

**Preliminary Assessment of Housing Programme
in Kurdistan Region - Iraq**

As per Laws No. 7 (2008), amended by Law No. 16 (2011)

Prepared by: Dr. Mona Serageldin

February 22, 2015

Table of Contents

A. Summary Description of the Program	2
B. Comments on the Program	3
1. Organizational structure.....	4
2. Beneficiaries.	6
3. Program criteria and longer-term sustainability.	7

Kurdistan Region-Iraq Housing Program

Laws No. 7 (2008) as amended by Law No. 16 (2011)

A. Summary Description of the Program

1. The Ministry of Construction and Housing (MoCH) has the mandate to build housing for low-income citizens:
 - The land is to be provided free of charge by the Ministry of Municipalities and Tourism (MoMT);
 - Local authorities have to provide basic utilities. (Law No.16 of 2011 Amendment)
 - The value of the housing unit is calculated to equal construction costs + 1%. The average cost of a 100m² dwelling is estimated at US\$40,000.
 - A no down payment, interest free, 25-year mortgage is provided for 90% of the construction cost of the unit.
2. To be eligible, a household must
 - Be headed by a citizen *and* resident of the Kurdistan Region-Iraq.
 - Not own a sanitary dwelling in fee-simple ownership;
 - Not be a resident in an existing KRI housing project; nor
 - Not have previously benefited from a KRI mortgage loan.
3. Building typologies: Multi-story building projects will initially be given preference. MoCH responsible for their design and construction.
4. Allocation procedures:
 - MoCH announces that the program is available for eligible limited-income households. Applications are submitted to the heads of administrative units and are evaluated in accordance with guidelines that will be set by the Ministry in coordination with the governorates.
 - Applications are solicited from eligible heads of households
 - 50% of the units to be built are allocated to government employees and 50% to other eligible citizens. This percentage can be adjusted to reflect local conditions.
 - Applicants are ranked and the results made public. There is a verification of eligibility procedure.
5. Terms of occupancy:
 - The dwelling is registered, free of charge, in the name of the beneficiary with the local Real Estate Registration Department as a *mortgaged property* until full repayment of the mortgage.
 - The beneficiary shall pay the cost of the dwelling in *monthly* or *annual* instalments within 25 years.

- The beneficiary must reside in the unit and cannot lease or sell it until
 - The loan is fully repaid; or
 - After having occupied the unit and made payments for 10 years. The outstanding balance of the mortgage to be paid to MoCH upon sale.
 - Should the beneficiary die before repayment of the mortgage, the heirs are exempted from the remaining payments.
6. Implementation of the programme.
- The Kurdistan Regional Government-Iraq allocates annual funds as part of its annual budget. The 2013 – 2020 public investment to implement the programme is estimated a US\$ 1,371 million.
 - The Ministry of Finance provides MoCH with the necessary funds.
 - A Housing Fund shall be established in MoCH as a separate legal entity, governed by a Board of Directors; the Housing Fund will have its own bylaws.
 - The funds provided by Ministry of Finance are deposited in the Housing Fund.
 - MoCH is committed to complete and deliver dwellings in governorate centres and in districts and sub-districts within two years from the date of commencement of construction.
 - The Council of Ministers and all relevant authorities are to issue regulations to facilitate the implementation of this law.
 - The Council of Ministers and all relevant authorities shall implement this law. It became effective on July 6, 2008.

B. Comments on the Program

This ambitious programme proposes an annual investment of US\$ 590 million to simultaneously address a current shortage of 71,000 dwelling units in the three governorates and meet the future housing needs of lower-income households. Annual targets have been set of 6,200 dwellings for limited income households and 1,550 subsidized social housing units. The target groups are presently defined as *low-income* (under US\$ 600/month) and *very-low income* households (under US\$ 400/month). In the current fiscal year, the programme's allocated budget is US\$ 50 million for providing housing sites with the basic infrastructure and US\$ 200 million for the construction of housing.

At present, the programme offers several options. Very-low income households are eligible for either a free 75m² plot of serviced land with a core house or a 100m² plot without a core house. Lower-income households and government employees are eligible for an interest-free mortgage to purchase a government built 100m² dwelling for US\$ 40,000.¹ The beneficiaries make a monthly payment of US\$100 to US\$150 for the unit over 25-years. While the Program refers low-rise housing typologies – detached and

¹ Kurdistan Ministry of Construction and Housing, *Affordable Housing Strategies in Kurdistan Region*, July 2012. We do not have information of the number of serviced plots, with or without a core house. Government statistics focus on the lower-income housing program.

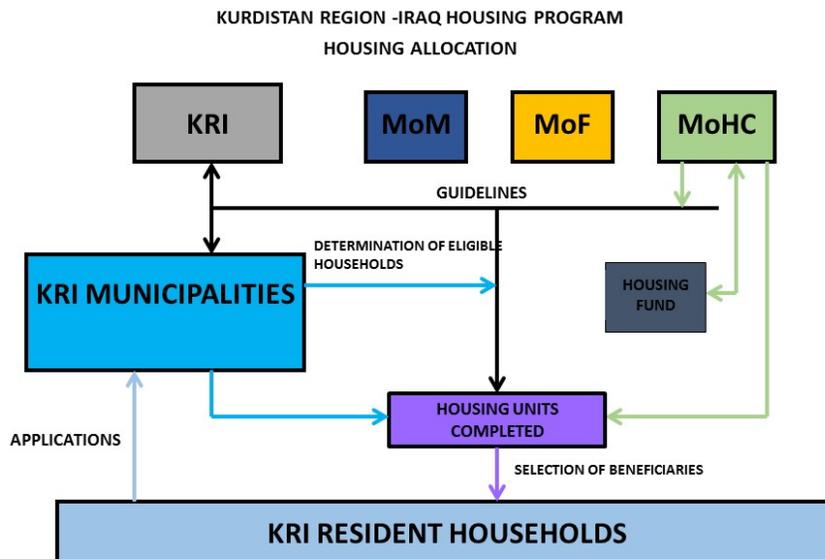
semi-detached – some municipalities have constructed multi-family schemes as a result of the lack of serviced land.²

1. Organizational Structure

The Program’s successful implementation depends on the close coordination of activities among four entities.

1. The *Ministry of Construction and Housing* is the principal administrator with responsibility for (1) Programming yearly construction targets; (2) Selecting recipients of subsidized housing from the pool of eligible beneficiaries; (3) Constructing the housing projects; and (4) Managing mortgages through its newly created Housing Fund.
2. The *Ministry of Finance* provides MoCH with the necessary annual funding.
3. The *Ministry of Municipalities* provides free land to the Local Authorities, presumably from state owned lands.
4. The *Local Authorities* must provide the necessary infrastructure and public services to the selected sites out of their own budget allocations.

There is clearly a need to review the ability of each of the participant to discharge its responsibilities. While the annual financing of the program is essentially a cabinet-level decision implemented by the Ministry of Finance, the responsibility assigned to *local authorities* to provide serviced sites whose infrastructure has to be connected to primary networks and treatment facilities, may entail significant front-end investments, since state owned lands are for the most part in peri-urban locations.



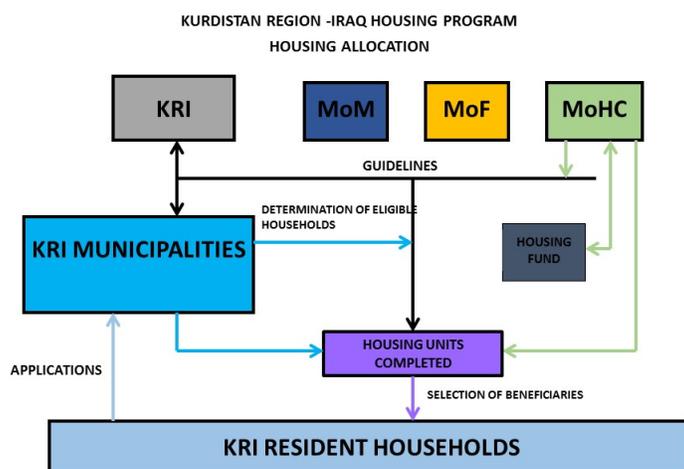
² Erbil has constructed 8-storey blocks with four apartments per floor.

The ability of the local authorities to play their part in the program depends on their financial strength and their technical and managerial capacities. Given their critical role as the providers of serviced land, their ability to play their part in the programme will vary from municipality to municipality and needs to be evaluated in conjunction with the site selection process. There are indications that the completion by the end of 2013 of only 708 units out of the 5,992 planned for 2011-12 have been due primarily to the difficulties experienced in providing serviced sites, in Erbil and Duhok particularly. The disruptive impact of the on-going conflict in the surrounding governorates has also influenced the programme's performance and its effects should not be underestimated.

The programme's recent performance is summarised in Table 1. It seems that one of the reasons for the underperformance in the early years has been the difficulty experienced by the local authorities to provide serviced land in a timely manner. The transfer of land by the Ministry of Municipalities to MoCH occurs on a project-by-project basis and the supply of well-located state-owned land is limited, particularly in the major municipalities. Even when state land is available, it is unclear whether the local authorities have the resources to provide the necessary infrastructure in a timely manner.

Program Performance – 2011-2013 – No of Units

Governorate	2011		2012		2013		Total		
	Planned	Built	Planned	Built	Planned	Built	Planned	Built	Under Construction
Erbil	396		1,380		1,569		3,345		1,776
Sulimaniyah	636		2,148			708	4,404	708	3,696
Duhok	280		1,152		1,008		2,440		2,440
Total	1,312		4,680		2,577	708	10,189	708	7,912



When centrally located land is not available, the alternative has been to locate projects in peripheral locations, as has been done in Dohuk. In many countries, peripheral locations for social housing projects have generally tended to have negative social consequences due to the high cost of an extended journey to reach places of employment and the lack of public facilities and services.

There clearly is an issue of coordinating the role of the three principal partners: the financing of projects by MoCH, the securing of sites by the Ministry of Municipalities and the servicing of the sites by the municipality. The selection of appropriately located sites should be a process conducted in close cooperation with the local authorities in order to ensure adequate consideration of the relationship between location and servicing costs. Options involving land exchanges of state owned and private or municipal lands should be given due consideration.

2. Beneficiaries.

The justification for the law is that *every citizen has a right to housing* and that there is a *lack of affordable housing for public sector employees and low-income citizens*.

The program targets “households meeting four criteria: (1) whose head is a citizen and resident of KRI; (2) who do not own a sanitary dwelling in fee-simple ownership; (3) who are not currently residing in a KRI housing project; or (4) have not benefited from a KRI mortgage loan.”

It seems that, in its initial phases, 50% of units are to be allocated to government employees and 50% to other eligible citizens. This percentage can be adjusted to reflect local conditions. In addition to income criteria, the allocation of units to government employees is based in part on the number of years of service. Some ministries have their own housing construction programmes, the Ministry of Interior and Peshmergas, for example. There does not seem to have been a consistent effort to coordinate these various programmes despite the fact that their implementation relies on access to services sites that are in short supply in all municipalities.

3. Program criteria and longer-term sustainability.

The terms of the program are extremely generous and shift the risks associated with home ownership to the public authorities:

- The *land* is provided free of charge at a time when there is a shortage of serviced land in all municipalities and its market rate of appreciation is very high.
- The *fair market value* of the dwelling is set at 101% over the actual cost of construction and no attempt is made to recover the costs of the land and of the infrastructure needed to service it.
- No *down payment* and a *zero-interest* 25-year loan is provided, with the possibility of selling the unit after 10 years if the loan has been fully repaid by then.

Disregarding the significant cost of serviced land associated with the dwelling, requiring no down payment and providing zero interest credit finance for up to 25 years is a major subsidy, given the appreciation of urban property values. As with all subsidies, it is important to accurately determine the incidence and distribution of costs among the ministries and the local administrations.

While the unavailability of serviced land has been the main cause of the delays in the programme's implementation, the cumulative economic impact of these subsidies may well constitute a constraint on its longer-term performance.

Table 2. Program Performance (2011-2013) – Average construction cost/unit

	2011	2012	2013
Governorate	Cost/unit	Cost/unit	Cost/unit
Erbil	US\$ 38,071	US\$ 46,460	US\$ 58,580
Sulimaniyah	US\$ 26,515	US\$ 48,933	US\$ 58,848
Duhok	US\$ 36,593	US\$ 45,043	US\$ 47,733
Average:	US\$ 31,154	US\$ 47,246	US\$ 56,078

Even though the programme's implementation dates back only to 2011, the average construction cost per dwelling, exclusive of the cost of the serviced land, has risen sharply from US\$ 31,154 in 2011 to US\$ 56,078 in 2013. It would be interesting to determine what percentage of this sharp increase is due to shortages and high prices of building materials, to transport difficulties, to general inflationary trends or other causes created by the on-going conflict. In any event, these cost increases should be better understood and monitored seriously as they may threaten the program's long-term viability. Since the beneficiaries' co-payment has not been adjusted, the 2012 – 2013 increase in construction costs will cost the government US\$ 75 million.

Given the difficulty of passing on a proportion of increased production costs to the Programme's beneficiaries without jeopardising its social dimension, alternative strategies should be explored, including a broader range of housing typologies to better reflect variations in the income of beneficiaries, and involving the private sector in the development of mixed-income housing projects, including a range of subsidised to market rate units.

The need to address the economic consequences of rising housing production costs is demonstrated by the experience in other countries in the region, particularly Kuwait and Saudi Arabia, that shows that even oil-rich countries find it difficult to sustain programs that use housing not only to provide shelter but also as an income redistribution mechanism. A combination of shortages of serviced land, a lack of private sector financing, high housing standards in public programs and rising construction costs have hampered the ability of their governments to sustain the provision of adequate housing to all citizens.

In Saudi Arabia, where the Real Estate Development Fund has financed approximately 25% of the existing housing stock, estimated to be about 5 million units, an additional 5 million new units will be needed by 2015 to meet current housing shortages, requiring an investment of over US\$ 640 billion.³ Given the rate of household formation, current yearly budget allocations of US\$ 27 billion for housing are clearly inadequate to meet demand and the housing shortage is expected to continue growing.

Other countries among the Arab states have developed innovative approaches to share development costs with private developers in mixed-income projects. In Egypt, where 500,000 new housing units are needed yearly to accommodate urban population growth, government production peaked at 85,000 in 2009 and has declined since, partially as a result of the 2011 turmoil. To address this problem, government programs offer a range of options, including

- 150 m² serviced plots in the new towns;
- 45-63 m² units for lower-income households; and
- 63-80 m² units for middle-income households.

Government only subsidizes units with a floor area of 63 m² or less. Mortgage financing the larger units is also available at generous terms with repayment extended over 25 to 30 years at below-market rate interest for lower-income salaried heads of households and over 10 years to the buyers of serviced plots.

Private sector investment in affordable housing is also part of the development strategy for the new towns around Cairo. Developers are being offered serviced land at discounted prices in exchange for building a specified number of units affordable to households at or below the average national family income. Below-market rate financing is made available to the buyers of these units by the government.

³ Ministry of Economy and Planning, *Brief Report on the Development Plan*. See also, UN-Habitat, *State of the Arab Cities*, 2012.

One of the challenges of providing long-term below-market housing financing to targeted groups is the need to ensure the long-term financing of the responsible agency. An interesting example is Al Omrane, a publicly-owned holding company that has become the major player in Morocco's very successful national program to eliminate slums, rehouse families living in makeshift dwellings (*bidonvilles*), provide affordable housing to lower- and middle-income families and develop new towns on the periphery of the larger cities.

Established in 2004, Al Omrane has become the main actor in the implementation of Morocco's urban policy. The company integrates the functions previously held by three different government agencies: *l'Agence Nationale de Lutte Contre l'Habitat Insalubre* (ANHI), the agency in charge of resettling slum-dwellers; the Attacharouk Co., a public developer of large real estate projects; and the Société Nationale d'Équipement et de Construction, a public engineering and contracting company. Its ability to cross-subsidize affordable housing with the profits from its market-rate commercial and residential developments has allowed it to increase its activities over the years. Between 2004 and 2011, it produced 1,138,627 dwelling units; in 2010, 31% of the 107,400 dwelling units produced were low-cost units, 35% were affordable to moderate-income households and 35% were market rate. The proportion of the urban population living in slums fell from 8.2% in 2004 to 3.8% in 2011.

These two examples illustrate that the responsibility for providing affordable housing can often be shared between the government and the private sector and that public agencies will benefit by adapting private sector business modes to social ends. Since a key role of the public sector in urban development is the provision of serviced land, the recapture of part of the increase in value that accrues to private developers and its use in financing social projects is a strategy that must be considered. KRI must leverage the present value of its land assets as well as their future appreciation.

In order to develop a strategy that integrates recapture of part of the current and future value created by public investment, the KRI housing program should establish:

- i. A projection of housing needs, by governorate;
- ii. A matrix modulating subsidy levels according to household income;
- iii. Measurable income targets to qualify for the programme;
- iv. A matrix relating payments by beneficiaries to increases in both production costs and their incomes;
- v. Production targets related to the capacity of MoMT to provide land in suitable locations and of the local governments to provide infrastructure and services;
- vi. A coordinated capital improvement plan with three-year rolling investment funding levels for the program by the three key participants: MoCH for construction costs; MoMT for land supply; and local authorities for infrastructure and public services.

The role and resources of MoMT and the local authorities is particularly critical. Experience in other countries shows that the provision of serviced land is often a major

problem for the government. If there is a shortage of publicly owned buildable land, how will the MoM and/or the local governments finance the purchase of the required land?

Similarly, the cost of providing basic services is significant, particularly if water and sewage treatment facilities are at or near capacity or available sites are outside the area serviced by existing distribution networks. The programme's *impacts on local finances* should therefore be evaluated and the eventual need to increase municipal budgets to service housing sites incorporated in its cost.

The selection of beneficiaries from the list of applicants is a potentially sensitive issue, particularly when 50% of the units are to be allocated to government employees. It would be advisable to have clear and transparent criteria to rank eligible applicants. This is the case, for example, in the Egyptian public housing program where priority is given to households who:

- i. Are displaced by public projects;
- ii. Live in housing built on unsafe or unsanitary sites;
- iii. Have children and share a dwelling with another household.

MoCH should develop clear prioritisation criteria for (1) the allocation of the units and (2) the level of subsidization and the repayment period by income bracket. Given the situation in Iraq and Kurdistan, it would be worth considering whether IDPs should have some priority among the non-government employee households beneficiaries of the program.

It is clear from the early years of the program that the cost of the dwellings is substantial. The average cost/unit, exclusive of land and services increased by 80% from 2011 to 2013. There is no information on the cost of the infrastructure provided by the local governments but it is clear that it is significant. By way of comparison, the cost of Morocco's cheapest housing unit affordable to buyers in the lower income groups is US\$ 16,704. Al Omrane experience is well worth looking at as they offer a full range of housing types, the cheapest one being competitive with the market cost of an informal dwelling.

In order to ensure the success of Kurdistan Iraq-Region Housing Programme, here should be a thorough review of:

- Building typologies and construction costs;
- Project location and site plans;
- Procurement procedures;
- Supervision.

Alternative designs should be explored, including a range of dwelling sizes that beneficiaries could choose from, with varying prices and repayment schedules that would modulate the program's social outreach: for example, the repayment might range from 100% repayment for larger units to less than a 100% for smaller, less expensive units.

International experience has shown that housing agencies cannot keep up with demand unless they evolve into a public developer with a diversified portfolio of activities or

develop their institutional capacity to work in partnership with private developers and maintain the standards of transparency and accountability required by this approach.