NORTH AFRICA REGIONAL PROFILE

Overview

Spanning from the Atlantic coast to the Red Sea, North Africa is the region of Africa that provides the connection between the continent, Europe and the Arab World. Culturally distinct due to the geographical barrier that the Sahara has provided, the five countries that border the Mediterranean – Morocco, Algeria, Tunisia, Libya and Egypt – are home to around 170 million people (17% of Africa's population) and a prosperous region, producing one-third of Africa's total GDP (almost US$700 billion in 2011).

The fundamental shift in dynamics driven by the Arab Spring in 2011 has brought international attentional to this region, with a series of major political changes set off by Tunisia's ousting of Ben Ali in January 2011. Tunisia's revolution spurred uprisings and revolutions in both Egypt and Libya, as well as instrumental protests in Morocco and Algeria. Two years later, the spotlight is still on North Africa as the security situation worsens and countries struggle to maintain the political stability required to determine how their economic, social and governance systems will be shaped in future.

In 2012, the economies of the North African countries were recovering following the shocks of the political events in 2011. The GDP growth rate was at 2% to 3% in 2012 for all countries apart from Libya, which saw a massive 95.5% growth rate due to the restoration of oil production. Despite this improvement, the economic and social problems that traverse the region and are the roots for the civil revolts are yet to be addressed. These include high youth unemployment, low purchasing power, and a demand for greater government accountability and greater transparency. The transition to democracy has not been as fruitful and rapid as was hoped, patience is being exasperated and new actors are threatening peace.

Tensions are high in Tunisia with the assassinations of two key political opposition leaders, and substantial delays at completing a Constitution and scheduling elections. Egypt's recent military take-over threatens the legitimacy of democratically elected governments in the region, and demonstrated the deep social divide that is emerging post-Mubarak. In Libya, the security situation has remained poor, marked by continued tribal fighting, the siege of the American embassy in September 2012 that left the US ambassador dead and the recent bombing at the French embassy. The siege of a gas plant in Algeria by Al-Qaida affiliated militants in January 2013 that left 37 hostages dead was yet another event demonstrating growing extremist activities and the detoriating security situation in North Africa. Meanwhile, Morocco has been somewhat politically stagnant with the resignation of the junior coalition party in June 2013, and slow constitutional reforms.

In 2013, the outlook is becoming less optimistic, as many governments struggle to maintain any internal stability or security, while the Eurozone crisis is starting to have an effect at a macro level, worsening the outlook moving forward. Home ownership is still of strong cultural importance in the region, yet concrete reforms that could improve the economic and housing situation have been disrupted or slowed in all countries apart from Algeria.

Access to finance

In most North African countries, there is a long history of heavy state involvement in the financial sector. This tradition, combined with a dependence on oil wealth, macroeconomic instability and burdensome bureaucracies, has hindered development in the financial systems in the region. However, the past decade has prompted all countries to push privatisation agendas and opening up of the banking sector to foreign investment, which is creating new opportunities, albeit at different rates of progress. Tunisia is the most recent, with reforms being prepared to restructure the three publically owned banks, in co-ordination with an IMF loan.

The housing finance sector in the region has long been dominated by state-owned housing banks, offering subsidised interest rates to low income households, and leaving little room for the development of market-based financing. All countries in North Africa have worked on expanding their mortgage systems in the past decade, moving toward market-based solutions and greater private sector participation. This transition, however, requires time, technical support and political will until the benefits of reforms can be fully realised.

Egypt was one of the first countries to reform its mortgage framework in 2001, although the law remained untested until 2008. More recently, other countries have taken concrete steps to establish secure mortgage systems and improve access to secondary markets to enable long-term lending and greater access to low income groups. Algeria has designed comprehensive strategies to modernise its mortgage laws, with limited outcomes, as state housing finance programmes still dominate. Housing finance is most developed in Morocco and Tunisia, where mortgage lending is equal to 17% and 12% respectively of GDP, and continuing to expand at rates of between 5% and 11% per year.

An ongoing challenge across North Africa is the exclusion of low income households and youth from formal housing finance, as well as a lack of credit information about borrowers, which drives up the price of housing loans. As a result, real estate leasing as a means to acquire home ownership is a thriving business, even though households end up paying much more for a unit due to the high premiums charged by leasing companies. This option can also enable the leasing company to avoid requiring a banking licence, which is the case in Algeria, where new licences are difficult to obtain.

In general, development of secondary markets has been slow, due to the infancy of primary credit markets. The legal framework for securitisation has been developed, starting with Morocco in 1999, Tunisia in 2001 and Algeria in 2006; however, the volume of transactions has been limited. Lack of transparency, as well as external dynamics such as the subprime and global financial crises, have restricted confidence in securitisation. This year, Morocco will be finalising the regulations for covered bonds as an alternative means to secure mortgages.

Sharia-compliant finance, which outlaws interest and indebtedness, is experiencing strong demand and growth in the region. *Murabaha*, where the bank takes ownership of the house and then immediately sells it to a customer at an agreed upon mark-up, which the customer then pays back over time in installments, and *Ijara*, a lease-to-own arrangement, are the most popular forms of Sharia-compliant housing finance. Regulatory frameworks for *sukuk* bonds have also been developed recently in Egypt and Tunisia, and Libya has made a law that will ban usury from all banking in 2015.

Housing microfinance is also growing in North Africa, with a lot of support from international donors for the development of local SMEs. This form of credit access has the potential to provide a viable alternative to conventional mortgage lending. Specific products for housing microfinance have emerged in Tunisia, Egypt and Morocco, and Al Amana in Morocco is exploring the potential for partnership with building materials supplier Lafarge to provide a complete, affordable housing solution to low income Moroccans.

Affordability

In spite of the high levels of homeownership (up to 80% in Tunisia and over 90% in Libya), affordability is a major problem across North Africa, particularly for low and middle income households. While overall housing supply may appear sufficient in most countries, housing prices on the private market are too high for most middle to low income families, and there is a large number of vacant, high-end units, small rental sectors and difficulty to access housing for lower income households.

The lack of private land supply is the main constraint. The public sector owns more than 30% of urban land in Algeria and Libya, and between 20% and 30% in Morocco and Egypt. 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.

This is exacerbated by urbanisation from arid interior regions to cities, as well as the young populations of North Africa, which are pushing up demand on urban housing. Inaffordability is having direct social consequences, including overcrowding, with the number of occupants per households reaching up to 6.5 in Algeria, as well as on the age for marriage as young people will generally wait until they can purchase their first home and move out of their parents' house before they marry.

Housing supply

Public sector provision of housing has not been sufficient to keep up with demands in the oil-rich countries of Libya and Algeria. In Libya, the economic sanctions of the 1990s, combined with a drop in oil prices, constrained public expenditure, while high rates of population growth and urbanisation created a pent-up demand for housing. The shortage is estimated at 350 000 units in Libya, to which the government is attempting to respond with US$11 billion worth of large-scale residential projects in the pipeline. Estimates of the affordable housing shortage in Algeria range from 1.2 million to two million dwellings based on an occupancy rate of five people per unit. They are also addressing this supply shortage with large-scale housing construction, financed by up to a quarter of annual public spending.

Housing supply from the Net-Oil Importing Countries of North Africa (Morocco, Tunisia and Egypt) has pushed toward supporting a formal real estate sector and facilitating private investment and partnership in enable widespread housing production. Yet, affordable housing where profit margins are small and risks are high require effective government incentives, which have not been too succcessful in Tunisia, so that the only supply for low income groups comes from the public developer. In contrast, Morocco has been successful with offering attractive tax rebates and land at subsidised rates, to create a thriving private sector, and the government has the commitment for up to 900 000 additional units worth US$30 billion before 2020.

Across the countries, most subsidies escape the poorest, and housing demand by low income groups is delivered by the informal sector. Uncontrolled developments in peripheral neighbourhoods where households build incrementally is tolerated, as governments recognise that it fills an important social need not effectively addressed by public or private interventions. There are signs that informal settlement ratios are increasing, particularly as rule-of-law has reduced in the wake of the Arab Spring and the ensuing civil unrest. Informal housing has also been validated and further incentivised in some countries with the advent of urban upgrading programmes such as Villes Sans Bidonvilles in Morocco or the Agency for Urban Rehabilitation (ARRU's) interventions in Tunisia,.

Property markets

Land is a bottleneck in the supply chain and the main cause of high real estate prices in North Africa. 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.

Price appreciation in the property market has also been driven in the region by a lack of confidence in money markets or alternative investment opportunities. This is particularly severe in countries with limited stock or bond markets and high volume of oil wealth. Rich North Africans will invest in real estate as it is still perceived as the most secure store of wealth, particularly while the banking sector is being downgraded and inflation is high.

Most property markets in North Africa were shielded from the global financial crisis in 2008 as a result of limited international integration. Morocco is the exception, as it opened its markets for foreign direct investment during the ardent promotion of Vision 2010, a programme to boost tourism. The market recovered somewhat in 2009 and 2010, but the effects of the bubble have meant that banks have become much more prudent in lending, and Morocco has been the first in the region to introduce a real estate price index to monitor changes in the property markets.

Policy and regulation

Housing has leaped to the forefront of the North African agenda for most governments. The role housing plays in economic development, improvement of living conditions and maintaining social stability has been clearly identified, as many protests in the past two years of turmoil across the region can be directly linked to failures in housing delivery.

The housing sector still tends to be over-regulated, with the public sector playing a primary role. Home-ownership is heavily prioritised over rental housing, which has resulted in small rental markets, and there is expanded interest in lease-to-own programmes, such as those being used and expanded in Algeria. Net-Oil Exporters have used their public wealth to respond to market demand and constitutional rights to housing, crowding out private market activities in the act. Net-Oil Importers tend to have needed to be more prudent in developing diverse financial sectors, and increasing private sector investment in housing.

Policy is turning toward reducing state intervention, expansive public subsidies and greater openness to foreign particiation. Public private partnerhips is a new concept that is becoming popularised as a possible solution to effectively engage private sector in housing development, while ensuring it reaches low income target groups and responds to political objectives. Successful experiences are limited in the region, apart from Morocco, where Al Omrane has been operating for over a decade together with the private sector. However, as the political situation remains uncertain in almost every country, development of sustainable reforms that will improve housing policy and regulation will need time.

Opportunities

The change in governance systems following the Arab Spring of 2011 provides new opportunities for co-operation and partnership. Trade among North African states is still minimal, at between 3% and 4% of total GDP, yet new connections are being sought. For example, Libya has signed a trade treaty with Morocco and is exploring a technical exchange with Egypt on housing finance and development practice. Private construction companies and developers are seeking out opportunities across borders, where governments are providing fiscal incentives to attract foreign experience to boost their housing production, such as Tunisian architectural and engineering firms that are signing contracts in Libya.

An increasing openness to both knowledge exchange and economic integration has clear benefits, particularly in affordable housing, as many North African states are facing similar challenges. Measures that facilitate the supply of land for residential developments for low income groups, or promote market-based housing finance and private sector participation should be shared and transferred between the countries of this region to strengthen each individual country's efforts.

There is also an opportunity for greater regional linkages between North African states and the rest of the continent. Algeria is already investing in heavy infrastructure to connect the North with Sub-Saharan Africa. There is the Trans-Saharan Highway being constructed from Algiers to Lagos, as well as a Nigeria-Algeria pipeline and fibre-optic cable. Tunisia is the current host to the African Development Bank, which gives it a unique pivot-point perspective between Europe and the rest of Africa. Also, Egypt is a member of the Nile Basin Initiative that enables co-operation amongst nine African States. These connections can provide strength to both Sub-Saharan and Mediterranean countries.

Yet, exploitation of these opportunities, the great wealth of the North African region and the capacity of its people relies on stable governments and clear policy directives for sustained social and economic development. In 2013, maintaining security in the region has become the primary hurdle. The potential is tremendous, and once the political and economic outlook becomes less uncertain, investment will quickly follow.

Sources

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