

## North Africa Regional Profile



### Overview

North Africa includes the five countries bordering the Mediterranean Sea: Morocco, Algeria, Tunisia, Libya, and Egypt. Together, they are home to 192 million people. After the Arab Spring in 2016, the North Africa region real GDP growth has improved and is estimated at 4.9 percent, up from 3.3 percent in 2016, which is higher than the African average of 3.6 percent. This is due to the return of political, economic and security stability in the region. This is clearly shown in the GDP growth rate in Morocco of 4.1 percent in 2017 compared to 1.2 in 2016. In addition, Egypt has supported the region's growth with a four percent rise in GDP as a result of its the economic reform program.

Growth prospects for 2018 and 2019 are positive, given reforms undertaken in all countries. The growth outlook for the region remains favourable relative to that of other regions (except East Africa) with an average growth projected at 5.0 percent in 2018 and 4.6 percent in 2019.<sup>1</sup> North Africa had an average human development index (HDI) of 0.667, ranking first in Africa, followed by Southern Africa (0.568), Central Africa (0.503), East Africa (0.496), and West Africa (0.461). However, major gaps exist between and within countries, and regional disparities in poverty and unemployment remain pervasive.

According to the African Economic Outlook, the region would need to accelerate its current pace of growth by approximately four percentage points every year for the next decade to alleviate poverty and reduce unemployment. The recovery of the North Africa region also depends partly on the performance of the Euro Zone, which represented 49.7 percent of the region's trade flows according to the United Nations Conference for Trade and Development (UNCTAD) data for 2012. The Euro Zone's recent recovery is good news for the region's exports. Growth in France, Germany, and Spain is expected to stimulate exports from North Africa to Europe.<sup>2</sup>

### Access to finance

After the global financial crisis in 2008, which had devastating consequences for the financial markets of North African countries, most Middle East and North African (MENA) governments, including Algeria, Morocco and Tunisia relied on financial innovation and inclusion as a way of reducing poverty and inequality. In a joint Arab Monetary Fund-CGAP report on financial inclusion, Findex 2017 data highlights a large unmet demand for financial services.<sup>3</sup> Many of the unbanked are economically active citizens. These figures suggest that financial service providers have the opportunity to meet a huge unmet demand across the Arab world, including in countries with more active financial markets.<sup>4</sup>

To close the severe gaps in financial inclusion in North Africa, governments are increasingly starting to develop national financial inclusion strategies driven by evidence-based dialogue among public and private stakeholders.<sup>5</sup> Some reduction in income inequality has been registered in Morocco and Tunisia but not yet in Algeria, where poverty levels have remained high.<sup>6</sup>

In North Africa, opportunities to increase financial inclusion are particularly strong among women. Today 52 percent of men but only 35 percent of women in the region have a bank account, the largest gender gap in Africa. Relatively high mobile phone ownership offers an avenue for expanding financial inclusion among the unbanked: 86 percent of men and 75 percent of women have mobile phones. Up to 20 million unbanked adults in the region send or receive domestic remittances using cash or an over-the-counter service, including seven million in the Arab Republic of Egypt.<sup>7</sup>

The bond market is underdeveloped in the North African region except for Morocco and Tunisia, due to financial system reform. Despite that, the market in the two countries is suffering from low volumes, low liquidity and a strong tendency to "buy & hold". In order to raise the competitiveness and increase private sector participation in its financial sector, Egypt embarked on first generation and second-generation financial sector reforms.<sup>8</sup> The second generation of the government's reforms were aimed at building up a financial system that is more inclusive, competitive and effective in financial intermediation, with sound banking and non-banking financial institutions. These reforms were led by the private sector.

In four of the North African countries where data is available (Algeria, Egypt, Morocco and Tunisia), the percentage of women with bank accounts at formal financial institutions ranges from 6.5 percent (women) and 12.8 percent (men) in Egypt and 26.7 percent (women) and 52 percent (men) in Morocco. A similar disparity can be traced with reference to the access to loans, with data ranging from 0.5 percent (women) and 2.5 percent (men) in Algeria and 3.6 percent (women) and 5.0 percent (men) in Morocco. Those who have an account to receive remittances constitute 0.2 percent (women) and 1.2 percent (men) in Egypt and 8.1 percent (women) and 12.1 percent (men) in Morocco.<sup>9</sup>

North Africa also saw the cost of risk roughly double to one percent, with high non-performing loan (NPL) ratios resulting from several major corporate bankruptcies in the oil, real estate, and maritime transportation sectors.<sup>10</sup>

### Affordability

All North African countries are suffering from the lack of middle income housing supply and this is considered one of the major challenges facing the real estate industry. As population growth and urbanisation continue, countries across the region are facing growing pressure to accommodate the evolving needs of urban dwellers. This includes the need for more good quality, affordable accommodation within developed communities, for middle income individuals and households.<sup>11</sup>

In response to these problems, governments in North Africa are trying to intervene to make housing habitable, affordable and accessible to low income households. This is especially true for the Moroccan, Algerian and Egyptian governments. In Morocco, the government has decided to stand as guarantor, which enables low income borrowers to borrow from banks. Algeria and Egypt are using other solutions such as building social housing units at low prices with payment facilities. In Algeria, the government is committed to building 1.6 million social housing units between 2015 and 2019.<sup>12</sup>

North Africa's rapid urbanisation and population growth has led to a severe affordable housing shortage and a rise in informal settlements. This is not equally distributed across the region, however. On one hand, a country like Tunisia has no housing deficit, while Egypt is estimated to have a housing shortage of at least 3.5 million units. The socio-economic impact of the housing shortage is clear. It causes overcrowding, increases the incidence of diseases, and hinders the provision of basic social and public services such as water, sanitation, education, and physical safety. In such a situation, high population growth and a youth bulge tend to be liabilities rather than dividends.<sup>13</sup>

In spite of the high levels of home ownership (up to 80 percent in Tunisia, and over 90 percent in Libya) and negative slum growth, affordability is a major problem across North Africa, particularly for low and middle income households. In Algeria, prices are rising and rental yields are expected to remain stable. In Tunisia, prices have risen at eight percent a year. In addition, Libya is facing the same problem,

with significant undersupply which is hampering affordability. The Libyan government is responding to an estimated shortage of approximately 350 000 units with large-scale residential projects to the value of US\$11 billion in the pipeline. Furthermore, the cost of formal housing in Egypt exceeds the payment capacity of the majority of households. Although 2017 has witnessed a positive boost in market trends, Egypt's population of over 90 million requires an additional 175 000 to 200 000 housing units a year to cater for population growth and the housing shortage of 3.5 million units. While there are 5.6 million vacant units nationwide, these properties are beyond the purchasing power of low and middle income groups.<sup>14</sup>

### Housing supply

The North Africa region is suffering from a significant and growing shortage of middle income housing resulting in both economic and social challenges. The reasons for the shortage of affordable and adequate housing can be traced throughout the steps of the housing delivery value chains. Lack of urban planning and adequate building standards are causing a shortage of urban land, resulting in high prices and urban sprawl. Unresponsive and mismatched regulations create market failures that prevent the housing market from functioning properly as theory would suggest. An overreliance on imported building materials, and monopoly pricing in some cases, contribute to very high prices. The dominance of small- and medium-sized developers and artisanal construction methods with low capacity lengthens construction time, lowers quality, increases construction costs, and limits the supply of housing. Lack of financing for developers and housing customers, along with high financing costs for those that qualify for loans, add to the overall housing costs. All these issues are amplified by inadequate institutional and regulatory frameworks and poor governance. This constitutes an environment not conducive for reaping the demographic dividend.<sup>15</sup>

In Morocco the legacy deficit was estimated in 2010 at the time of the new government housing policy at 840 000 units or some 13 percent of the housing stock. That estimate ignores rural vacancies. Considering the scale of urban-rural migration, the World Bank estimates that over one million households will need a home in urban Morocco within the next five years. According to the 2014 census, Tunisia has eliminated its quantitative housing deficit and now has 580 000 more housing units than households, hence a 17.7 percent national vacancy rate. These vacancies reflect houses that are too dilapidated to be livable, second homes, units bought as a mere refuge investment, or left vacant for fear of rent controls. It is thus reasonable to assume a much lower surplus or even zero, as most of the vacant stock may not be put to housing use. Tunisian housing needs depend strongly on the household size and further rural-urban migration assumptions.<sup>16</sup> This shortage threatens the long-term stability of the region. Governments across the region have acknowledged the seriousness of this problem and have implemented a range of policies to tackle the shortage. However, most of these initiatives are at the early stage of implementation and further efforts are needed to ensure the successful delivery of more affordable projects.

### Property markets

A lack of private land supply is the main constraint in North Africa. Land is a bottleneck in the supply chain and the main cause of high real estate prices in the region. Privately held land in Algeria, Libya and to a certain degree, Egypt, is a rare commodity relative to demand, which tends to magnify the pressure on prices and encourage speculation. Rigid land development regulations and complex registration procedures for titles have led to a scarcity of legally developable land and have contributed to the region's affordable housing shortfall. Most countries in North Africa ranked poorly in terms of property registration in the World Bank's 2018 Doing Business Report, with Morocco (86<sup>th</sup>), Tunisia (93<sup>th</sup>), Algeria (163<sup>rd</sup>), Egypt (119<sup>th</sup>), and Libya (187<sup>th</sup>) performing worst.

Urban informal settlements have been permitted to develop in Morocco while they are rare in Egypt. In Egypt, however, many urban multi-storey buildings were built outside formal processes and without permits during the years following the 2011 revolution, in particular on the outskirts of Cairo. Urban renewal policies that formalise informal settlements are most active in Tunisia and Morocco while Egypt has created high hurdles for action on formalisation. In Morocco the active government has yielded important results not only in the quantity of available housing, but also in the quality of the stock. Between 2004 and 2014, according to census results, the share of rural Moroccan households with access to electricity and running water has doubled (38 percent and 55 percent respectively in 2014).

The share of urban households living in slums, precarious or substandard homes reached a peak at 8.2 percent in 2004 with 420 000 units, declining to 5.6 percent in 2014. In Tunisia, the ratio of the statistically defined "rudimentary dwellings" has declined from almost 24 percent in 1975 to 4.9 percent in 1989 and to 0.3 percent in the 2009 census. However, the quality of the urban housing stock has been deteriorating due to the lack of proper maintenance. This is caused by several factors, including the absence of formal property titles in the traditional medinas, the poor management of the social housing and the insufficient returns of rental investment. Moreover, informal housing still represents an estimated 25 percent of the housing stock, and holds a significant share of the new construction in urban areas.<sup>17</sup> Furthermore, roughly 20 private commercial banks in Tunisia have housing loan programmes for individuals, mainly targeting middle and upper income families. The average interest for mortgages from commercial banks is now 7.78 percent. Banks are allowed to issue mortgages of up to 25 years in duration but are obliged to fix the rates for mortgages which last more than 15 years, which makes financing them difficult. As a result most mortgages are for 15 years or less.<sup>18</sup>

There are many reasons behind informality in North African countries. Some of these drivers are poorly enforced regulations, shortages in housing supply, the lack of affordability, rapid urbanisation, low income and focusing on high luxury units. Most property markets in North Africa have limited international integration, so are somewhat shielded from international financial dynamics. Morocco is the exception, with its markets being much more open to foreign direct investment. As a result, Morocco experienced the impact of the global financial crisis and slow-down in the Euro-Zone to a greater extent. To help policy-makers and investors monitor these dynamics and develop resilience in the property market, Morocco was the first country in the region to introduce a real estate price index that is formulated quarterly by the Central Bank and National Land Agency.

### Policy and regulation

Housing remains at the forefront of the agenda for most North African governments. The link between affordable housing, economic development and social inclusion has been clearly recognised, particularly as many protests across the region have been linked to poor living conditions caused by failures in housing policy.

North Africa's real estate and construction industry has undergone significant development over the last five years, offering interesting opportunities for economic operators across the industry, from lenders to contractors, sub-contractors, engineering and architectural firms. Remarkably, this trend is enduring despite the turmoil ensuing from the civil war in Libya, which has put a halt to a series of construction projects in that country, and the upheaval of Arab Spring and its aftermath. For instance, Algeria has launched a series of projects for the construction of public infrastructure, such as ports, roads, telecommunications and transport facilities, public housing projects and the development of renewable energies in an effort to diversify its power production by reducing reliance on fossil fuels and to promote economic development.

Another example of this trend is Egypt, which has embarked on large construction projects, including the excavation of a second shipping lane along part of the Suez Canal worth in excess of USD 8 billion, the creation of a new administrative capital city 45km east of Cairo that will house five million people and create 1.7 million new jobs, the construction of a major tourist resort on the Mediterranean coast near Alexandria, and several projects in the renewable energy sector. Similar projects have also been launched in Morocco and Tunisia. The construction and real estate industry in North Africa has thus proved its resilience and is in full expansion. Foreign contractors and sub-contractors are also faced with labour market regulations imposing restrictions and quotas on the hiring of expatriate personnel in favor of local workers (e.g. the mandatory domestic-to-foreign worker ratio under Egyptian law). Constraints of this kind can prove burdensome for contractors and sub-contractors that need specialised manpower that may not be available in the local labour market. It is thus important to identify business structures that may be totally or partially exempt from such constraints.<sup>19</sup>

Many North African governments fail to formulate and implement low income housing policies that stimulate diversified tenure, and to encourage the public, co-operative housing and sometimes private corporate housing institutions that could bundle the demand. The exception here is Morocco, which systematically supports low-cost housing supply. Finally, the lack of empowerment of the demand-side

contributes to supply-side dysfunctionality and uniformity. Morocco's direct tax support measures stimulated both the delivery of affordable housing and the emergence of a low-cost developer market. However, the model is currently approaching its limits due to the oversupply it created in a number of cities; a lack of diversification of building designs and incongruence between house price limits and local construction.

In Tunisia, the public sector, which was responsible for 60 percent of the production in the 1970s, today represents a mere one percent. Currently, 80 percent of new homes are self-built in progressive mode, with a growing proportion that is built informally. The government is trying to address this imbalance by reviving some of the proactive housing policy of the past. A set of agencies have been created to stimulate or develop new housing, including for social housing (SNIT), for other rental solutions (SPROLS), and for the acquisition of land banks and the development of urban land 'Agence Foncière d'Habitation' (AFH). Tunisia also plans to enhance the social housing sector under a special programme 'Programme Spécial de Logement Populaire,' which aims at replacing or renovating 10 000 dwellings in substandard conditions and building 20 000 social housing units to be sold to low income households, with large financial support from the State. In addition, fiscal incentives are provided for specific purposes, such as student housing and rental investment for low income tenants.

Relative to other countries in the region, Morocco offers a positive legal and financial environment for mortgage lending, in particular a reliable – but incomplete – property registration system, as well as mortgage execution mechanisms that are more expedient (i.e. 12 to 18 months for the judicial process) than in many other countries. Amendments to the land law have been passed (law 14-07 of November 24, 2011) which make the initial registration of customary or informally held properties compulsory. This affects areas where the government, through the land administration agency 'Agence Nationale de la Conservation Foncière, du Cadastre et de la Cartographie' (ANCFCC), deems the formalisation of rights a priority.<sup>20</sup>

The housing sector in North Africa still tends to be over-regulated with the public sector playing a primary role. Home ownership is prioritised over rental or alternative tenure options, which has resulted in small rental markets. However, there is growing interest in lease-to-own programmes, such as those being used and expanded in Algeria as a response to difficulties in accessing mortgage finance.

### Opportunities

The North African region needs to have more social housing programmes and give incentives for contractors to build middle income housing. In addition, housing policies need to be shifted from supply-side support to direct demand-side subsidies, although the allocation of government-owned land remains critical to achieving low-cost levels. Furthermore, the high level of linkages with other sectors means that investments in housing yield high benefits throughout the economy.

Given the environment of low oil prices, governments are focusing more on different sectors such as urban construction and utilities. An increasing population and urbanisation are driving many of the construction projects in the region. The demand for infrastructure and housing is growing in highly urbanised countries such as Algeria and in densely populated cities such as Cairo. To improve the lives of urban dwellers, create jobs, and enhance productivity, North African countries need to reduce the housing backlog. Because of its extensive linkages with manufacturing, the financial sector, and other service subsectors, residential housing construction in developing countries is very labor-intensive and has high output multiplier effects. To address bottlenecks in the sector, better urban planning with adapted building codes, efficient regulation with reduced procedures and costs, improved governance, and better coordination between stakeholders will be necessary. Moreover, capacity building and financing for small and medium-sized developers can improve their productivity and their ability to deliver large-scale housing programmes.

### Additional sources

African Development Bank (2013). The African Development Bank Group in North Africa: Resilient Growth and Integration. [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The\\_AfDB\\_Group\\_in\\_North\\_Africa\\_2013.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The_AfDB_Group_in_North_Africa_2013.pdf) (Accessed 25 Sept 2018).

United Nations Development Programme (2018). Human Development Index. <http://hdr.undp.org/en/content/human-development-index-hdi> (Accessed 17 September 2018).

UN-HABITAT (2012). The State of Arab Cities. <https://unhabitat.org/books/the-state-of-arab-cities-2012-challenges-of-urban-transition/> (Accessed 17 September 2018).

World Bank Group (2018). Doing Business 2018: Reforming to create jobs. Region Profile of Middle East and North Africa (MENA).

<http://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Region%20MENA.pdf> (Accessed 25 Sept 2018).

World Economic Forum (2017). The Africa Competitiveness Report 2017. <https://www.weforum.org/reports/africa-competitiveness-report-2017> (Accessed 5 Sept 2018).

### Websites

[www.theafricareport.com/](http://www.theafricareport.com/)

[www.iut.nu](http://www.iut.nu)

[www.afrbiz.info](http://www.afrbiz.info)

[www.economonitor.com](http://www.economonitor.com)

[www.libya-businessnews.com](http://www.libya-businessnews.com)

[www.hofinet.com](http://www.hofinet.com)

<http://www.mfw4a.org/>

<sup>1</sup> African Development Bank Group (2018). North Africa Economic Outlook 2018. <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African-Economic-Outlook-2018-North-Africa.pdf> (Accessed 16 Sept 2018).

<sup>2</sup> African Development Bank Group (2018). North Africa Economic Outlook 2018. <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African-Economic-Outlook-2018-North-Africa.pdf> (Accessed 16 Sept 2018).

<sup>3</sup> The World Bank. Global Findex Database 2017. <https://globalfindex.worldbank.org/> (Accessed 5 Sept 2018).

<sup>4</sup> Chehade, N (2017). To the Future and Back: Financial Inclusion in the Arab World. 13 March 2017. CGAP <http://www.cgap.org/blog/future-and-back-financial-inclusion-arab-world/> (Accessed 20 July 2017).

<sup>5</sup> Matthias Range and Atilla Kaiser-Yücel (2016). "Better Understanding the Demand for Islamic Microfinance." 16 Sept 2016. CGAP. <http://www.cgap.org/blog/better-understanding-demand-islamic-microfinance> (Accessed 5 July 2018).

<sup>6</sup> Neaime, S (2018). Financial inclusion, financial stability and inequality. 30 Jan 2018. The forum, ERF Policy Portal. <https://theforum.erf.org/2018/01/29/financial-inclusion-financial-stability-inequality/> (Accessed 16 Sept 2018).

<sup>7</sup> The World Bank (2018). "Financial Inclusion on the Rise, But Gaps Remain, Global Findex Database Shows" 19 April 2018. <http://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows> (Accessed 9 July 2018)

<sup>8</sup> African Financial Markets Initiative. North Africa Overview. <https://www.africanbondmarkets.org/en/country-profiles/north-africa/> (Accessed 9 July 2018).

<sup>9</sup> Africa Platform for Development Effectiveness-NEPAD. Overview of Access to Finance. <http://www.africa-platform.org/overview-access-finance> (Accessed 23 July 2018).

<sup>10</sup> Chironza, Mutsa et al. (February 2018). Roaring to life: Growth and innovation in African retail banking. McKinsey & Company. <https://www.mckinsey.com/~media/mckinsey/industries/financial%20services/our%20insights/african%20retail%20bankings%20next%20growth%20frontier/roaring-to-life-growth-and-innovation-in-african-retail-banking-web-final.slxh> (Accessed 6 Sept 2018).

<sup>11</sup> JLL. Progress and Priorities: Middle Income Housing in the Middle East and North Africa. <http://www.jll-mena.com/mena/en-gb/research/middle-income-housing-report> (Accessed 6 Sept 2018).

<sup>12</sup> The Africa Report (2013). "Africa's Social Housing: Homes for all." 2 October 2013. <http://www.theafricareport.com/North-Africa/africas-social-housing-homes-for-all.html> (Accessed 20 July 2018).

<sup>13</sup> The Africa Competitiveness Report 2017. World Economic Forum (Accessed 7 July 2018).

<sup>14</sup> Khaled, F. (2018). "A Good Year for Real Estate." 1 January 2018. Egypt Today. <http://www.egypttoday.com/Article/3/39037/A-Good-Year-for-Real-Estate> (Accessed 22 July 2018).

<sup>15</sup> Ibid.

<sup>16</sup> Dübel, H and Hassler, O (2016). Housing Finance in the Middle East and North Africa. SANAD Housing Finance Study. [http://www.finpolconsult.de/mediapool/16/169624/data/Housing\\_Finance/Middle\\_East/SANAD\\_Fund\\_for\\_MSME\\_Housing\\_Finance\\_in\\_the\\_MENA\\_Region.pdf](http://www.finpolconsult.de/mediapool/16/169624/data/Housing_Finance/Middle_East/SANAD_Fund_for_MSME_Housing_Finance_in_the_MENA_Region.pdf) (Accessed 16 Sept 2018).

<sup>17</sup> Dübel, H and Hassler, O (2016). Housing Finance in the Middle East and North Africa. SANAD Housing Finance Study. [http://www.finpolconsult.de/mediapool/16/169624/data/Housing\\_Finance/Middle\\_East/SANAD\\_Fund\\_for\\_MSME\\_Housing\\_Finance\\_in\\_the\\_MENA\\_Region.pdf](http://www.finpolconsult.de/mediapool/16/169624/data/Housing_Finance/Middle_East/SANAD_Fund_for_MSME_Housing_Finance_in_the_MENA_Region.pdf) (Accessed 16 Sept 2018).

<sup>18</sup> Global Property Guide. "Tunisia property prices rising, but fears of terrorism have hit tourism." 20 March 2017. <https://www.globalpropertyguide.com/Middle-East/Tunisia/Price-History> (Accessed 18 July 2018).

<sup>19</sup> Biccato, R and Melchionda, L. (2016). Common problems and possible solutions in real estate and construction in North Africa. 15 September 2016. African Law and Business. <https://www.africanlawbusiness.com/news/6695-common-problems-and-possible-solutions-in-real-estate-and-construction-in-north-africa> (Accessed 6 Sept 2018).

<sup>20</sup> Dübel, H. and Hassler, O. (2016). Housing Finance in the Middle East and North Africa. SANAD Housing Finance Study.