Report Number : ICRR12791

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted :	10/25/2007	
PROJ ID :	P064983		Appraisal	Actual
Project Name :	Mortgage Finance Technical Assistance Project	Project Costs (US$M):	8.2	7.8
Country:	Algeria	Loan/Credit (US$M):	5.5	5.1
Sector Board :	FSP	Cofinancing (US$M):		
Sector(s):	Housing finance and real estate markets (50%) Capital markets (30%) Information technology (10%) Central government administration (10%)			
Theme(s):	Other economic management (67% - P) Other financial and private sector development (33% - S)			
L/C Number:	L7131			
		Board Approval Date :		06/27/2002
Partners involved :		Closing Date :	12/31/2005	01/31/2007
Evaluator :	Panel Reviewer :	Group Manager :	Group :	
Claude Leroy-Themeze	Ismail Arslan	Jaime Jaramillo	IEGCR	

2. Project Objectives and Components:

a. Objectives:

The main objective of the project was to help strengthen the enabling environment for a well -functioning mortgage loan market, including: (i) legal and administrative measures to improve property rights, mortgage lien efficiency, and property titling and registration system; (ii) strategic assistance to financial institutions; and (iii) training of operational staff in mortgage lending.

b.Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The project consisted of three components and also provided funding for project management .

1. **Legal and land titling improvements** ***(indicative costs : US$2.05 million; Bank contribution : US$1.60 million; actual Bank disbursements :US$1.50 million)***: Address the deficiencies in the legal framework for mortgage lending and the deficiencies of the property titling and registration systems, which hampered the use of real estate properties as collateral for bank loans. Three sub-components:

1.1. Legal Reform: Consolide and revise the laws and regulations governing property and mortgage rights .

1.2. Accelerating the issuance of regular property titles : Facilitate the issuance of property titles acceptable for mortgage lending institutions through a rigorous and transparent procedure , including: (a) the development of procedures for the regularization of titles; and (b) computerization and issuance of *livrets fonciers*.

1.3. Training of legal professions and land administration staff : (a) Training of legal and paralegal staff in the new legal and regulatory provisions governing mortgages rights and procedures, and (b) development of expertise in real estate appraisal within the *Direction Generale du Domaine National* (DGDN - State-owned Land Directorate), to facilitate valuation of public land and to provide better measure of the amount of State subsidies .

2. Strategic assistance ***(indicative costs : US$2.00 million; Bank contribution : US$1.25 million; actual Bank disbursements :US$1.10 million)***: Providing technical assistance tailored to the needs of targeted banks and other related institutions. Four sub-components:

2.1. Manager's strategic training: Providing strategic training for top management officials of banks and other credit institutions to define a development strategy for mortgage finance .

2.2. Specific advisory assistance: Access to dedicated advisers to carry out diagnoses of bank capacities in setting up or expanding the mortgage line of business and recommend adjustments .

2.3. Improvement of the linkages between primary lenders and supporting institutions : Carrying out an analysis of inefficiencies and providing recommendations for their removal .

2.4. Credit Information sharing systems: Carrying-out an in-depth study of credit risks and implementing a system capable of offering a proper basis for credit risks assessment in a sustainable manner .

3. Operational training ***(indicative costs : US$4.00 million; Bank contribution : US$2.50 million; actual Bank disbursements :US$2.25 million)***: Providing the operational staff of the participating banks with the professional skills necessary to carry out properly all the tasks involved in the mortgage line of business, from marketing and origination of loans to their servicing, recovery and funding .

4. **Project management** ***(indicative costs : US$0.09 million; Bank contribution : US$0.09 million; actual Bank disbursements : actual:US$0.12 million)***: Ensuring that the project's Financial Management System complies with the Bank's requirements for administration, reporting and transaction recording .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The project cost was US$8.2 million, financed by an IBRD loan of US$5.5 million and a contribution of US$2.7 million from Algerian government. Following Board approval on June 27, 2002, the Loan was signed on October 29, 2002 and became effective 4.5 months later, on March 17, 2003. Due to interministerial coordination issues and procurement problems related to the computerization of property titling systems, the closing date of the loan was extended from December 31, 2005 to January 31, 2007 (13 months). The undisbursed amount of US$0.4 million was cancelled at the loan closing.

3. Relevance of Objectives & Design:

Relevance of Objectives. The project objectives were relevant to both country conditions and also to the Bank strategy. It provided support to help strengthen the environment for a well -functioning mortgage loan market. The project was and remains an essential element of the Algerian Government strategy for the housing sector : to shift from public provision of subsidized rental units to the promotion of owned -occupied housing, financed through market-based resources. In the context of the consultations for a new CAS, which went to the Board in June 2003, the government indicated that further development of the housing market was one of its top priorities . By improving the housing finance system, the project was contributing to the CAS objectives in the area of housing sector reforms . Improving housing finance was and still is an important factor to improve households access to housing and addressing the severe housing shortage, particularly in urban areas, which was and remains a top political, social, and economic priority for the Government of Algeria.

Relevance of Design. The results framework was weak from inception: (i) the three selected outcome indicators are loosely linked to the project objectives. For instance, the targeted increase in new housing units built annually is influenced primarily by the conditions in the construction sector, where major bottlenecks were and still are considered as the major impediments to resolve the major housing shortage in Algeria, but not by the project; (ii) the rationale justifying the setting of outcome targets is unclear and the targets are not put into context . For example, the targeted increase in the number of annual housing loans extended is arbitrarily defined without reference to past trends. As a result, it is unclear if the project was expected to contribute to an acceleration or just an increase that may have occurred in the absence of the project; and (iii) the performance monitoring and evaluation (M&E) system was not well defined neither in the Project Appraisal Document (PAD) nor in the project M&E system. If data for an indicator could not be collected, then the indicator should have been dropped or a collection system put in place at the onset.

4. Achievement of Objectives (Efficacy):

As there is no direct information/data available in the ICR to assess to what extent the obstacles to the development of the mortgage finance market as a mean to ease the dramatic housing shortage, have been removed and IEG can't rely on the project outcome indicators (see above shortcomings of the project result-framework), the assessment of the project objectives achievements below is based on a review of project activities by component and sub-component.

1. Legal and land titling imp rovements: While progress was made and the elements were put in place to strengthen the environment of the mortgage loan market, some of the key actions, particularly on the legislative side, took place very late and the main one still awaits for government approval .

1.1. Legal Reform: Soon after the project became effective, the consultants delivered detailed propositions to rationalize and clarify the mortgage legal framework, including the wording of new provisions . As these changes were concerning a large variety of legal documents, the government decided, contrary to what was envisaged originally in the project, to gather them into a unique mortgage law . This draft law has not yet reached the Cabinet for adoption .

1.2. Accelerating the issuance of regular property titles : The legislative reform related to the new procedure of title regularization took nearly two years to be adopted and was adopted at the very end of the project . Technical assistance to the DGDN, *Agence Nationale du Cadastre* (ANC - Land-Mapping National Agency), and *Conservation Fonçière* (CF - Title Administration) was provided to implement the new procedure. The computerization of the delivery of *livrets fonciers* is almost completed. Given that all the elements to achieve this objective were put in place at the very end of the project, it is likely that the objective will be achieved .

1.3. Training of legal professions, land administration staff : The training is now part of the official curriculum for law students. There is no information in the ICR regarding the training of land administration staff . The last supervision and ICR mission aide-memoire indicates that training providers have been trained and training of the staff initiated .

Rating: **Modest**.

2. Strategic assistance

2.1. Manager's strategic training: No information is provided on this sub-component in the ICR. The implementation status and results (ISR) reports indicate that individual strategic training was provided to top managers and a seminar was organized for bank Chief Executive Officers (CEOs).

2.2. Specific advisory assistance : All six targeted banks developed and demonstrated the use of an adjustment plan to include this new line of business. Three out of the six targeted banks have developed a business plan for mortgage loan products.

2.3. Improvement of the linkages between primary lenders and supporting institutions : Technical assistance was provided to the *Société de Garantie des Crédits Immobiliers* (SGCI - Mortgage Credit Guarantee Company) for recovery and strategic reorientation while the project provided for an improvement of SGCI's products and activity . At project closing, the financial and operational restructuring plan of the SGCI was adopted by its Board . While the project provided for capacity building, the *Société de Refinancement Hypothécaire* (SRH - Mortgage Refinance Company) was completely reorganized and a number of internal policies regarding auditing and risk management were set in place. The number of loans refinanced by SRH increased as well as the amount (DPO) from DZD 400 million at the beginning of the project to DZD 11 billion at project close. The ICR does not provide information on the expected deliverables identified in the PAD.

2.4. Credit Information sharing system: This sub-component was not implemented. The Central Bank has approved the development of a household credit registry and preparatory work is underway .

Rating: **Modest**.

3. **Operational training**. Almost 1600 bank staff, out of the projected 2000, received training in the areas of marketing, origination of loans, credit risk evaluation, and so on. The objective of the project was substantially met although the management of the different banks decided to wait for the market to further develop before sending additional staff to be trained.

Rating: **Substantial**.

5. Efficiency (not applicable to DPLs):

N.A.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The project achieved moderately satisfactory outcome in putting in place the elements of an enabling environment for mortgage loan market. Two of the project development objectives were met (increase the number of new housing units built annually from 55,000 in 1999/01 to 80,000 in 2005 and increase the loan refinancing by SRH from DZD 400 million in early 2002 to DZD10 billion at the end of 2005) but given the deficiencies in the project result-framework noted above in section 3, there is no basis in the PAD or in the ICR to assess the meaningfulness of these achievements. The third output target, more related to the development of the mortgage market, was not attained : the number of housing loans extended annually increased from 14,000 loans in 2002 to 22,900 in 2006 against a 2005 target of 35,000. The actual outcome has been a much clearer vision of the market, an easier communication with all the professionals involved and a more sustainable structure for the institutions that benefited from the technical assistance.

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The legal and institutional framework is almost in place; the capacity of entities involved in the mortgage finance market has been increased; and the outputs delivered under the project minimize the risks to future achievement of the underlying objectives, namely: (i) developing of the mortgage market and (ii) improving households access to housing. Moreover, the project stake-holders commitment is high. The most significant risks are: (i) further political instability and/or lack of government ownership preventing or further delaying the adoption and enactment of the draft mortgage law; and (ii) no or little improvement in the supply of land and housing taking place while demand expands through increased housing lending, resulting in higher real estate prices .

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

Quality at entry was mixed. On the positive side: (i) careful consideration was given to previous projects and lessons learned; (ii) a participatory approach was implemented to prepare the project; (iii) the project design was based on sound analytical work including a 2002 study of the supply constraints in the housing market covering land titling and legal issues and a 2000 study of the mortgage housing market in Algeria; (iv) the project design was based on an assessment of the different entities involved in the land, properties and mortgage sectors . On the other hand: (i) the result framework was weak (see above); (ii) the Bank overestimated the commitment to and ownership of the Government (numerous disagreements between the Ministry of Finance and the Ministry of Housing as well as the lack of responsiveness from the latter; the Steering Committee envisaged under the project was too technical as it did not involve high-level representation of concerned ministries and did not include the Ministry of Housing. In any case, the Steering Committee was never put in place as provided in the project. Instead at the end of the project implementation an Inter-ministerial Committee was finally installed); (iii) the Bank underestimated the political risks associated with the difficult country context while political instability (four ministers of finance during the project implementation) caused most of the delays in particular on the legal reform which is not yet completed; (iv) the Bank put too much emphasis on training (more than 50 percent of project disbursements) while the conditions to use productively the knowledge/skills learned were not and are not yet met; and (v) the preparation cost was high compared to the size of the project. Part of this is explained by the fact that the project was originally designed as a complex adjustment loan. Still it would be a high cost even for a bigger loan.

Quality of supervision was satisfactory although it could have paid more attention at clarifying and correcting the shortcomings of the result framework and gaps in performance monitoring and reporting. There was a good continuity in task management leadership and the composition of the project team that pro-actively provided quality supervision input. The Bank team did well in building ownership, confidence and momentum with all the technical stake-holders involved. It is not explicit and not discussed in the ICR why the Bank dropped the objective to broaden the customer base toward households with modest income as envisaged in the PAD. Also, the supervision budget was above average. While the Quality Assurance Group (QAG) and the team consider it was justified to demonstrate to a country graduating to Reimbursable Technical Assistance status that the Bank can add value, more details, in particular about what specific value was added beyond regular and standard supervision missions and the project itself, would be needed to assess whether this conclusion is valid. The ICR does not provide such information.

The costs for preparing and supervising this project (about US$1 million) are disproportionate with the size (both amount and scope) of the project (US$5.1 million disbursed). It would be useful to understand why such a simple project absorbed so much region's resources. In particular, more details would be needed about what particular value was added beyond regular and standard supervision missions and the project itself.

a. Ensuring Quality-at-Entry: Moderately Satisfactory

b. Quality of Supervision: Satisfactory

c. Overall Bank Performance: Satisfactory

9. Assessment of Borrower Performance:

The government evidenced its commitment through reforms and policy changes, including the adoption of the law on land titling and the work done to prepare the law on property rights. However, numerous delays were caused by a lack of communication and consensus among ministries and the draft law on property rights, which has been finalized since 2004, is still at the level of the Minister of Finance and the Minister of Justice, while the closing of the project has removed the momentum to get it adopted and submitted to the Parliament.
Despite a difficult political and economic environment, the PMU ran the project professionally and successfully. However, it is unclear from the ICR whether the detailed M&E framework, which was developed and adopted after the project became effective, was actually used.

a. Government Performance: Moderately Satisfactory

b. Implementing Agency Performance: Highly Satisfactory

c. Overall Borrower Performance: Satisfactory

10. M&E Design, Implementation, & Utilization:

As indicated above, the list of indicators related mostly to outputs or even activities and not outcomes; they were of little use in monitoring progress in achieving the project objectives, which precludes an assessment of achievements. Moreover, the initial list of indicators as presented in the PAD was subsequently modified during supervision to reflect changes in focus with a number of indicators being dropped. Finally, most of the data were not collected and/or not reported.

a. M&E Quality Rating: Negligible

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):
None

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Negligible to Low	Moderate	There is a moderate risk that: (i) the law on property rights may not be passed or could be subjected to further delays; and (ii) the knowledge and skills learned could not be used as the mortgage market may not take off.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Unsatisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

Teams designing and implementing a project should not rely only on the commitment of the main implementation agencies and make sure that all ministries involved in the project are committed and actively participate in the implementation through a steering committee set-up at an appropriate policy decision-making level and sufficiently inclusive. This was not the case for the steering committee envisaged in the PAD. In any case, this steering committee was not put in place as envisaged. Instead an inter-ministerial committee was set-up, at the end of the project, to ensure participation and cooperation between different ministries but it was too late to have the intended catalyzing effect.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR should have clarified the weaknesses of the project result framework as a basis for evaluating the project. In the absence of clear result framework, lack of clarity on the specific objectives, and lack of data, the ICR should have provided a clear and detailed picture of what was exactly achieved and delivered or not under the project. The annex 2 on Outputs by Component is incomplete and not consistent with annex 1 of the PAD. The ICR mentions that three output indicators were dropped in the course of the supervision but neither list them nor justifies why. Moreover, it seems that it is not just the output indicators that were dropped but also the related sub-component of the project. Also to compensate for the above weaknesses, the ICR could have provided an analysis /assessment to what extent the obstacles to the development of the mortgage finance market, identified through studies during the preparation of the project, had been removed at project closing.
There are inconsistences on important aspects of the project between the text and Annex 2. For instance, section 2.2 indicates correctly that at project closing the draft mortgage law had not been adopted by the Government while Annex 2 indicates that it has been so.
In some instances, the analysis is erroneous. For example, in section 2.2, the ICR attributes the delays in reforming

the legal framework for property and mortgage rights to the slowness of the legislative process where the draft law has not yet been adopted by the Government, therefore, it has not reached the Parliament .

The ICR does not comment on some important aspects of the project that were specified in the PAD . For instance, it does not comment on the expected benefit for low -to-middle income households, while the PAD indicated in section 4.3 that the project would open new possibilities for assisting low -to-middle income households. As noted by QAG assessment of the quality of supervision, given the natural tendency of the housing finance market to service the better off, the question, whether to broaden the customer base downward to include more modest income for whom access to market finance remains a problem, should be raised .

a.Quality of ICR Rating : Unsatisfactory