well as longer-term legal restructuring.

Governments can ensure that developers’ motivations are aligned with policy goals by conditioning compensation on delivery and introducing appropriate controls or participation rights to protect the citizens who will eventually be householders. A two-tiered approach is often used in building capacity to facilitate the specific steps along the PPP process described in Table 3 below. Initiating a PPP between the two parties often incorporates provisions for sharing of authority, risk, and profit.

Table 3: Typical components in a housing PPP

Stage	Process
Delegation of control and decision authority	Under a set of conditions specified in the PPP governance document, the private company has full authority to make physical, financial, and operational decisions.
Devolution of risks to the private company	Normally, the private company assumes the major performance risks, such as completion of development, construction cost and risk of cost overruns, timing of delivery, delivery price, and warranty of materials and workmanship.
Shared risks	Some risks, either macro level (e.g. natural disaster) or non-commercial (e.g. political) will be apportioned or shared between the two parties. Those factors that are controllable are allocated to the private party and those that are not are shared.
Sharing of upside	Most PPPs provide that if things go much better than expected, both the private company and the government entity will share in that economic benefit.
Mechanisms for preventing ‘shadow profiteering’	Governments normally want to see a transparent cost structure so that they can be sure they are getting value for identity. Housing PPPs should provide mechanisms to prevent this.
Formal Legal Closing	Upon signing of the legal documents, both parties enter into the PPP.
Dispute adjudication via the court system	The parties in a Housing PPP generally retain the right to sue each other.
Conclusion of the PPP	Housing PPPs have a fixed duration. At an agreed upon time or project stage, the joint venture entity is dissolved, one party withdraws to allow the other to remain in a management position, or control of the assets are assumed by individuals (homebuyers) or an association thereof.

Source: Adapted from Smith 2013

E. Core institutional and regulatory areas for reform to unlock housing PSP

27. Robust public sector ability to leverage private-sector participation requires both parties to have clear information, goals, and the capacity to partner. In particular, several high-impact areas

identified at the national level require reforms to unleash the potential of PSP. These reforms include increasing coordination between ministries with overlapping mandates and capacity building of along the housing supply chain.

28. Government ‘crowding out’ stymies the existing market for affordable supply. Many of the critical reforms needed trace back to the GoI’s historical role as provider rather than regulator. Also, GoI emphasis on high-resource programs not only misses the intended target group but can have serious ‘crowding out’ effects on private sector provision of housing as well as finance.

29. Across the supply chain, broad mandates in the new housing institutions and procedures have led to significant overlap and conflict in responsibilities. New initiatives were created to generate large volumes of units, but miss potential synergies with other public entities and the private sector. Increased cooperation between ministries and agencies can enable national-level ability to catalyze growth. Mismatching between supply and demand arise when national level agencies do not coordinate with local agencies in conducting a project and when foreign developers are only engaged at the national level. This will be discussed further in section F. An evaluation of current responsibilities could be a first step in allowing for future policy to either harmonize current relationships or create new partnerships to more effectively deliver housing at scale.

30. Specific reform areas and the related underlying issues are examined below. Featured are in-depth analyses on (i) timely land allocation, (ii) coordinated provision of trunk infrastructure, (iii) a level playing field in access to construction finance, (iv) offtake financing and (v) post-offtake maintenance.

31. Together, these blockages present serious impediments to healthy PSP growth in housing. On the same token, if understood as a package, an agenda of complementary reforms could unlock powerful sector growth. The government can reduce the cost of housing construction, increase the relative quality of completed units, and realize increased access to housing across income levels by taking a regulatory role and fostering PSP, rather than discouraging private competition through public subsidies.

(i) Timely land allocation

32. Land assembly and allocation for housing development is cumbersome because public land is fragmented and delegated to multiple ministries and municipalities without a unified administrative system or centralized database. 85 percent of land in Iraq is state land, while only 4 percent is recorded under fee-simple private ownership. More importantly, there is an estimated 1 to 1.5 million vacant plots in Iraq’s cities that could potentially be used for housing development. Land for potential development is underserved and scattered, increasing the risks and costs associated with housing development. The World Bank Doing Business report estimates that registering property involves 5 procedures, 51 days, and costs 8.2 percent of the property’s value.²¹

33. The Ministry of Finance (MoF) holds title to all state land and is responsible for registration and recording its transfer in urban and rural areas. The one exception is the Baghdad Municipality, which is the custodian of land within its boundaries. Up to 2008, allocation of state land was channeled by the MoF to municipalities through the Ministry of Public Works. This process involved multiple transfers

²¹ World Bank. Doing Business Report, Iraq. 2014.

and inter-ministerial bottlenecks. In response, a law through the Provincial Powers Act of 2008 transferred responsibility for the provision of land for housing from the MMPW and the Baghdad Mayoralty to municipal councils, governorates, and the Directorate of Investment. The regulations are not fully in practice, however, and there is confusion over the regulatory framework for land management. Moreover, while advocating local autonomy, **the policy shift has yet to encourage coordination around a national housing strategy.**

34. Municipalities lack the authority and resources to extend trunk infrastructure to desirable plots located just outside their jurisdiction. While the MMPW holds overall responsibility for delivering off-site infrastructure along with other ministries, the intrusion of a national ministry such as the MMPW in a municipal project could cause tension and inconsistency, potentially leading to failure of provision. In addition, the government fails to collect real estate tax on undeveloped land, providing no incentive to release land for development and forgoing a potential revenue source for infrastructure provision.
35. The MMPW has reportedly managed to create an inventory of lands to be allocated for housing and is mandated by order 7/2010 of the Investment Law to provide land for housing projects along with other land holders such as municipalities under the Provincial Powers Act of 2008. However, there is no framework in place to release these lands for development. New branches in the provinces for the Ministries of Justice and Finance have been established to determine the status of lands under their jurisdiction. The government has also reduced the minimum house plot size from 200 m² to 150 m² to make plots more affordable. This, however, is unlikely sufficient to target low-income groups.
36. **In sum, three central challenges continue to thwart effective use of land for housing and growing PSP in housing.** Lessons suggest a focus on the primary sources of friction in the land market: (i) **administrative bottlenecks in titling and transferring land, (ii) the lack of coordination between the relevant ministries and (iii) the absence of tax collection on undeveloped land.** Together, these have **created an environment in which land cannot be readily assembled, allocated, or used as a government revenue source.**
37. **Moving forward, a release and allocation system to contribute lands to PPP development can provide an effective means to overcome land market distortions.** Because the GoI owns a large majority of land suitable for housing development, creating this system can provide an effective channel for public land release for residential development. Currently, the MoF manages all public land and distributes parcels to the MMPW, which in turn distributes plots to governorates, and municipalities, which can then allocated it for specific projects on the local scale. The NIC also has authority to lease land to developers free of cost if they are building low-income housing. The NIC is working with the Provincial Investment Commission to ease release of lands. Public rezoning processes will allow landowners or public entities to partner with private developers, stimulating housing production and generating revenue for the GoI. Levying and collecting taxes on undeveloped land can bring them on to the market and generate revenue. In Tunisia, for example, vacant urban land is taxed at .3 percent of the real market value once a year, which goes directly to the local municipality. Enforcing vacant land tax and enabling land swapping could result in substantial land aggregation for housing development. Developing an inventory of all publically owned vacant land within cities can also help target and prioritize vacant land that is already served with infrastructure for development.

38. Another mechanism to allocate land is through auction, as practiced successfully in many countries including Egypt and China. Land sales or long-term leases through auctions have effectively transferred land into the market for development while financing urban infrastructure. Such auctions would address the double bottleneck of extensive state ownership and limited opportunity for sale.
39. **Further next steps can include streamlining land management and regulations overall can be critical to unlock project implementation of housing PSP.** A 2010 assessment of existing land regulations and governing regimes in Iraq concluded that land reform should consist of an inclusive land management policy. The Berlin Statement on Land Policy suggested that the government should institute a consultative process to determine national land policy. A land committee and secretariat could promote and coordinate the development of the policy and monitor its implementation. **A Land Policy Advisory Committee (LPAC) chaired by the Prime Minister has been recommended to develop a National Land Policy.**
40. **In summary, there are three basic capacities for the GoI to develop to advance effective land allocation in Iraq, whether under the auspices of multiple public-public partnerships or a single, coordinating public-owned entity.** First, (i) identifying locations of potentially developable land necessitates having an inventory of all publicly owned land (potentially under the auspices of the MoF) and private land that can be used for development. Secondly, the GoI can streamline and (ii) manage the process of providing accessibility, title, zoning, and trunk infrastructure. These assets must be coordinated in order to maximize the value of plots. Finally, to understand and monitor public investment, the GoI can play an ongoing role by (iii) capturing value created through PPPs through formal and contractual means.
- (ii) Coordinated provision of trunk infrastructure**
41. **Timely and coordinated provision of trunk infrastructure is constrained by non-collection of service tariffs, the role of State Owned Enterprises (SOEs) and a lack of coordination between public entities.** To service land, potential providers are constrained by inability to collect service tariffs and a fragmented landscape of counterparts that include the SOEs. As a result, ensuring service provision has become a costly barrier to entry for private housing developers. Responsibility for service provision is scattered across multiple ministries and frequently ineffective SOEs.
42. **There is also little coordination between the array of public entities or ability to capture land value increases.** For example, development of public land falls under the General Directorate of Physical Planning (GDPP), an instrumentality of the MMPW, which prepares strategic plans for governorates and detailed urban plans for cities and villages. The municipalities responsible for implementation of plans usually do not have capacity or revenue sources. While the Iraqi National Housing Policy emphasizes the need to decentralize infrastructure and land use planning as much as possible from national to local governments, **the absence of property taxation or collection of service charges means that municipalities do not have access to any revenue with which to implement local**

provision. There is also no means to capture the value of property price rises with infrastructure investment.

43. The coordination of trunk infrastructure, including the provision of land, roads, sidewalks, streetlights, electricity, water and sanitation, and home layout construction, are spread across four ministries and multiple general directorates, municipalities and eleven SOEs belonging to the electricity sector that are overstuffed and inefficient.²² Around 78 percent of Baghdad residents relied on generators even though their homes were physically connected to the electric grid. Of the 94 percent of homes connected to the water supply system, less than half received drinkable water. 34 percent of homes were not connected to the sewer grid, 34 percent of homes were surrounded by open sewage, and 46 percent of homes had solid waste collecting in their streets.²³

44. Provision of infrastructure is plagued by the lack of organizational capacity to collect service tariffs and the inefficiency of the multiple ministries and SOEs responsible for provision. The basic inability to collect tariffs is a disincentive to extend infrastructure. The lack of infrastructure provision to developable plots raises the entry costs and associated risks for private developers looking to construct housing at scale, discouraging PSP.

Table 4: Public entities in infrastructure delivery

Utility	Ministry	General Directorate	Commentary
<i>Land</i>	Justice	Real Estate (GDRE)	GDRE handles entitlements of private land; GDPP handles development of public land
	Municipalities and Public Works	Physical Planning (GDPP)	
<i>Roads</i>	Municipalities and Public Works	Municipalities	Implemented by public construction firms.
<i>Electricity</i>	Electricity	--	Many informal connections, massive shortfalls
<i>Water</i>	Municipalities and Public Works	Water	State Owned Enterprises and municipalities lack coordination
<i>Sanitation / sewer</i>	Municipalities and Public Works	Streams	State Owned Enterprises and municipalities lack coordination
<i>Housing</i>	Construction, Housing	--	--

Source: Adapted from Smith 2013.

²² World Bank “State Owned Enterprises Reform in Iraq” Reconstructing Iraq Working Paper No.2 July 26, 2004.

²³PADCO. Iraq Housing Market Study. December 2006.

45. Coordinating provision of services before housing PPP tenders are requested can unlock developer participation. Ensuring government involvement through infrastructure provision can take pressure off developers to secure finance until the basic services are in place. This is just one example of how public actions can increase developer interest and ease fiscal and administrative coordination between the public and private partners. The GoI can consolidate infrastructure responsibility within one entity in order to overcome the coordination and capacity issues in Iraq with regard to the installation of trunk infrastructure.

46. Further, a coordinating entity can help consolidate authority across the many infrastructure departments, especially at the scale of cities. Any infrastructure element that crosses the city limits will thus fall within the purview of the designated urban infrastructure ministry. This however raises the issue of extending urban infrastructure to expanding informal settlement at the urban periphery. Still, while gains may be realized through increased cooperation, the vast underperformance of service providers suggests a breakdown of the bureaucratic system beyond the scope of this paper. The underlying issue of cost recovery prohibits the expansion of infrastructure coverage and provision.

(iii) Level playing field in access to construction finance

47. The significant public funds allocated to directly-tendered public housing have slowed PSP in the construction sector, primarily because of the continued support for state-owned construction companies. Findings suggest that the state owned construction companies have unclear mandates, experience difficulty producing enough units to keep up with demand, and receive subsidies that crowd out private competition. The Federation of Iraqi Contractors (approximately 30,000 members) states that the government must remove legal and regulatory impediments in order to realize better development, including the entry of private companies. The impediments include banking rules that make lending to private contractors difficult, laws that regulate the sale of apartments on an individual basis, and cumbersome processes to develop land that was previously agricultural.

48. As a result of the advantages given to SOEs, and the dominance of SOEs in current government-financed housing projects, the private sector remains underdeveloped. Benefits given to publically-owned companies such as interest free loans, bank guarantee waivers, tax exemptions and land at concessional prices, crowd out private sector participation. Private sector development capacity and capital remains underdeveloped and scarce, which can hurt the low-income housing market. Small developers that could provide low-income housing units for part of the market are hindered from operating because of the advantages given to public developers.

49. Those firms that do exist in the market are small, undercapitalized and have no access to finance. Private housing developers and contractors are mostly found in Northern Iraq, and large-scale developers aiming at middle-income buyers are nonexistent, not to mention those building for low-income groups. Small and medium scale enterprises (SMEs) building for individual clients are the principle source of private sector construction capacity, estimated at 80 – 90 percent of the total housing stock built in the last 30 years. 15 percent of owner-builders use a general contractor, 50 percent act as their own general contractor and hire workers, and 35 percent do the work themselves with help from family and friends.

50. Centralized lending is rare and poorly understood, so housing construction finance is considered a high-risk venture. Therefore, commercial banks do not play a significant role and only lend to known entities and large depositors – in effect, using corporate finance to make do in the absence of proper real estate finance. This undercapitalization of the construction sector further restricts market entry and prevents SMEs from supplying housing.
51. Because monitoring of public housing projects is weak, particularly for projects awarded on public lands, the completion rate of construction development is low, resulting in many vacant plots and incomplete units. In 2006, the GoI established the Central Organization for Standardization and Quality Control (COSQC), which is developing construction standards and likely to implement sunset deadlines to ensure construction completion and desired quality.
52. **Similarly, while domestic construction material production only meets a fraction of demand, tax and customs duty privileges enjoyed by public companies limit the entry of more private sector competition.** While NHP concerns over affordable building materials have resulted in joint agreements between Iraqi companies and foreign firms in the building material sector, the high cost of most imported materials hurts profits and limits PSP to a few large firms. The effects of war also imposed significant hardships on the production of construction materials.

Table 5: Agreements between Iraqi and foreign companies for construction materials

Iraqi company	Foreign partner	Material
Al Mu'tasim General Contracting	Indian	Scaffolding
Ashur General Contracting	Turkish	Asphalt
Al Rasheed	Saudi (Al Jouf Cement Company)	Cement factory in Al-Muthana province
Al Fao General Contractor	Turkish	Multiple sectors of housing provision
Iraqi cement factories	La Farge	Production of high-grade cement in Iraq

Source: Adapted from Erbach 2013.

53. **In sum, large-scale developers almost exclusively aim at middle to high-income buyers, while medium and small-scale developers face competition from inefficient SOEs and public developers that enjoy generous financial assistance.** Interest free loans have stymied the development of the finance market, meaning that private firms are not only denied preferential loans, but in fact cannot access financing whatsoever as a result. Similarly, the benefits enjoyed by public companies in acquiring construction material greatly increase marginal entry costs for private firms.
54. **Moving forward, options for reform are twofold: encourage scaling back of support to SOEs to level the playing field while encouraging growth in construction finance and investment to encourage participation of not only large companies but also SMEs.** SOEs can be privatized or forced to operate in line with commercial principles in order to leave space for the emergence and

growth of the local private construction sector. Privatized SOEs can also serve in PPP pilots before provision is scaled up to address Iraq's yawning housing deficit. While MoCH SOEs are easy to manage, they have proven to be inefficient, absorbing large amounts of public subsidies and delivering limited amounts of lower quality but very expensive housing. The barriers towards privatization include over-employment in SOEs, which deters potential buyers and investors. According to a severance package scheme developed by Iraq Private Sector Growth and Employment Generation (Izdihar), 160,000 employees' acceptance of the scheme would save the GoI between US\$ 300 million and US\$ 428 million in salaries and pave the way for privatization.²⁴

55. Opening access to construction financing could help grow Iraq's fledgling private development sector. Currently, public construction companies are the only entities with experience in medium-scale and higher development. Besides reducing the barriers to PSP by curtailing the benefits offered to SOEs, the GoI could dedicate funds from the NHF to private developer financing in order to foster growth and capacity building. In the case of Tunisia, the Tunisian Housing Bank has provided subsidized developer financing to private sector developers in return for guarantees of social housing.

56. Foreign investment can also realize increased domestic capacity to produce construction materials. A number of new cement facilities have been announced, considering the potential profits in this material sector. In 2011 Iraqi existing cement plants are designed to produce a total of 25 Mt / yr, although they currently produce only 10 – 11 Mt / yr. In July 2011, Iraqi cement cost US\$ 58 / t to produce but was being sold at US\$ 90 – 120 / t. Foreign cement imports were as high as US\$ 160 / t given the massive demand.²⁵ The potential for private sector gains in the cement industry are large. Current cement production projects include the Attock Cement Pakistan Limited (ACPL) investment of US\$ 25 million in a new cement grinding unit in Basra,²⁶ an Iraq – Canadian joint venture cement plant planned for Karbala with an investment of US\$ 300 million with a capacity of 5300 tons per day,²⁷ and an ASEC Cement and Qemmet El-Iraq contract to rehabilitate and manage the Muthanna Cement plant for 14 years. The companies aim to reach full 2Mta production capacity by August 2016.²⁸

57. Few developers can compete with the benefits offered to public companies, meaning that PPPs to date have often been with large foreign firms that have not delivered affordable housing at scale. PPPs have so far mainly benefited middle and high-income buyers, while the MoCH has expanded its development and distribution of affordable housing to groups of need such as IDPs and martyrs' families.

Table 6: Current large-scale private sector housing projects, 2013

²⁴ USAID, "Iraq Private Sector Growth and Employment Generation" June 2006.

²⁵ Peter Edwards, "Iraqi Cement Round-Up" Global Cement Magazine, Wed 25 Jan, 2012. Accessed at <<http://www.globalcement.com/magazine/articles/656-iraqi-cement-round-up>>

²⁶ John Lee, "Attock Cement to Invest \$25m in Basra" Iraq-Business News. Accessed at <<http://www.iraq-businessnews.com/2013/05/28/attock-cement-to-invest-25m-in-basra/>>

²⁷ John Lee, "Another New Cement Factory Planned" Iraq-Business News. Accessed at <<http://www.iraq-businessnews.com/2013/09/12/another-new-cement-factory-planned/>>

²⁸ John Lee, "AEC Consortium Wins Cement Plant Deal" Iraq-Business News. Accessed at <<http://www.iraq-businessnews.com/2013/09/06/asec-consortium-wins-cement-plant-deal/>>

Project name	Location	Partner	Capacity	Constituency
Al-Nakheel City	Basra	Dewan Inc. (UAE)	100,000 units	“medium and high-end” ²⁹
	Baghdad	Markaz Inc.	1740 homes, US\$ 137 million contract	
	Dhi Qar, Muthanna	Merkaz Inc.	1,000 homes, US\$ 139 million contract ³⁰	
Bismaya New City Project (BNCP)	Baghdad - Bismaya	Hanwha	100,000 units	Sold at uniform price of US\$ 630 / m2. Down payment lowered from 25 percent to 10 percent to accommodate lower-income buyers. ³¹
	Basra	Hanwha	3,000 units	Middle income

Source: Diwan Architects 2013; Bismaya New City Project 2013.

58. Local private developers are often small and cannot compete with the capacity of foreign developers providing housing at scale nor the advantages given to public companies. New initiatives such as requiring foreign developers involved in PPPs to create training programs for the Iraqi construction sector can develop human capital for private sector capacity. Al-Fao General Engineering Company, MoCH’s subsidiary entity that acts as a developer or contractor, could be transformed to serve as an independent development agency. While Al Fao has primarily undertaken infrastructure projects, its development experience positions it to take on the role of a general housing development company. Whether the government housing development company is constituted from Al Fao or not, common procedures include the incorporation of a private company under normal corporate laws whose stock is 100 percent owned by a Ministry and whose board of directors mixes private sector individuals with government appointees.

59. Specific PPP structures have been identified as successfully triggering provision of affordable housing in Morocco and Turkey. Morocco has set up successful procurement and contracting procedures for affordable housing through the entity Al Omrane, which was created out of merger of several state-owned institutions. Al Omrane provides incentives to private developers such as low-cost land, prefunding subsidies for developments, tax and fiscal benefits to developers in exchange for construction of affordable housing. Al Omrane services land (trunk infrastructure at a minimum) and calls for interested developers through a RFP process called *appels à manifestation d’intérêt*. The money paid by developers goes to Al Omrane’s treasury to fund future projects.³² Private developers cross-subsidize affordable units.

²⁹ Dewan Architects with contract for designing units, October 2013. Accessed at <http://www.dewan-architects.com/news_man.html#sthash.rEmxOWPx.dpuf>

³⁰ Iraq Business News. Accessed at <<http://www.iraq-businessnews.com/tag/thi-qar-investment-commission/>>

³¹ Bismayah New City Project (BNCP) website, Accessed at <<http://www.bismayah.org/english/pages/05contract/price.asp>>; On 1/1/2013, the project announced that the down payment for apartments would be reduced from 25% to 10% to accommodate lower-income buyers.

³² See Annex I

60. After the passage of regulatory amendments in 2003 and 2004, the Housing Development Administration of Turkey (TOKI) was enabled to become directly active in developing and building new housing throughout the country. TOKI relies on a Revenue Sharing scheme as part of PPPs in order to generate short-term profits and fund low income housing. The revenue collected from sales is allocated to TOKI's account and used to subsidize affordable housing projects.³³
- 61. Overall, the next steps for the GoI to encourage construction sector growth in affordable housing are clear.** Findings from the analysis above can be condensed into two strategies. First, **the GoI can (i) pull back support to SOEs, which currently suppress private entry, especially among small and medium developers.** This public support can be redirected towards strategic policies to (ii) encourage and facilitate construction lending and steward smart partnerships with foreign investment that grow long-term local capacity.
- (iv) Offtake financing**
- 62. Interest-free or subsidized offtake financing experiences high rates of default, sometimes misses target audiences, and stymies the development of a lending market accessible to all.** Until the impediments to the development of the finance market imposed by interest-free or highly subsidized loans are removed, middle and low-income Iraqis will not be financeable because Iraq has no residential lending market. Government subsidized housing finance through the National Housing Fund and Real Estate Bank doesn't reach low-income buyers because one must have registered title, secure employment for at least 7 years, and detailed plans for a detach house of at least 100 m2 to access financing.
- 63.** The Real Estate Bank lends at 2 percent interest for up to 20 years and the NHF lends at 6 percent for up to 15 years, though the Real Estate Bank is undercapitalized and its loans suffer a high rate of default. Between 2003 and 2007 the Bank did not provide loans at all. In 2006, less than 7 percent of Iraqis had access to housing finance. The reliance on interest-free and subsidized offtake financing does not address the underlying supply side bottlenecks but rather allocates large sums to middle and high-income buyers to purchase homes that were not produced affordably while at the same time disabling the long term solution of a finance market.
- 64.** Because subsidized loans for home-buyers often miss their target demographic and at the same time stymie the development of the Iraqi finance market, the favorable NHF and Real Estate Bank loan programs actually hurt development of commercial long-term finance for housing acquisition.
- 65. GoI subsidies associated with lending can be monetized and reallocated to low-income households in order to increase accessibility to housing and demand for PPPs.** While unit offtake is one of the final steps in a PPP, it can determine the pace, quality, and feasibility of a PPP from the start. A government agency or employer sometimes will make a purchase commitment at a pre-arranged location, quantity, and quality to ensure private follow-through on housing provision.

³³ See Annex III

This is often the case in Morocco, Egypt, Tunisia, and Turkey. In the absence of this, however, individuals must gain access to finance in order to purchase a home.

(v) Post-offtake maintenance

66. Housing PPPs can include frameworks for resident fees that fund ongoing maintenance, holding back a portion of the developer's profit until stabilization. Development maintenance is often best funded by the residents themselves; a residents' association funded by monthly contributions can fulfill this goal. Maintenance fees should be part of the affordability calculations for residents, along with projections for future capital costs. Private developers can also manage these funds, provided that there is a deferred development fee at risk. In Tunisia, private developers are required by law to manage properties for one year, including covering costs for cleaning and maintenance. At the end of this period they are required to establish a homeowner's association for ongoing management and upkeep. In Turkey, most major developers stay on as part of the Maintenance Company they originate in order to enforce customer loyalty and boost their image. Egypt mandates that homeowners' associations assess a maintenance fee.

F. Current PSP frameworks and future building blocks for housing PPP implementation in Iraq

67. New national-level frameworks can catalyze reforms and facilitate PSP projects. Consolidating and streamlining reforms through a centralized institution, or network of institutions, can be a strong first step in advancing deeper reforms. Regional experience suggests two successful models of national support that have catalyzed PSP for the housing sector. In the first, a centralized state-owned private developer can execute PPPs and streamline site control. In the second, a coordinated network of public institutions, including local governments, are bound through contracts to facilitate PPP provision.

68. The Housing Development Administration of Turkey (TOKI) illustrates how a vertically integrated land property development company can catalyze construction of large numbers of affordable units. TOKI tenders state-owned / TOKI-owned land to private developers and has private company autonomy in order to execute PPPs and public-government powers for zoning and expropriation. TOKI evaluates developers' offers based on total estimated revenue, and legal permission to build on tendered land is granted quickly in part because TOKI has vertically integrated all housing provision inputs. This allows for efficient implementation and avoids conflicting interests and miscoordination between ministries. TOKI allocates land to developers for free and keeps the title until project completion in order to facilitate timely service delivery. TOKI collects all pre-sale revenues and distributes these to the developer upon completion. From 2003 to 2012, TOKI produced (directly and indirectly) over 500,000 housing units, of which 40 percent are affordable, according to TOKI's definition.

69. However, centralized developers can miss the balance between centralized power and local considerations that is critical in order to ensure proper PPP development. In Turkey, localities often play a role in site selection, design, and development for TOKI's projects, but conflict has occurred between the national desire for speed and standardization and local desire for public consultation and

continuity. TOKI's critics argue that the agency is more interested in scale and profits than local needs and affordability.

- 70. Morocco's similarly centralized provision apparatus has been enhanced by public-public partnerships in the form of City Contracts, furthering gains in efficiency and cooperation.** By centralizing agencies that competed for scarce funding for housing into one developer, Al Omrane, Morocco incorporated past, local knowledge and eliminated competition for funds between decentralized agencies. Morocco cites this centralization of housing responsibilities and funding as the key driver of Al Omrane's efficiency. Further, City Contracts and PPPs have been utilized in Morocco to implement the Cities Without Slums program and the 15 New Cities Program. As of March 2010, the Cities Without Slums program had benefited 150,000 households and, despite missing original targets, will be continued.
- 71. Public-public partnerships between government ministries and agencies are the basis of a City Contract, which is a management tool in which state and local governments, public operators, and civil society agree in a binding manner to carry out a specific role in the provision of housing.** Based at the municipal level, these contracts allow municipalities to make single, broad-based, time bound agreements for housing and urban development that regulate the relationship between provision actors and the national government. The agreement defines the financing and implementation conditions and the tasks of each stakeholder including areas of intervention, operations to be realized, social assistance measures, and financial contribution. City Contracts are developed through an openly debated process, providing transparency and accountability between the stakeholders. As such, they reduce horizontal and vertical bottlenecks in housing provision.
- 72. The key role of local governments is evident in results from the City Contracts, where the clear division of roles and need for precise cooperation has proven to be a strong tool for public agencies, private workforces, and municipalities to build capacity and skills.** The benefit of involving Iraqi local governments in housing development includes more sustainable and efficient housing provision tailored to local capacity and needs. That said, local capacity must be bolstered to make this possible. The City Contract model would allow government agencies and private workforces to bolster local governments in housing provision, building their executive capacity in PPPs through working relationships without the need for complex legislation or institutional reorganization.
- 73. Alternatively, a leading ministry or government agency can coordinate inputs and other factors before onselling to the private sector for housing construction.** In Tunisia, the Urban Land Agency (AFH) coordinates various SOEs to service land. The Urban Rehabilitation and Renovation Agency (ARRU) does this in existing under-serviced neighborhoods in Tunisia.
- 74. The ARRU is currently the main arm of the National Programme for Rehabilitating Popular Neighborhoods and has upgraded over 1000 neighborhoods, benefiting 2.2 million Tunisians at a cost of TD 310 million.** ARRU focuses on providing infrastructure and services and encourages PSP in investment in infrastructure, although the main urban development functions (roads, water, wastewater, electricity, and land use planning) are the responsibility of central-level agencies. The ARRU coordinates with SONEDE and ONAS to carry out infrastructure provision.

Table 7: Housing framework comparison

Dedicated Agency	Inter-Ministerial Body
<i>Shared Vision</i>	
Able to develop and maintain a unique shared vision for programs and activities. Vision can be adopted, shared and implemented by staff at all levels.	Each ministry likely to have own vision. May be difficult to establish a common vision for new arrangements. Vision subject to political influence and change.
<i>Statutes</i>	
New legal basis and statutes will need to be written and approved by parliament. May face opposition from Ministries that lose functions and power.	Ministries already have legal basis and statutes. May not require any major legislation or new mandates. May be confusion or disputes over new roles for land and housing production.
<i>Structure</i>	
New Structure can be put in place based on modern management practices.	Structures are in place but may not be easily adapted to new mission. Links from center to governorates already in place.
<i>Systems</i>	
Modern systems can be introduced but likely to face delays due to unfamiliarity with new methods and learning curves. Training required.	Systems in place but may be out of date. Those from different ministries may not be compatible and one may need to be chosen over others.
<i>Strategy</i>	
New agency will be able to develop its own strategies. Should be able to respond to new situations.	Strategies may be old and dated. Most Ministries have experienced serious shortcomings in attempting to implement previous strategies. May not be interest in developing any new approaches.
<i>Capacity building</i>	
New agency may face initial difficulties, but can gain from institutional memory by integrating staff from precursor bodies. With responsibility concentrated at the top, local capacity may lag behind.	The severe deficit in local capacity to provide housing will be built by cooperation between various ministries and workforces. Constrained local capacity is currently an impediment to smart development.

Source: Adapted from Erbach 2013.

G. A policy agenda surrounding housing input bottlenecks can include immediate policy implementations and medium-term enablers

75. Immediate policy implementations include reducing friction in housing inputs and paving the way for PPP implementation by addressing low-hanging fruit enablers in the housing sector, including a possible pilot run of PPPs supervised by privatized SOEs. Medium-term enablers include establishing a government-owned private entity or coordination ministerial body to engage in PPPs. Long-term building blocks address underlying bottlenecks in the housing sector that plague land allocation and

housing finance. Table 8 below details immediate, medium-term, and long-term actions to enable housing PPPs in Iraq, which are elaborated in the following paragraphs.

Table 8: Suggested short, medium, and long-term actions to improve the framework for private sector participation in housing in Iraq

Immediate	Medium-term	Long-term
Analyze and refine existing programs (NHP 2.2.3, 'PPP Policy') to improve targeting to reach lower-income groups, value of funds.	New coordinating government-owned private entity or coordinating inter-ministerial body (Government Housing Development Company, GHDC), see Table 7	Continue to reform and develop lending markets, scaling back government subsidization that does not reach target groups.
Public-Public Contracts: <ul style="list-style-type: none"> • Partnership Committees • City Wide Action Plan • City Contract 	Land allocation: Land Policy Advisory Committee	Continue to streamline transfer of land for development through a combination of taxes, auctions, and oversight through a land allocation body.
Begin to build PPP framework (outgrowth of public-public contracts): <ul style="list-style-type: none"> • SPV • RFQ / RFP 	Identify public assets (all land). Land Government Assistance Framework (LGAF).	
Privatize selected SOEs to run pilot PPPs, internalizing lessons learned for larger-scale provision.	Increased capacity in planning and servicing land.	
Designation of existing government entity to coordinate provision of services and housing.	Development of finance market: <ul style="list-style-type: none"> • Mortgage finance • Housing microfinance Construction and development finance	
Income targeting (cross-subsidization, government incentives, and oversight thereof).	•	
Revision of configuration and construction specifications combined with increased quality oversight.		
Address bottlenecks in land allocation as primary impediment to housing development: collect property taxes and implement land auctions to generate revenue and harness land into the housing value chain.		

Source: Adapted from Erbach 2013 and Smith 2013.

76. Immediate Enablers can include (a) improvements to existing programs to facilitate delivery, efficiency and targeting and (b) tools to facilitate public-private partnerships through

coordination. Several high-impact actions can help trigger the delivery of more affordable housing, either through tweaking existing programs or high-level support for public-public cooperative mechanisms and efforts across jurisdictions and agencies.

(a) Small changes to existing programs could have a large impact on reaching more households, and the households with higher needs.

77. Improving income targeting can exponentially increase impact of current public programs

Income targeting in this context means that, for any housing initiative receiving public support, clear goals identify which income or social group (s) will be eligible to benefit. At the beginning of supply-side housing PPPs, targeting goals impact the size and pricing of the unit, services and access considerations, and the precise amount of subsidy needed to make units affordable. Specific eligibility criteria are applied to determine which households receive priority access to the subsidy, and can continue over the long-term to determine levels of rent or other payments.

78. Shifts in how affordable developments are constructed and structured can help increase affordability for the low-income without requiring additional subsidy. In the case of the NIC programs, permitting smaller plot sizes and smaller buildings are physical changes that reduce the cost of the home, increasing accessibility to lower-income households. Upfront cash grants instead of implicit subsidies and encouraging rental programs in a housing development are two examples of structural tweaks to programs that can move supply down market. Similarly, cross-subsidization, in which higher-income units help cover the costs of lower-income units, has proven a powerful tool to cover affordable housing quotas on projects in Turkey, Morocco, and Tunisia. These tools could be applied to current programs, such as the NIC allocation of land to international developers and current public-private partnerships such as Al-Nakheel City in Basra, the Karbala Investment Commission's project in Karbala, and Merkaz Inc.'s contracts to build homes in Baghdad.

79. Easing configuration and new construction specifications can increase developer interest in affordable units. Minimum subdivision size and construction standards in Iraq drive up costs for formal developers, and are one of the factors keeping formal housing out of reach for low-income groups. Affordable and sustainable housing may be better provided by keeping these specifications to a minimum, while the government can enact oversight procedures to ensure that safety does not suffer as a result. Allowing a broader range of configurations and size specifications could assure that both low and high-income groups receive housing at their respective affordability levels. That said, developers may take advantage of low spatial regulations in order to build low quality housing on the periphery of urban areas. The low minimum spatial requirement (40m²) in South Africa contributed to poor quality developments in distant locations as developers attempted to maximize profits for the subsidy market. To avoid this, governments can encourage competitive tender processes for housing construction that are primarily weighed on the number of affordable units to be built, as well as long-term value estimates that include sustainability and accessibility. Further, the final payments of subsidies may be reserved until safety audits upon completion.

80. Enforcing taxes on unused land and implementing auctions for land sale or long-term leases can help move land onto the market. The high proportion of publicly owned land in Iraq and the limited

opportunity for its sale means that housing development is held up at the very beginning of the value chain. A number of initial measures can serve as an incentive to transfer land for development, creating a basis for housing provision.

Table 9: Existing programs and policy recommendations

Program	Policy Recommendations
National Housing Fund loans	<p>For the long-term, making subsidies explicit, limited, and partnered with private lenders can greatly multiply numbers of households reached, and can be achieved by:</p> <ol style="list-style-type: none"> a. Cost out the implicit subsidies, such as the interest rate subsidy b. Replace implicit subsidies with explicit subsidies, possibly in the form of an upfront grant c. Place limits on the total amount of subsidies any household could receive d. Plan to phase down government role in direct lending, and work to grow private market through actions such as enabling commercial lenders to crack down on non payers <p>In the short-term, program effectiveness could be increased by</p> <ol style="list-style-type: none"> e. Targeting households with greater need and eliminating barriers to low-income participation, e.g. by lessening stringent eligibility requirements and f. Tapping household contributions, eg. for households with capacity to pay, partner with financial instruments and/or savings tools such as CSSH
Public rental housing	<p>To effectively manage public rental housing for social purposes, the structure of subsidy can be shifted.</p> <ol style="list-style-type: none"> a. Instead of subsidizing the unit subsidies should be provided to the household to enables them to pay for the rent. b. Higher income households potentially could pay more <p>Maintenance is critical and should be not be the sole responsibility of the renters. Privatizing rental housing transfers responsibility for a unit to a household that may not have sufficient resources to pay. This often results in a spiral of neglect and deferred maintenance in the building.</p> <ol style="list-style-type: none"> c. Rents should be sufficient to cover maintenance at a minimum
<p>NIC Housing Program</p> <p>As part of order 7/2010 under the <i>Investment Law</i>, the NIC can approve foreign projects worth more than US\$ 250,000. Land can be given at concessional prices if a percentage is allocated to affordable units (1 – 12%</p>	<p>Generous benefits are used to attract foreign investment, but the mechanisms to ensure the construction of affordable housing are weak. Understanding how much subsidy is granted can help the government understand and justify income targeting and other requirements.</p> <ol style="list-style-type: none"> a. Cost the value of subsidies in land donations b. Require lower-income targeting and homes that are affordable to

of homes).	low-income c. Examine applicability of down-payment requirement for lowest income
MMPW inventory of all developable lands for housing	There is no current framework in place to facilitate the release of these lands. Establishing this framework can help release lands for development and housing provision.
MoCH allocation scheme	Improved (a) targeting to reach lower-income (b) partnership with non-public developers and leveraging private capital and (c) more detailed monitoring of per-household direct and implicit subsidies.
MoCH employee housing registration	The down payment of 20 percent may be lowered to encourage buyers. The three housing options at different sizes and prices could be helpful to employee buyers of different income levels. ³⁴
MoCH interest-free loans	Over abundance of interest free loans can depress development of mortgage finance and experience high rates of default. a. Cost implicit subsidies Cash grants enable stable government contributions and can help greater engagement with the commercial banking sector in this market. b. The estimated value of the interest rate subsidy can be monetized and provided as a cash grant

(b) Use proven regional tools to (i) strengthening public-public coordination and (ii) strengthen regulations

(i) Public-public partnerships at the governorate level would allow agencies and workforce to build capacities and skills in the framework of cooperative work that can be repeated on future projects.

81. Gains in cooperation can transfer into increased resources and capacity to implement and oversee PPPs. **Public-public partnerships can pool more funds towards affordable housing provision than dispersed ministries and government agencies; this means a greater rate of success for PPPs.** This strategy is an alternative to potentially extensive legislative campaigns to restructure the administrative framework that currently creates friction around affordable housing provision and PPPs in Iraq. **Public-public partnerships can be made on an inter-municipal level or between the national government and municipalities.**³⁵

³⁴ (<http://www.imariskan.gov.iq/index.php?q=en/node/90>)

³⁵ Public-public partnerships in health and essential services, Public Services International Research unit, University of Greenwich, EQUINET and Municipal Services Project, July 2005.

- 82. Tools to improved framework for public-public partnerships can be a good place to start to build capacity.** Regional experience shows that several key factors determine the viability of public-public partnerships. For instance, Al-Omrane in Morrocco has established City Contracts that bind each public stakeholder to a particular role in coordination with other public entities. This can benefit local governments by boosting local capacity to implement housing PPPs, creating a reliable local partner to undertake affordable housing development.
- 83. Public-public partnerships can achieve greater efficiency in provision of services by vesting institutions with clearly defined responsibilities in relation to one another.** This could result in improved coverage, access, and equity in service delivery, which are all key factors in attracting private investors to build housing in Iraq. These partnerships can also foster greater community support and accountability for service provision due to the participation of local partners. A greater sense of community ownership and influence on projects can prevent issues such as vacancy and disrepair affecting nationally implemented housing.
- 84. Most of the institutional resources needed to implement public-public partnerships such as a City Contract are already in place in the offices of the different government partners.** The core of new policy implementation lies in organizing and strengthening the efforts of these pre-existing assets. Such partnerships have already been used with success related to water and wastewater management and health.
- 85. Still, Iraq-specific partnership forms may take time and support for growing local capacity.** Mechanisms to prevent problems can be built in from the beginning; foreseeable issues in creating City Contracts include lack of initiative or capacity to create and maintain the necessary partnerships. High-level commitment can support the learning phase to develop sustainable forms of partnership specific to the Iraqi context. Public-public contracts can take on an infinite variety forms involving different partners and community members. Disparities in administrative capacity between municipalities could lead to regional imbalances in the implementation of projects.

(ii) Prepare agenda to strengthen PPP regulations

- 86. PPP regulations can be developed and strengthened.** This framework could ensure that PPPs leverage private expertise and funding most efficiently and that the public partner is equipped to maintain oversight over projects. Regional experience in specific regulations is summarized below.

Table 10: PPP regulatory components and regional experience

Regulation	Function	Regional Experience
Special Purpose Vehicle (SPV)	Regulates government and developer as two bodies to PPP with pre-determined shared profit scheme. Lowers up-front capital required from developers and puts government in operating role.	Turkey's TOKI is the most dramatic example, acting as co-developer and participating in profits through a revenue-sharing model. Al Omrane in Morocco also uses this model.
Bidding Process (RFQ, RFP)	Request for Qualification (RFQ) invites developers to present	Morocco's Al Omrane sold land to developers with the highest bid in

	credentials and offer project vision. Selected developers are then asked to bid on price and present project specifics (RFP). This ensures the most affordable units are built at the greatest quality.	first generation of PPPs. Turkey's TOKI uses open bidding to tender its co-development opportunities.
Assumption of Risk	Private developers assume risk of project completion, quality, and budget overruns. Other risks are shared with the government (e.g. natural disasters, government and political instability).	TOKI
Oversight	Mechanisms, most likely a transparent cost structure, are necessary to prevent shadow profiteering.	The Mayorality of Baghdad and NIC's 100,000-house contract with Hanwha limits the means that these public entities can hold the private company accountable. Introducing other developers into such large contracts could create internal competition and support accountability. US military housing privatization has proven this strategy (AHI).
Value Capture	Occasionally, government or large employer (police, hospital workers, etc.) will make commitment to buy in bulk. Otherwise, the government and its ministries can help to facilitate individual purchase through favorable loans.	The Ministry of Economy and Finance in Morocco provides funds for low-income housing, financing up to 40 percent of housing unit costs. In Turkey, TOKI assumed all risk for offtake.
Termination	At end of project, the partnership is terminated and ownership his handed over to private residents or power is passed on to homeowners' association or housing co-op. Otherwise, one partner of the PPP may stay on.	

Source: Adapted from Smith 2013.

87. Medium-term enablers: New coordinating government owned private entity or coordinating ministerial body, in parallel with robust local capacity building. A Government Housing Development Company (GHDC) to serve as a party to PPPs for the housing sector would make a better partner than Ministries and other government bodies, which generally take on too much risk in PPPs. While such a centralized body can hurt local capacity development and be cumbersome, it can have certain benefits as well; for instance, an outside party generally has better negotiating power.

88. The MoCH would be a logical owner of such a body. In fact, the reports suggest the proposed GHDC could be developed from scratch or potentially from the Al Fao General Engineering Corporation, among other options. . The form and operation of the GHDC can be like that of a private company,

incorporated under normal corporate laws, whose stock is 100 percent owned by a relevant Ministry (MoCH). The degree of legislative change necessary to vest GHDC with authority now held between other ministries may require significant legislative work. There must be a public-sector board to govern the company because after several generations of projects the organization will become increasingly more professional and entrepreneurial.

- 89.** This agency can function within Iraq's current housing provision administration, although many of the same inefficiencies associated with land procurement will follow it unless those are resolved through vertical integration. That said, too much advantage and power centralized in the GHDC could crowd out the private sector and prevent private developers from innovating and delivering housing quickly.

Annexes: Regional reforms, programs, and institutions created to grow housing PSP

ANNEX I: State-Owned Developer for Affordable Housing: Al Omrane Holding Company in Morocco

I. Al Omrane Holding Company in Morocco

1. **In 2002, Morocco faced a housing deficit of 1.24 million units with 12,000 new units per year required to meet the demands of population growth.**³⁶ The Ministry of Housing and Urban Planning called for the annual construction of 170,000 units to meet demand and reduce the existing deficit. Social housing makes up an estimated 70 percent of residential demand. New projects generally consist of apartments in multi-family buildings of 3 – 5 floors.
2. **Morocco has vested housing authority in the holding company Al Omrane, which is responsible for housing PPPs and providing housing at scale by ensuring and supervising land allocation, overall technical aspects of construction works, financial follow up of projects, collecting beneficiary contributions, preparing sales contracts, and delivering individual property titles.** Al Omrane also develops land financing by offering serviced land at very low prices and pre-funds eligible developers for land, allowing them to pay for the land they develop in phases.
3. **Al Omrane was created out of the 2003 merger between ANHI, Attacharouk Company and the National Company for Development and Construction (SNEC). Al Omrane also later absorbed the ten ERACs as subsidiary companies, which now function as regional offices. It currently consists of 14 affiliates and 10 regional branches. Al Omrane is financed through its own resources, and PPP agreements allow it to fund the development of land it has bought and serviced. Established in 2003 and overseen by the Ministry of Housing, Al Omrane has reduced the slum population in Morocco from 8.2 percent of the total population in 2004 to 3.9 percent in 2010. Al Omrane is the most active real estate developer in Morocco and has entered into an agreement with the State to help eradicate slums and provide social housing.**
4. Total investments under Al Omrane amounted to US\$ 770 million in 2011 and informal figures show private developers making an average of 40% profit on social housing projects. Al Omrane has targeted consumers in social housing with units costing DH 300,000 of 50 – 100 m² and low-cost housing buyers (mainly re-housed slum-dwellers, low-level government officials, and private sector employees earning less than two times minimum wage) with units at DH 140,000.

³⁶ MHU, Habitat et urbanisme 2003 – 2007, un secteur en mouvement. This deficit decreased to 800 000 units in 2011 thanks to the ambitious policies implemented since the years 2000. See MHU, Habitat, urbanisme et aménagement de l'espace 2003 – 2011, un secteur en mouvement.

Table 11: Housing units built by Al Omrane

Year	Number
2009	7,400
2010	10,000
2011	10,500

Source: Adapted from Smith 2013.

Table 12: Plots serviced by Al Omrane

Year	Number
2009	45,800
2010	36,100
2011	36,800

Source: Adapted from Smith 2013.

II. Partner Ministries and Agencies

- 5. Municipalities expedite the issuance of building and occupancy permits and bear their related taxes.** Working with local authorities, they also take part in validating the lists of household beneficiaries and raising local awareness about housing. The use of City Contracts enables municipalities to make a single, broad-based, time-bound agreement for housing and urban development that covers all of their dealings with the national government.
- 6. The Ministry of Economy and Finance provides funds for low-income housing, financing up to 40 percent of housing unit costs.³⁷** After cross-subsidization, beneficiaries only pay about 30 percent of unit cost. Successive Finance Acts have created a structure of incentive-based deliverables in order to meet the 2001 “decent housing” pledge by King Mohammed VI.

III. Government Interventions

- 7. Government incentives have encouraged large developers involved in high-end housing such as ADDOHA Group, Alliance Developpement Immobilier, and the Compagnie Generale Immobilier, to engage in social housing projects.** Incentives include exemptions from capital gains, VAT, registration, professional and cement taxes for 10 years for developers that build at least 500 social housing units in 5 years. The 2013 Finance Law enables smaller developers to group together to obtain government provided land.

³⁷ Funds are allocated from the state general budget and from a tax on cement of USD 12 per ton that feeds the Solidarity Fund for Housing.

8. **Between 2000 and 2008, developers could benefit from tax exemptions by building at least 3,5000 units of social housing in 5 years for a price less than US\$ 25,000 or DH 200,000. This encouraged the emergence of several developers specializing in social housing, some of which became actors on the national scale** (Addoha, Chaabi Liliskane). The requisite number of units to receive tax benefits was reduced to 200 by 2012 to allow entry of smaller developers. The 2008 Finance Act lowered the price of homes to DH 140,000, suppressing PPPs with many developers claiming that it would be impossible to build at such prices. In 2010, the government announced 10-year fiscal benefits for social developers and raised the maximum selling price to DH 250,000. In order to reap the fiscal benefits, developers had to sign one of three direct agreements with the Ministry of Finance and Ministry of Housing:
 1. 5-year PPP agreement where developer pledges to build certain number of units over 5 years.
 2. Developers gain public subsidies in exchange for adherence to an updated set of architectural specifications for social housing; fiscal benefits spread over 10 years.
 3. Private developers engage in agreements with Al Omrane (via Ministries of Finance and Housing) for a new set of commitments-benefits, such as the building of socio-economic facilities as part of the housing developments.

IV. Al Omrane PPPs

9. **Al Omrane’s two primary housing programs, Cities Without Slums and 15 New Cities Program, make use of PPPs and City Contracts.** Before Al Omrane was founded, delays of up to 9 years plagued housing delivery. In contrast, 24,239 of the 47,475 social housing units started in 2011 under the Cities Without Slums program were completed in 2012. 55,363 of the 76,232 units started for the four new cities in 2011 were completed in 2012. Of the 124,000 total units started in 2011, 82,000 were completed in 2012. Over the last several years, 546 contracts have been made with private developers for the construction of over 970,000 units.
10. **Al Omrane has engaged in three generations of PPPs:**
 1. **First Generation:** Intended to create a structure incentive-based deliverable system as part of the National Urban Strategy. Land was sold to developers offering the highest bids. Significant delays occurred in construction and developers had difficulty securing bank loans due to murky land titles. Al Omrane also began development partnerships with private landowners. In Casablanca, 10 agreements were signed with 7 developers on 33 hectares to build 9,500 units. 14 percent of units were allocated to re-housing slum-dwellers.
 2. **Second Generation:** Conceived in the wake of development of “new towns.” At first targeted large developers capable of developing plots up to 30 hectares. PPP arrangements encourage developers to freeze land and make land reserves because despite their size, they were unable to prefund all their projects at the same time. Developers tended to delay construction of social housing until the end of the project, clustering them together instead of realizing mixed-income developments.

3. **Third Generation:** In 2011, Al Omrane developed a new strategy of PPPs in order to build on past experiences, broadening the pool of private developers for PPPs, only concluding agreements on land with clear title, and demanding that social housing be delivered in phases.

V. Policy Adjustments

11. **While Al Omrane has realized significant gains in the provision of affordable housing, steps can be taken to ensure that the pendulum does not swing too far away from public sector involvement.** The lack of direct government capital investment in projects means that there is little public sector involvement, which results in poor government incentives to enforce regulations and control development process. The government does not provide private developers with regional master planning vision by which to abide.

ANNEX II: Dedicated Agency for Provision and Upgrading of Affordable Housing: The National Housing Company and the Urban Rehabilitation and Renovation Agency in Tunisia

I. The National Housing Company and the Urban Rehabilitation and Renovation Agency in Tunisia

12. **Despite 65 percent of the Tunisian population living in urban areas in 2004 and 70 percent of the country's total population living along a 30 km band of coastline, Tunisia has kept pace with housing demand.** New housing units have been built faster than population growth; in 2010, there were 2.50 million housing units for 2.19 million families, implying a surplus of 310,000 units, or 14.4 percent of the total housing stock. Tunisia's 2007 – 2011 Development Plan estimated a housing need of 60,060 units per year; since 1994, an average of 51,469 units were built in urban areas and 11,760 units built in rural areas on an annual basis. This means an annual increase of approximately 63,229 units and a surplus of 3,169 units according to the 2007 – 2011 Development Plan.
13. **The National Housing Company (La Société Nationale Immobilière de Tunisie, SNIT) is responsible for developing social housing. The Urban Rehabilitation and Renovation Agency (L'Agence de Réhabilitation et de Rénovation Urbaine, ARRU) was established in 1981 to coordinate comprehensive slum upgrading.**
14. **The ARRU is currently the main arm of the National Programme for Rehabilitating Popular Neighborhoods and has upgraded over 1000 neighborhoods, benefiting 2.2 million Tunisians at a cost of TD 310 million.** ARRU focuses on providing infrastructure and services and encourages PSP in investment in infrastructure, although the main urban

development functions (roads, water, wastewater, electricity, and land use planning) are the responsibility of central-level agencies. The ARRU coordinates with SONEDE and ONAS to carry out infrastructure provision.

15. **The Tunisian Housing Corporation (SNIT) is responsible for 3 – 5 percent of total housing construction in the country, though by 2010 it had built and still maintained management responsibilities over 261,000 since its founding in 1957.** SNIT is decentralized with divisions in the north, center, and south and has national headquarters in Tunis. In 2001, SNIT began to provide legal title to individual beneficiaries, affecting 99,170 units by 2010.
16. SNIT acquires serviced land for projects from AFH or the allocation of existing public lands free of charge. SNIT is responsible for on-site infrastructure and generally builds social housing units with commercial units on the ground floor. Beneficiaries are required to meet minimum income requirements and are eligible to arrange for government mortgage financing.
17. Individual families build a majority of urban housing units, accessing land from private owners or through various government land development and subdivision projects. Private developer units constitute the second largest sector of new housing, while government-produced housing by SNIT and SPROL represent a distant third. Of the 252,000 new units registered between 2006 and 2010, a large majority in urban areas and nearly all units in rural areas were commissioned by individuals. Much of this housing, especially in the 1970s and 1980s, was constructed informally.

II. Partner Ministries and Agencies

18. In 1974, the government set up the National Housing and Savings Fund (CNEL) responsible for housing finance (later converted into the independent Housing Bank, BH), the Housing Land Agency (AFH) responsible for land provision, and the national wastewater company (ONAS) to extend sewer networks to informal areas.
19. **The Ministry of Infrastructure, Housing, and Regional Development (MEHAT) is responsible for preparing, coordinating, and guiding national housing policies and strategies, mainly through its Housing Directorate.** The Directorate is responsible for developing housing programs and policies and for monitoring policy implementation. The Directorate's comprehensive city plans allow the AFH and AFI to execute projects based on approved plans in consultation with municipalities and infrastructure providers.
20. MEHAT's PPP program announced in 2012 aimed to construct 30,000 units in 2 years. The government currently owns land for 12,000 units, which will be allocated to the project. An initial call for tenders for lots of 4,000 units each was released in hopes of attracting 3 development partners for the initial total of 12,000 units.

21. **The Company for the Promotion of Social Housing (SPROLS) is affiliated with the Ministry of Equipment and Transportation and produces low-cost housing, albeit at a volume smaller than SNIT.** Since its founding in 1977, SPROLS has produced 21,333 units of either 50, 75, 80, or 100 m².
22. **The AFH sells land at or below market price for housing developments, and recovers cost from sales.** The AFH has the authority to expropriate land for the public good and the pre-emptive right to purchase land in order to allocate land for housing projects. Since its inception, the AFH has provided land for the production of 170,000 houses (60,000 affordable units). AFH sells raw land at 10 – 60 TD/m²³⁸ and serviced land at 60 – 450 TD/m².³⁹
23. **The Housing Bank (BH) is a sovereign financial institution and has been instrumental in promoting PSP by giving loans to individuals to buy residential lands and houses as well as funds to make house improvements and construction loans to private developers.** Over half of its disbursements for low-income housing are made to private enterprises. From 2003 – 2006 BH financed 17,817 units (4,748 were public, 13,069 private), although 67 percent of total financing went to upper-market housing. Targets for social housing consist of units from 50 – 100 m² of a cost between TD 39,000 and TD 67,500. For middle-income housing the BH will lend for prices up to TD 83,000. The BH finances up to 80 percent loan-to-value for social housing units, compared to 70 percent for other developments.
24. The Housing Promotion Fund for Salaried Persons (FOPROLOS) assists lower income individuals buy housing and is financed through employer contributions. By 2006 it had financed roughly 20,000 units.

III. Government Interventions

25. **Housing sector responsibilities and powers are centralized despite attempts to give local administrators greater responsibility.** National-level executive agencies have made efforts to improve their coordination with local units, especially in land assembly and delivery, slum upgrading, central city rehabilitation and integrated urban project development. Nevertheless and despite attempts to foster PSP, the central ministries remain the main players. That said, central municipalities can delegate central infrastructure agencies such as SONADE and ONAS to undertake local works, and technical cooperation between these central authorities and municipalities is common. Municipalities have been given the power to issue building permits, but these need to be approved centrally.
26. **As part of the National Housing Strategy, the government encouraged private developers with tax-breaks and other incentives to produce affordable housing.** Private sector

³⁸ Compared to 10 – 100 TD/m² for privately developed lots and 10 – 50 TD/m² for informal subdivisions.

³⁹ Compared to 150 – 600 TD/m² for privately developed lots and 10 – 50 TD / m² for informal subdivisions.

housing development has increased from 6,270 units in 2006 to 12,000 units in 2010. Land is occasionally provided by the AFH at or below market rates. However, developers generally concentrate on middle to high end of the market. From 1990 to 2012, the number of private developers increased from less than 100 to over 2,300.⁴⁰ The rising cost of land, land speculation, and the high cost of construction materials means that many private developers are relying more and more on the high-end of the market.

27. Since the 1990s, the Tunisian Government has used enabling regulations to reduce its role as a direct provider of housing, allowing the private sector to fulfill this role. That said and even with increased offering of mortgage financing, the private sector has been slow to enter due to the scarce and increasingly expensive public land for housing. **Due to the high cost of land and bottlenecks in land allocation and titling, only lower income-families that can either leverage considerable family equity or are lucky enough to qualify for government land and financing can hope to become sanctioned owner-builders.**

IV. Policy Adjustments

28. **While Tunisia has mobilized significant resources to provide low-income housing, financing, and encourage PSP, both in terms of cost-to-price ratios and standard housing land programs, urban households in the very low-income groups still find it difficult to afford even modest housing units.** The only housing type available to urban households under the medium income is still self-built, peri-urban dwellings. Urban sprawl has limited the availability of land, private developers use government benefits to reap increased profits in the middle-income market as opposed to allocating units to low-income buyers, and municipalities are weak in application of vacant land tax and property tax.

Revising Urban Development Plans could ease the designation and release of land for residential development on small plots aimed at owner-builders. Legislation for land assembly and pooling could also allow compact land developments. Stopping the government loan program for the middle class in order to solely target subsidies towards low income households could also help to make formal social housing an option for these potential home buyers.

ANNEX III: Vertically Integrated, Sole Public Body for Housing: The Housing Development Administration of Turkey (TOKI)

⁴⁰ Statistics from the Ministry of Public Works. www.mehat.gov.tn.

I. TOKI in Turkey

29. **Turkey needs 650,000 to 700,000 new urban housing units per year to meet new housing demand.** By 2015 Turkey’s population will reach 82 million and by 2023 80 percent of Turkey’s population will live in cities.
30. **TOKI was established in 1984 to provide and reorganize inputs to affordable housing in order to deliver well-planned social housing at scale.** TOKI reports directly to the Prime Minister and is charged with delivering affordable mass housing for sale or rent to low and medium income households with regular incomes. It provides financing, develops projects, and implements orderly urban development. TOKI determines general policies on the provision of housing lands and units, identifies land areas for priority housing projects including the timeframe for their development, and supervises access to domestic and foreign resources required for the servicing of land and production of housing.
31. The Mass Housing Act enabled TOKI to become Turkey’s most important provider of formal low cost housing. A number of key regulatory amendments in 2003 and 2004 allowed TOKI to become directly active in developing and building new housing throughout the country including projects aimed at eliminating areas of substandard housing. TOKI was also granted the authority to prepare and modify zoning plans as needed and to make financial arrangements for slum transformation projects.⁴¹ In effect, TOKI was granted the authority to act as an investor, master developer, and regulator. With these new and increased responsibilities, TOKI now provides 5 – 10 percent of total housing needs.

Table 13: TOKI Institutional Profile

Inputs	<ul style="list-style-type: none"> • Land provision • Sale profits • Zoning control • Credit • Basic infrastructure • Power to expropriate land
Activities	<ul style="list-style-type: none"> • Create low and medium income social housing, facilities and infrastructure • Revitalize blighted neighborhoods (very limited in reality) • Restore and reconstruct historically significant buildings • Create modern housing facilities • Provide housing, infrastructure and social facilities for victims of disaster

⁴¹ Bill 5162 allowed TOKI to undertake slum transformation projects through a multi-step process:

- Local authorities and municipalities identify illegally settled areas for transformation
- Local authorities establish a protocol with TOKI to renovate their areas through a housing development scheme
- Illegally occupied or under developed squatter areas are cleared to make way for modern settlements.
- Illegally occupied squatter area is rehabilitated at the same time that an alternative vacant area is planned for the purpose of providing modern housing units for evicted households from the squatter area.

	<ul style="list-style-type: none"> • Issue internal and external bonds (yet to be done) • Support housing construction related industries • Encourage and enforce participation of banks in housing finance (yet to be done) • Grant individual and mass housing credits for projects intended to improve rural areas and squatter areas (very limited) • Implement profit-oriented projects to ensure revenue generation for TOKI • Design and tender development plans for mass housing settlement areas • Expropriate unfit buildings and suitable lands within framework of legal rights • Redevelop squatter areas together with local municipalities • Collaborate with local municipalities to create urban renewal projects • Create financial opportunities to finance social housing projects such as innovative income-sharing models with the private sector.
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Source: Adapted from Smith 2013.

1. When the Mass Housing Act was abolished in 2001, the Under secretariat for Housing was removed and a number of its responsibilities transferred to TOKI, the Land Office was closed with its land reserve and nearly all of its authority given to TOKI, and the assets and shares of the Publicly Owned Real Estate Bank were transferred to TOKI. Six real estate investment, marketing, project management, service provision, construction, restoration, and trade companies now partner with TOKI on a profit sharing basis. This has given TOKI a great deal of income.
2. **TOKI often cooperates with municipal housing companies to provide housing.** Municipal companies are private entities under the executive of municipal administration that provide housing typically through partnership with TOKI. For example, KIPTAS is a company owned by the Istanbul Metropolitan Municipality. The mission of this company is to provide solutions to unplanned urbanization and slums through the construction of affordable settlements.
 - (i) PPP implementation
3. **As part of TOKI's PPP portfolio, Revenue Sharing scheme relies on a public tender process to generate short-term profits in order to fund low income housing.** Minimum value of land determined and a tender is announced. A contractor is selected using a formula determined by the highest possible revenue rate and income-share ratio in TOKI's favor. The contractor takes on all responsibility for covering the cost of financing. The revenue collected from sales is allocated to TOKI's account and used to subsidize affordable housing projects.
4. **TOKI enters into PPPs by issuing tenders for the disposal of government owned land to private developers for mass housing projects. This avoids the problem of land speculation and escalating land prices as is the case in Tunisia. Most of these projects are middle to high-income groups, although cross subsidization allows for low income housing as well.** As of 2011, over 90 percent of TOKI's operating revenues were derived from the proceeds of its sales.

Steps in TOKI housing PPPs:

1. TOKI confirms need for housing in proposed location

2. TOKI prepares bidding documents and issues public tender
3. TOKI awards contract to most competitive developer price quote
4. Beginning of construction
5. TOKI forms selling prices and sales
6. Banks offer financing to beneficiaries who are eligible and can afford bank finance. TOKI sometimes offers housing loans.
7. Beneficiaries pay down payments and monthly installments to banks.
8. Banks pay down payments and monthly installments to TOKI.

(ii) PPP Case Studies

5. **Under the revenue-sharing model, TOKI provided land at zero cost to the private developer Teknik Yapi to produce 1,742 apartments from 2005 – 2008 in the Uphill Court Atasehir development.** TOKI kept the land under its name until construction completion, acting as a guardian for home buyers and ensuring timely and quality completion. TOKI projects are usually presold from plans with TOKI receiving all early presale proceeds, releasing funds to the developer in phased payments plus profit until completion. Eventually the project revenue is shared between TOKI and the developer per the provisions of the tender.
6. **TOKI undertook cross-subsidization through a revenue-sharing scheme with the Erkut Group, which was commissioned to build mass housing in Kayseri.** TOKI prepared a bidding document and issued tender, evaluating each contractor's proposals on the basis of total cost and determining the sales price of dwelling units. TOKI awarded the contract to Erkut Group to build 794 housing units as well as installing the infrastructure. Erkut Group will incur all project costs except for buying the land, which was allocated without cost. All other project aspects such as selling and marketing of the project are managed by TOKI.

(iii) TOKI production

7. **TOKI has been responsible for the construction of 559,840 housing units from 2003 – 2012.** From 1984 to 2002, TOKI provided credit support to 940,000 housing units through the coop credits structure and has provided completion credit support to 92,215 homes and constructed 43,135 housing units on its own. The 2003 Emergency Action Plan for Housing and Urban Development set a 250,000 unit target for 2007. A total of 285,000 units were built by the end of 2007, 500,000 by the end of 2010, and 559,840 by 2012.
8. The total investment cost of this construction was TL 48 billion, involving 3,793 tenders and 2,486 construction sites. Social housing units generally vary in size between 80 – 120 m² with costs kept around US\$ 180 – 200 per m². The timeline of social housing projects from tender to opening is generally 12 to 18 months.

Table 14: TOKI units produced 2003-2012.

Total units produced 2003 - 2012	559,840
Housing units for middle and low-income groups	221,653
Housing units provided to the poor	143,200
Conversion of shanty houses (urban renewal)	68,167
Houses provided to disaster areas	37,420
Agricultural village implementations	5,584
Resource development implementations	83,816

Source: TOKI, 2012

II. Government Interventions

- 9. The early 2000s signified a shift in the government’s role in housing from regulator to direct provider and facilitator of affordable housing by the management of the execution of a large-scale national investment program and defining a quantitative target for housing production.** Mass Housing Act of 1984 was platform to deliver social housing and led to increase in housing investment, even though it was later abolished in 2001 to allow for TOKI’s increased role in provision. Large-scale housing projects began via partnerships with private developers and the Real Estate Bank. The establishment of TOKI, initially supported by the Housing Fund, enabled the agency to become and continue to be the largest single provider of housing in Turkey.

III. Alternative Housing Provision

- 10. The private sector increased its housing production from 71 percent in 2000 to around 82 percent in 2008 and continues to be the dominant producer of housing.** This includes individual owner builders, cooperatives and private developers. The individual owner builder continues to be the largest provider of housing. Private developers have generally been small-capital builders that produce apartment housing on single parcels. Recently, moderate-to-large scale developers have been increasing their share in housing supply by building on large tracts of land with many on-site amenities, including spaces for parking, recreation facilities and security. Many of these estates have taken the form of gated communities that are more responsive to the needs of higher income groups.
- 11. 2.7 million units were built by housing cooperatives between 1966 and 2011, 18 percent of the total number of housing production during this period.** This type of provision continued even after the abolition of the Mass Housing Fund, which had provided a significant amount of the financing for such projects. In 2010, cooperative housing was less than 10 percent of overall

housing production, and in 2011 only 2 percent. Today, housing cooperatives represent 25% of Turkey's total housing stock with roughly 1.4 million units.

IV. Financing

- 12. Structural reforms that strengthened the banking sector by encouraging competition and extension of credit led to increase in housing activity in the early 2000s.** The abolition of the Mass Housing Fund made public housing investment dependent on allocations from the general budget and TOKI's financial resources. While this slowed the provision of housing, performance is still good. Between 1990 and 2011 10.1 million housing units were started, of which 6.1 million (61 percent) were completed and occupied. This means that 25 million people moved into new housing during a period when the population increased by only 18.3 million.
- 13. TOKI provides housing loans with long maturities and low yields to low-income beneficiaries.** The urban poor who are unable to afford to own housing pay a monthly amount for up to 20 years and a variable down payment to TOKI which usually falls between 10 – 40 percent of the unit cost, depending on the affordability target. At the end of maturity, beneficiaries are awarded the title to the unit if they have fully repaid the housing loan.
- 14. The financial conditions for non-TOKI loans are generally prohibitive for low-income buyers.** As a result, the majority of home purchase financing is unbanked; almost 40 – 50 percent of the home purchase is financed through inheritance or self-finance, roughly 10 percent from borrowing from relatives and friends, and only 40 – 50 percent by mortgage credit. Between 2007 and 2011 loans averaged between 15 – 25 percent annually (quoted in monthly rates of 1.1 percent to 1.85 percent), with rapid maturities between 3 to 8 years, and implied LTV's at 25 – 35 percent on average.
- 15. Falling interest rates are offset by a 3 percent flat bank commission in addition to earthquake, property, accident and life insurance premiums.** These fees dampen the positive impact of falling rates, which now average between 9 – 12 percent annually (quoted in monthly rates of .7 – 1.0 percent for 5 and 10 years respectively). LTVs have increased to around 50 percent but still have room to grow to the 75 percent standard set by the Banking Regulatory Authority BRSA. The 2007 New Mortgage Act that established the mortgage finance companies DB Mortgage and Seker Finans has failed to realize benefits because of a lack of incentive and support for a Secondary Market Conduit to facilitate secondary markets.

V. Policy Adjustments

- 16. The need for a better housing finance market and to move from large-scale, property led urban renewal projects to smaller, more multi-partnered, strategic and area-based projects could further increase Turkey's affordable housing provision.** TOKI's low-income provision in the 1980s and 1990s often became suburbs for the middle class. Even when the agency began

making long-term soft loans to building cooperatives, the beneficiaries were mainly middle class. Smaller and local housing projects with multiple partners could put more emphasis on community involvement in housing PPPs. Increased leveraging of Revenue Sharing schemes and the development of more independent finance options could also help to address the skew towards middle and up-scale provision.

Annex IV: Lessons learned for the Iraqi context

Table 15: Lessons learned for housing provision in Iraq from Morocco, Tunisia, and Turkey

Morocco	Tunisia	Turkey
Al Omrane develops land financing by offering serviced land at very low prices and prefunds eligible developers for land, allowing developers to pay for land in phases. This can take pressure off developers to secure finance until the basic services are in place.	One agency (ARRU) focuses on providing infrastructure and services as well as encouraging PSP and investment in infrastructure. Other central agencies maintain urban development functions (roads, water, wastewater, electricity, and land use planning). This division of labor keeps services and development organized and efficient.	Centralized agency (TOKI) delivers affordable mass housing for sale or rent to low and medium income households. It determines general policies on the provision of land, identifying land for priority housing projects including the timeframe for their development, and supervises access to domestic and foreign resources required for the servicing of land and production of housing.
The use of City Contracts enables municipalities to make a single, broad-based, time-bound agreement for housing and urban development that covers all of their dealings with the national government.	The government set up separate funds responsible for housing finance, land provision, and extending sewer networks to informal areas.	TOKI's Revenue Sharing scheme relies on a public tender process to generate short-term profits in order to fund low-income housing.
The 2013 Finance Law enables smaller developers to	The rising cost of land and the high cost of construction	TOKI provides housing loans with long maturities and low

<p>group together to obtain government provided land – this could help the private sector development capacity, giving smaller developers financial assistance and helping the low-income housing market.</p>	<p>materials means that many private developers are relying more and more on the high-end of the market. The Housing Promotion Fund for Salaried Persons (FOPROLOS) assists lower income individuals buy housing and is financed through employer contributions.</p>	<p>yields to low-income beneficiaries.</p>
	<p>The government encouraged private developers with tax-breaks and other incentives to produce affordable housing.</p>	