

MOROCCO HOUSING MARKET: INDUSTRY STATUS, GOVERNMENT INVOLVEMENT, AND INVESTMENT OPPORTUNITY

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EXECUTIVE SUMMARY

For sustainable development in the Middle East and North Africa (MENA) region, a deficiency of proper shelter and basic living services must be remedied as populations grow. As of 2001, 62% of Moroccans living in urban areas owned their homes; however, only 20% of rural houses have running water and only 2% have proper sewage facilities.¹ Improving housing policies influences macroeconomic performance through the positive spillover effects on labor markets, supporting savings behavior, and strengthening the quality of economic growth. Although showing great potential, the housing industry in Morocco is being artificially supported by government subsidies and public sector domination, damaging the Moroccan economy. Strong demand coupled with inefficient resource allocation has made many housing units completely unaffordable to lower-income families. However, hope is on the horizon. Since 2002 the government has prioritized housing and infrastructure development through a multitude of municipal construction projects involving regional investors and international development agencies. Improved financial transparency, strong property rights, and high demand make the Moroccan housing industry ripe for low-risk foreign investment.

MACROECONOMIC IMPACT OF HOUSING IMPROVEMENT

Constructing a strong and viable housing industry inextricably leads to capital advancement in low-income nations. Sustainable growth grounds itself in the tangible assets of the poor, primarily housing. Improving housing finance supports economic development through several channels: increasing saving, investment and employment; creating a solid capital base; and including low-income individuals and families in the sovereign legal structure.² In many developing economies the lack of a fully functioning mortgage market constrains the development of the housing sector. Without financing options, low- and middle-income households cannot afford to purchase homes. Since a house is often the primary investment and savings vehicle for those groups, a lack of housing finance also constrains overall saving rates. Low saving and investment rates restrict economic growth and limit economic development.

International experience suggests that living standards increase when there is widespread availability of home mortgages because mortgages have a positive impact on the quality of housing, infrastructure, and urbanization. Mortgage availability for low- and middle-income groups encourages investment in both residential property and other real estate (such as retail shops and other small businesses). Additionally, structured mortgage markets assert legal and financial accountability to individuals and families who might remain in the extra-legal sector. This, in turn, encourages medium- to long-term growth and new jobs for low- and middle-income workers.

¹ McCarter (June 2005).

² De Soto (1997) presents a detailed analysis of the developmental benefits inherent in freeing a developing country's stock of "dead capital" through a well functioning housing finance sector.

Housing finance also encourages the growth of the financial services sector, which studies have also shown to be a key factor in economic development.³ If consumers begin to save for down payments and loan repayments, these actions increase both the assets available to the financial services sector, and the demand for more financial services. Additionally, financial markets and intermediaries act as a lubricant in well functioning economies. They perform the crucial task of mitigating information and transactions costs and provide a needed bridge and filter between economic agents of information that otherwise would not be shared. This enables firms to allocate their resources more effectively and increase their productivity, resulting in greater overall economic growth. King and Levine (1993), Beck et al (2000) and others have shown a direct causal relationship: financial deepening leads to greater economic growth. Going even further, Beck et al (2004) showed that the economic growth generated by financial deepening is disproportionately geared toward the poorer sectors of society, decreasing inequality.

Finally, empirical studies have shown that there is also a positive relationship between land distribution equality, poverty reduction, and economic growth.⁴ More accessible housing finance could lead to more ownership by low and middle-income households. Low and middle-income households are the most limited in financing options, both because of their inability to afford down payments and also their inability to access capital markets for long-term loans.⁵ At the same time, housing is often their biggest expense, accounting for 50 to 70% of their budgets. If housing finance can be made more affordable, that will free up resources that the poor can then use for other opportunities, such as starting small businesses.

The main challenge facing the housing sector in Morocco and other Middle Eastern and North African countries is the lack of affordable housing, not a lack of available housing stock. The lack of efficient financing options is a large component, and the single most correctable component, of these high housing costs. Since housing policies affect the entire economy - influencing saving, consumption, financial depth, employment and government budgets⁶ - improving the availability of housing finance would go a long way towards furthering overall economic development and reducing poverty.

GENERAL MARKET SITUATION

The Moroccan housing market faces three main obstacles: (i) affordability; (ii) land and ownership titling encumbrances; and (iii) poor finance infrastructure. On the surface these problems are being addressed by government initiatives designed to correct market discrepancies and decrease the proportion of the population living in informal settlements. However, the roots of the issues, unemployment, urban growth rates, and financial insufficiencies, are not being appropriately addressed. The result is a market with much potential for improvement in the short run but that will remain inadequate in the long run if not improved.

An April 2005 survey of MENA housing sectors concluded that many of the region's countries suffered from affordability problems rather than insufficient housing stock. While some segments of the population, mainly the lower income groups, suffer from inadequate supply, many of the countries are facing over-supply for the upper and middle income groups. The same report found that Morocco's housing price-to-income ratio⁷ (9.2) is the highest in MENA and nearly double Tunisia's (5.0); see Table 1 below.

³ Beck et al (2000), provides a representative study.

⁴ Galal and Razzaz (2001) provide detailed information on the empirical literature. For example, Alesina and Rodrik (1994) have shown that reducing inequality in land ownership across income levels by one standard deviation increases economic growth by more than one percentage point.

⁵ Erbas and Nothaft (2002).

⁶ World Bank (2003).

⁷ The "housing price to income" ratio is defined as the ratio of "median house market price" to "median income."

Table 1: Housing Indicators Comparison, MENA and select countries.¹

	Per Capita GDP	House price to income ratio	Floor Area per Person	Housing Credit Portfolio	Informal Housing (%)	Mortgage Loans to GDP (%)	Urban Pop. (%)	Population age 20-29 (%)
	[A]	[B]	[C]	[D]	[F]	[G]	[H]	[I]
Iran	6,128	9	21	-	25-30	2.8	65	19
Lebanon	4,391	9	10-12	9	20-25	4	90	23
Algeria	5,319	8.1	8.5	6.5	20	1.2	58	19
Egypt	3,750	4.9	12	7.4	30-60	3	43	18
Morocco	3,787	9.2	6	13	23	7	56	18
Jordan	4,080	6.5	10	19	10	11	79	21
Tunisia	6,769	5.2	6.5	10.44	Negligible	5.9	66	12
Yemen	812	10-17	4	-	35	-	25	56

Definitions: [B] Median House market price to median income; [C] median usable living space per person measured in square meters; [D] ratio of total mortgage loans to all outstanding loans in both commercial and government financial institutions; [E] percentage of total number of dwelling units in the urban area that is owned, managed, and controlled by the public sector; [F] percentage of dwelling not in compliance with current planning, land use, and building regulations. Informal housing stock includes, but is not necessarily limited to, squatter housing stock, which means housing is built on an illegally occupied land; [G] ratio of total mortgage loans to Gross Domestic Product.

MENA markets tend to exhibit inelastic supply curves, even in the long run. As a result, increases in demand are not met by proportionate increases in quantity supplied; rather, demand increases translate largely into rising prices. This problem is particularly acute at the low end of the housing spectrum, where population growth is the highest. Since the high demand among low-income populations is not being met with adequate supply, informal settlements⁸ replace structured housing as the status quo.

The current predicament is summarized in the World Bank's February 2005 loan documentation for the Government of Morocco:

*"...sub-standard housing has sprawled in the form of squatter settlements and informal neighborhoods, mostly concentrated in the agglomeration of the Casablanca-Rabat-Kenitra continuum (where 55% of all slum households are living) and in the Tangiers-Retouan area, but are present throughout Morocco's main cities and towns. Meanwhile, the historic housing stock of the ancient medinas, unattended and impoverished, has rapidly decayed. The number of slum households has increased from 160,000 in 1992 to over 260,000 in 2001, and the substandard housing represents 18% of the stock, with an average yearly growth of 4%. The latest housing stock census calculated at 430,000 the number of households living in informal neighborhoods, and at 90,000 the number of households living in housing stock threatening collapse."*⁹

The wide presence of unauthorized housing is an indicative byproduct of overly stringent land development regulations and vague property titling systems. Cumbersome titling procedures and unclear rights inexorably lead to inadequate property markets and over speculation.¹⁰ Significant public sector ownership fuels the

⁸ **Informal** (unauthorized) housing is defined as the housing stock that is not in compliance with current regulations. This includes illegally occupied land (by squatters) as well as housing built outside the planned areas (even if land ownership is legal, and/or housing units constructed outside the construction regulations.) **Slums** on the other hand refer to deteriorated living conditions in terms of both social and physical dimensions.

⁹ World Bank (2005).

¹⁰ Baharoglu (2005), page 17.

disparity by preventing the “land supply from being demand-responsive, creating land densities that are not consistent with its cost, and conveying non-transparent subsidies, often unintentionally, to middle- and upper-income households rather than the poor.”¹¹ Public housing ownership and rent-control are becoming increasingly problematic. Rent controlled units initially benefit existing tenants. However, these controls decrease the incentive for further investment in the housing sector leading to neglected maintenance, diminished unit improvement, and wholesale shifts in investment funds away from new construction. In Morocco, rent control has disenchanted investors, leaving the market to individual landlords with self-constructed units who rent without contracts or are reluctant to even allow renters at all. A 2001 survey concluded that there were nearly 500,000 units vacant.

Baharoglu, Peltier and Buckley frame the market disparity from the supply side, explaining that disruptive “housing policies in Morocco are equivalent to a tax shifting the supply curve up.”¹² As illustrated in Figure 1, the Moroccan government’s housing program is inadvertently driving prices higher and quantities lower than they should be, creating a dead-weight loss and unit shortages. It is important to note that all housing markets have relatively price-inelastic markets in the short run. Because construction of new units takes time, it is impossible to bring much new housing capacity online over a short time horizon. As such, price changes do not readily translate to an increase in quantity supplied in the short run. However, in the long run an efficient, unencumbered housing market will have a much more price-elastic supply curve. Higher than normal rents will attract long term investment in housing capacity, pushing out the short run supply curve, lowering prices (rents) and increasing equilibrium quantity. However, housing policies in Morocco currently deter the mobilization of growth capital into the housing sector, retarding this long run movement to a stable and efficient equilibrium. If Morocco follows the path to market liberalization discussed below, the long run housing stock should become more elastic allowing increased demand to be met by increased supply rather than exorbitant price increases.

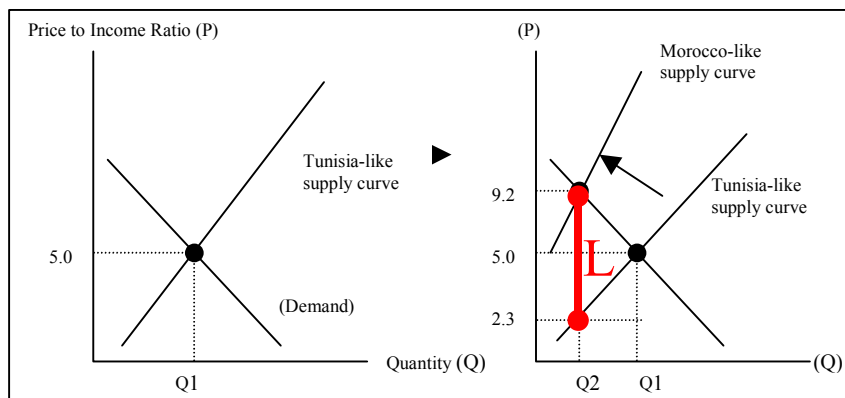


Figure 1: The Supply Side Effect of Moroccan Government Housing Policies

GOVERNMENT PRIORITIZATION

Government programs designed to eradicate substandard housing have had wide success in the MENA region. Tunisia’s 20 year long slum removal initiative has helped support a functioning housing market in which price and quantity accurately reflect supply and demand. Following suit, Morocco is actively pursuing slum removal through government programs by increasing the low-income housing stock. While the government has shown great conviction in its attempts to provide for its impoverished citizens, its broad subsidies have not succeeded in narrowing themselves to the targeted lower income segment and have cost the Moroccan taxpayers greatly, narrowed the mortgage market, and crowded out private development.

¹¹ Baharoglu (2005), page 12.

¹² Hilber et al (2001).

Since 2002, the Moroccan Government has given considerable attention to developing its infrastructure and housing sector. The \$800 million King Hassan II Second Economic and Social Development Fund finances 49 projects across the housing, tourism, and highway development sectors.¹³ Its focus is on slum upgrading and enticing private sector developers into the real estate market. In 2003, the Moroccan government announced further measures to eradicate its cities' shantytowns after the terrorist attacks in Casablanca. Directed toward 1.5 million Moroccans living in poverty, the government concentrated efforts to replace the slums with social housing, hoping to upgrade areas that provide fertile ground for the influence of Islamic fundamentalists. Moroccan Prime Minister Driss Jettou announced that the government would be building a total of 100,000 homes each year and for low-income families and will be selling them for less than MAD 120,000 (USD 12,700). A report in early 2004 recorded that publicly held companies created 110,000 new homes in 2003 alone as a result of the government initiative.¹⁴ Also in 2003, the Interior Ministry announced an \$18.3 million government-financed housing project in southern Morocco that would provide 3,500 new homes, 1,500 of which would be completed by July 2005.¹⁵ In June 2005 the government began a \$360 million project for improving living conditions in Rabat. Concentrated on urban development, road development, public lighting, and green space re-adjustment, the initiative will relocate 4,000 families in nearby Sidi Yahia Zaer and commit to a ten-year restructuring program for the city of Sidi Taibi at an estimated cost of \$95 million.¹⁶

Resolve shown by the government is drawing attention from the international community. Since the focus on housing began in 2002, Morocco has received a total of \$367 million from the World Bank to improve civil services, infrastructure, housing, and banking practices, \$150 million of which was allocated specifically for housing development.¹⁷ Economic assistance from USAID will be \$26 million for 2005,¹⁸ IFC exposure is approximately \$450 million,¹⁹ and OPIC exposure is \$49 million.

Nevertheless, government involvement does not come without a price.

In Morocco, government subsidies in the financial services and land development sectors are the most widely utilized form of housing stimulus. It is estimated that the aggregate cost of Morocco's subsidies program is more than US\$700 million per year, or over 5% of GDP.²⁰ These subsidies, including tax exemptions, interest rate deductions, and co-lending practices, are targeted to tap the private savings of lower-income households. For example, a Moroccan civil servant with a fixed salary is likely to get a bank loan with a guarantee covering over DH20,000, with the state contributing 70% and the bank 30%.²¹ However, many of the economic incentives are logistically impractical, as high-income households remain the primary beneficiaries.

Land subsidies have also proven to be inefficient and regressive. Government programs established to increase production in low-income areas are going straight to state-owned land developers, creating unfair competition among private developers and discouraging the growth of new business. Intervention in social housing development, mainly through state-owned-enterprises (SOE's) is crowding out private sector investment in housing finance, construction, and land development. Moreover, the inefficiency of subsidy distribution inhibits proper allocation of resources and capital.

¹³ US Foreign Commercial Service (2003).

¹⁴ Intellinews (January 7, 2004).

¹⁵ Intellinews (August 12, 2003).

¹⁶ Intellinews (June 22, 2005).

¹⁷ U.S. Report on the Middle East – Morocco (2005).

¹⁸ U.S. AID – Morocco (2005).

¹⁹ International Finance Corporation (2005).

²⁰ Baharoglu et al (2005).

²¹ Barka (2004).

HOUSING FINANCE

Morocco began to develop long-term housing microfinance²² in the mid 1980s. Until 1992, a state-owned institution provided mortgage financing exclusively. In 1997, that institution still provided 57% of mortgages. Its loans may be extended up to 15 years at an average interest rate of 11%. The central bank (Bank Al-Maghrib) is currently the second largest provider of mortgages, with 18% of the total. Mortgages provided through bank loans, funded by deposits, tend to have shorter terms and higher interest rates. Additionally, the private sector has a 16% share of the market and two societies for real estate credit account for the rest of mortgages.²³ Currently there are five stand-alone real estate loan companies, Al amana, Zakoura, FONDEP, AMSSF-MC, and FBPMC, employing a total of 12 full loan officers. Combined, their total loan portfolio comprises 926 purchase loans, 400 improvement loans, 1,000 utility loans and 97 rural construction loans. The two newest companies, AMSSF-MC and FBPMC, began operating in May 2005 and had pilot microfinance programs in place as well as applications pending at the time of charter. All of the institutions have the capacity to loan up to 30,000 DH for home purchases, which equates to approximately \$5,000 with terms stretching from 6 to 60 months. Over 90% of all home purchase loans are financed with interest rates ranging from 12 to 27%.²⁴

Despite the somewhat diverse range of loan providers, mortgages are still concentrated among middle to high-end income brackets as low income groups do not have systematic access to financial services due to low credit status, informal nature of income flow, and lack of collateral. Overall, outstanding housing loans are estimated at 13% of total credits but banks finance only 20% of housing construction, leaving 80% to self-funding.²⁵ Today the ratio of mortgage loans to GDP is only 7%²⁶ and the annual growth rate is estimated at less than 1%, with the private informal sector remaining the predominant source of funding.²⁷

Instituting housing reform judiciously will have positive long-term effects beyond the housing market. First, finance instruments can stimulate savings by helping to draw informal savings into the formal system. Second, contract savings can begin to address the disparity between low income / informal households and banks by giving credit status to families, increasing personal worth and asset value²⁸. Third, private sector finance reforms will help move the market from subsidy reliance to a system of collateral-backed loans.

SECTORS WITH INVESTMENT OPPORTUNITIES

While the push towards privatization continues, most of the construction and building projects are being financed by state-owned enterprises. Two initiatives, the free trade zone at the Port of Tangier and the requirement for open-market tender calls, will promote foreign involvement in development projects, including housing. Some examples of areas that are open to investment are:

- **Housing Construction** - Morocco is much in need of technology that provides competitive advantages and U.S. firms will find opportunities to provide building methods that guarantee high safety and short delivery.²⁹
 - In mid 2005 the World Bank committed \$150 million to support private involvement in housing development.

²² Practical Guide for Housing Microfinance (2005).

²³ Erbas and Nothaft (2002).

²⁴ McCarter (2005).

²⁵ World Bank Group (2005).

²⁶ Baharoglu et al (2005).

²⁷ Erbas and Nothaft (2002).

²⁸ Baharoglu et al (2005).

²⁹ US Foreign Commercial Service (2003).

- The late King Hassan II launched the 200,000 Dwellings Program which grants tax incentives to developers that commit to a minimum of 3,500 low-cost housing units. Since its inauguration in 1994, local competition has increased and foreign firms are now entering this market, making property more accessible to low- and mid-range income households.
 - In 2002, the Nour Zaer project was launched to relocate 2,200 homes in the Rabat area. Most recently, in July 2004 King Mohammed IV allocated US\$550 million to a housing project located in the Sale and Tamara region. It is expected that this project will produce more than 850,000 homes until its completion in 2008.³⁰
 - In December 2001, the U.S. firm World Atlas Services signed a \$1 million contract with the Moroccan holding group Jet Group for equipment that provides so-called monolithic units. This American technology, the first of its kind in Morocco, will introduce the new concept of producing one house per day. The building industry consists of few large contractors and myriads of small companies and sub-contractors.
- **Land Development** - In spite of the high demand for affordable housing, Morocco's issues of insufficient private banking participation, land scarcity, and bureaucracy in legal registration are not improving rapidly. Currently, the government is attempting to privatize much of its urban and rural land holdings. In early 2005 the Moroccan government launched its first international call to tender inviting bids for 56,000 hectares of state-owned land. US firms can take a leading role in this tender call for both agricultural and development allocated land. Capital Trust USA inaugurated a land development project in the Central District of Beirut in early 2005.³¹
 - **Real Estate & Mortgage** – As Morocco begins to liberalize its financial services sector, shying away from government subsidization, opportunities for US and international financial institutions to partake in the structural advancement of mortgage securities markets and real estate development are abundant. Recently the Government of Morocco passed a law supporting a secondary mortgage market, a unique and potentially influential tool for equitable housing distribution. Additionally, the World Bank committed \$100 million in 2003 to revise public accounting and management practices to facilitate budgetary efficiency and civil reform. As a case example, US investors and in-country firms have established successful mortgage facilities in Egypt, Egyptian American Bank and First Private Mortgage Co., over the past 18 months.³² Specific housing microfinance products that US and International Financial Institutions can develop are: ³³
 - **Minor Home Improvements** – Minimum of DH 3,000 to DH 20,000 with terms ranging from six to twenty-four months backed by promissory notes, guarantors, or blocked accounts. The demand for this product will be very high among low-income groups and is a recognized yet newer product than that offered by the existing microfinance institutions.
 - **Major Home Improvements** – Clients with 1-year credit history can access loans from DH15,000 to DH30,000 for terms ranging from six to thirty-six months. The rates for these loans will be slightly lower due to extended terms but can have provisions to increase if misuse occurs. These loans will be backed with promissory notes, guarantors, or blocked accounts. Demand for this product will probably be less than that for minor loans due to the creditworthiness requirements of the recipient. Additionally, these loans will require a form of collateral to protect the financier from default.
 - **Employer-Based Loan** – At the higher end of the market there is much competition for loans to salaried workers, but certain lower-level groups are not eligible. Utilizing the salary as collateral for the financier, employers can deduct portions of the salary to ensure loan

³⁰ IntelliNews (June 22, 2005).

³¹ Mediterranean Investment Project Observatory (2005).

³² Mediterranean Investment Project Observatory (2005).

³³ McCarter (2005).

repayment. Only individuals employed at large companies will be eligible for these loans (DH3,000 to DH20,000 with six to twenty four month terms and interest rates comparable to minor home improvement loans).

- **Land Acquisition** – If land plots can serve as collateral for loans of less than DH30,000, this product could be used to assist the poor in purchasing property and building homes. Land loans will require a 30% down payment with terms of one to five years and rates comparable to major home improvement loans.
- **Home Purchase** – Basic new homes cost between DH150,000 and DH200,000 and thus cannot be financed via DH30,000 micro loans. Institutions must develop clear and detailed procedures on collateral, terms, foreclosures, and long-term payment schedules in order to ensure market acceptance.

CONCLUSION

A strong and flexible housing industry is a vital component to capital advancement in low and medium income economies. Its development forms a cornerstone pool of finance necessary for a stable and vibrant financial system, creates a stepping off point to the “ownership class” for lower income families, and helps societies to foster an environment of long-term political stability. The Moroccan housing market is currently burdened by a lack of availability of affordable housing, land and ownership titling encumbrances, and poor financial infrastructure. The Moroccan government has recently made great strides towards reducing the housing gap at the lower income end of the affordability spectrum. However, overall government involvement in the housing sector has traditionally introduced rigidities and crowded out private investment. Recent movements toward greater transparency and financial liberalization indicate a future where there are many opportunities for increased private sector involvement in all levels of the Moroccan housing sector. The continued nurturing and expansion of this private participation will generate broad communal and economic benefits, both for the overall society and for the individual private participants.

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