



1. Project Data:		Date Posted : 02/12/2003	
PROJ ID: P005323		Appraisal	Actual
Project Name: Housing Finance and Urban Sector Reform	Project Costs (US\$M)	142.0	85.9
Country: Jordan	Loan/Credit (US\$M)	19.8	19.0
Sector(s): Board: FSP - Housing finance and real estate markets (100%)	Cofinancing (US\$M)	0.0	0.0
L/C Number: L4071			
	Board Approval (FY)		97
Partners involved :	Closing Date	03/31/2002	03/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
As per the Loan Agreement and SAR, they were : (a) to assist the Borrower in promoting medium and long-term market-based financial flows into the mortgage market by providing participating financial institutions with a source of liquidity for their medium and long-term lending for mortgages; (b) to facilitate competition in market based mortgage lending; and (c) to improve the enabling environment for private sector development of land and housing production . (Although project objectives were not revised during implementation, Bank and Borrower ICR formulations of the objectives differ from each other and both differ from the above . The ICRs give less prominence to the objective of improving the enabling environment; objective (c) that was not achieved.)			
b. Components			
There were four components:			
A.1: Provision of medium and long term financing to private financial intermediaries for mortgage loans (final cost: US\$85.9m.).			
A.2: Improvement of the institutional capability of secondary mortgage facility (final cost: US\$0.4m.).			
B.1: Program of regulatory reform in the housing sector, through (i) allowing private developers to use more affordable standards; (ii) increasing the availability of land zoned for small plot sizes; (iii) revising urban planning, land use and building regulations for more efficient land use and lower construction costs (final cost: US\$0.0m.).			
B.2: Program to transform the government's Housing and Urban Development Corporation (HUDC) into a promoter and facilitator of private sector development (final cost: US\$0.3m.).			
c. Comments on Project Cost, Financing and Dates			
At appraisal, more than 99 per cent of project costs were related to the secondary mortgage component A .1. Similarly at completion, nearly all final costs were incurred in financing this component . By completion, only 60 percent of the appraisal costs were actually incurred due to slower private financing of bonds in the secondary mortgage market than hoped for. The Bank loan, nearly fully disbursed, accounted for 22 per cent of the total project financing. The remainder came from private sources through mortgage bond subscriptions . The project was completed as planned in a little more than 5.5 years.			
3. Achievement of Relevant Objectives:			
Objective (a) of promoting market-based financial flows into the mortgage market was substantially achieved, although on a smaller scale than envisioned at appraisal . Falling interest rates undermined the profitability of the operation, making it less attractive to potential investors .			
Objective (b) of fostering mortgage market competition was achieved, too, through the successful market placement of and subscription to mortgage bonds in Jordan for the first time (although liquid high-interest bank savings deposits provided severe competition for investors' funds) . On the lending side by project completion, approximately six active lenders were financing mortgage loans, against a single (public sector) lender at the outset of the project .			
Objective (c) aimed at encouraging private sector development of land and housing was not achieved; the project design provided very limited means to this end and only half of a very small component was, in fact, implemented .			
4. Significant Outcomes/Impacts:			
<ul style="list-style-type: none"> • For the first time in Jordan, the establishment and provision of funds through a secondary mortgage facility, the 			

Jordan Mortgage Refinance Company .

- Important housing finance reforms, such as removing obstacles to private bank lending for long -term housing loans and revoking exclusive privileges of the government's housing bank in this market .
- House-purchase became more affordable as mortgage market loan maturities significantly exceeded expectations (up to 20 years, against max. 10 years expected) and the project was able to fund such instruments . (Interest rates falling--independently of the project--helped too, of course).

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Lack of progress with reforming (i.e. simplifying) building regulations and standards, was partly due to the lack of agreement among the GOJ agencies responsible, namely HUDC, the Council of Ministers responsible for urban areas and the Ministry of Municipalities, Rural Affairs and the Environment .
- Reform involving greater private sector development of land and housing did not prosper . Project design lacked instruments/funding for this purpose. The Bank itself sent conflicting messages to GOJ about the importance of this reform program.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Highly Likely	Likely	To qualify for the top rating, project resilience on most factors affecting sustainability would have to be <i>high</i> , a condition not met with respect to financial resilience in a very tight market for long-term paper, and government and stakeholder ownership of the housing reform program especially . Even so, overall sustainability of this project looks good.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Jordan's good financial and judicial fundamentals were critical to success with the housing finance component . The country's financial sector is not particularly deep, but skills are high and practices are conservative . Although sometimes slow, the judicial system is reputed to enforce contracts . Also, the Housing Bank, even as the erstwhile monopolist in the market, had a good track record of loan repayments (including property foreclosures in cases of non-repayment).
- Private sector lenders in Jordan required much higher returns from the project's long maturity (10 year) bonds than those from shorter-term paper, indicating a strong propensity for liquidity in Jordan's financial markets .
- The inclusion of very highly regarded specialists in housing finance and secondary mortgage market development within the Bank's supervision teams helped successful implementation of the housing finance component.
- For a successful housing finance operation, project design must include very clear and detailed guidelines for the mortgage refiner--especially the mortgage loans eligible for refinancing --that, in turn, can become a standard for the industry as a whole .
- More generally, the project experience shows that successful deepening of financial markets depends on more than just new frameworks and new financing mechanisms . It depends upon the underlying demand for primary lending and the functioning of markets for economic activity generally .
- The involvement and collaboration of local government authorities are a necessary condition for housing sector reform. Local governments' unwillingness to accept more affordable standards for land development and housing within their communities meant that reform could not be implemented .
- Private developers in Jordan are mostly small and financially weak and they lack interest in land development because of cumbersome tax and registration laws, high costs of planning, the long time required to obtain zoning and building permits and their own inability to leverage their (limited) equity through borrowing . More in-depth analysis of these issues and constraints is needed during project preparation .

8. Assessment Recommended? ● Yes ○ No

Why? Project design highlights the issue/dilemma of how far the development of housing financial markets can proceed when housing sector reform and strengthening of financial markets in general are slow . Additional/updated findings on this can provide important lessons to feed into the Bank's work on housing and the poor in particular.

9. Comments on Quality of ICR:

Satisfactory. The report provides compelling evidence to support the positive assessment of the project's housing finance component, together with an ERR re-estimate using the same principles as the SAR's. It also provides a clear and candid assessment of the shortcomings of the project's under-designed and under-funded housing sector reform component. Had both the Bank and Borrowers parts of the ICR used the same project objectives formulation (as found in the Loan Agreement and SAR) the reader could have a clearer understanding of the linkages between the two components and make a better assessment of how the housing reform failures counterweighted otherwise outstanding achievements in developing the housing finance market in Jordan. Finally, it is important for ICR cost tables to include *all* estimated and actual project costs, especially when Bank financing was only a fraction of the total funding needed, and when there was significant shortfall in that other financing expected.