



Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 13-May-2019 | Report No: PIDA190694



BASIC INFORMATION

A. Basic Program Data

Country Egypt, Arab Republic of	Project ID P168582	Program Name EG Inclusive Housing Finance Program Additional Financing	Parent Project ID (if any) P150993
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 08-May-2019	Estimated Board Date 31-May-2019	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Program-for-Results Financing	Borrower(s) Arab Republic of Egypt	Implementing Agency	

Program Development Objective(s)

The objective of the Program is to improve the affordability of formal housing for low-income households in the Arab Republic of Egypt and to strengthen the Social Housing Fund's capacity to design policies and coordinate programs in the social housing sector.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	1,310.00
Total Operation Cost	500.00
Total Program Cost	500.00
Total Financing	500.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	500.00
World Bank Lending	500.00



B. Introduction and Context

1. **The Inclusive Housing Finance Program Additional Financing (AF) (P168582) is an additional loan in an amount of US\$500 million to the Arab Republic of Egypt.** The Egyptian authorities requested a US\$500 million AF through an official correspondence from the Minister of Investment and International Cooperation on May 20, 2018. The proposed AF will be linked to the Inclusive Housing Finance Program (P150993) as its parent program. The US\$500 million Inclusive Housing Finance Program, the parent program, was approved in May 2015 and became effective on November 11, 2015. The closing date of the parent program is April 30, 2022.

2. **The Egypt Inclusive Housing Finance Program was developed to support the Egyptian Government's Social Housing Program which is an integral part of its social safety net package.** The Social Housing Program launched by the Government of Egypt (GoE) (Social Housing Law 33 of 2014 establishing the Social Housing Fund) in the wake of the revolution has the goal of providing 1 million houses for low-income households. The Inclusive Housing Finance Program Program for Results (PforR) has the development objective of improving the affordability of formal housing for low-income households in the Arab Republic of Egypt and strengthening the Social Housing Fund's (now Social Housing and Mortgage Finance Fund [SHMFF]) capacity to design policies and coordinate programs in the social housing sector. The program directly contributed to the Government's program that aimed at reforming the policies and institutions in charge of making social housing accessible, affordable, and decent and supporting the delivery of demand-side subsidies.

3. **The proposed loan will help scale up the delivery of housing subsidies to reach additional 30 percent beneficiaries and to further strengthen the institutional and regulatory environment of affordable housing through a second generation structural reforms.** Based on the good performance of the parent operation, the GoE has requested further financing to support the scale up of the subsidy delivery program to reach additional 30 percent beneficiaries and achieve the one million affordable homes target of the presidential program. In addition, through the AF, the government envisions the implementation of a far reaching second generation reforms to further strengthen the capacity of SHMFF and to improve the regulatory environment of housing finance.

C. Country Context and Sectoral Context

4. **Following several years of underperforming economic activity and large external and fiscal imbalances, Egypt's macroeconomy is showing strong signs of recovery.** This is the result of the implementation of key reforms including fiscal consolidation, exchange rate liberalization, and business environment. Egypt's economic reform program has reflected positively on macroeconomic stabilization and economic activity. Real gross domestic product (GDP) grew at 5.3 percent in FY18, compared to 4.2 percent a year earlier, and expanded further to an estimated 5.4 percent in the first half of FY19. Unemployment decreased in tandem with economic growth from 10 percent in 2018 to 8.9 percent, reaching pre-uprisings' single-digit levels, but this has in large part reflected a decline in the labor force participation rate rather than pure job creation, signaling ongoing challenges in private sector development. Fiscal accounts continued to improve as the overall deficit continued its downward trend to reach 9.7 percent of GDP in FY2017/18 and the primary deficit shifted to surplus. Government debt came down by around 10 percentage points compared to end-FY17 but remained elevated at just below 97.3 percent of GDP at end-FY18. The positive impact of macroeconomic and policy reforms has markedly



improved Egypt's external position, whereby the current account deficit more than halved to 2.4 percent of GDP in FY18, down from 6.0 percent in the previous year. Net international reserves reached US\$44.06 billion at end-February 2019 (eight-and-a-half months of merchandise import coverage). Sovereign bond issuances between US\$3 billion and US\$7 billion planned in the first half of 2019 will further support international reserves.

5. **Despite the progress made, inflation and interest rates remain high and social conditions continue to be difficult.** Inflation has begun to ease over the past 18 months, slowing from a record 33 percent in July 2017 to 14.35 percent in February 2019. With inflation easing, the Central Bank of Egypt (CBE) cut the overnight deposit and lending rate in February 2019 by 100 basis points to 15.75 percent and 16.75 percent, respectively. Despite the positive trend downward, the inflation rate remains high, negatively affecting socioeconomic indicators. The erosion of real incomes continues to adversely affect households. At least 30 percent of the population was below the poverty line in 2017. To mitigate the social costs of reforms and their disproportionate effect on those in poverty, the GoE has scaled up available social assistance mechanisms. The budget allocation for the Takaful and Karama cash transfer program grew by 400 percent between 2015 and 2018, expanding the program to reach 2.2 million households in December 2018. Similarly, the GoE has doubled the amount of the widespread food smart card programs.

6. **Population growth, poor availability of housing stock and high prices have made access to decent housing unaffordable for the poorest segments of the Egyptian population.** Ineffective and uncoordinated past housing policies (see box 1 and figure 1), coupled with high population growth and high interest rates, have affected the availability of affordable housing in Egypt for years.¹ According to research conducted during the preparation of the Inclusive Housing Finance Program (P150993) in 2014, the demand of new homes was evaluated at 300,000 units per year plus an additional 254,000 units to gradually deal with the existing backlog while the total housing production did not exceed 200,000 units per year.² Preliminary research today shows that housing demand could have reached 700,000 units per year because of the growth of the share of the population below 40 years (estimated at 60 percent in 2017) as well as the effects of migration due to civil conflicts in the region (Syria, Libya, Yemen).³ This current shortage has made formal housing unaffordable for low-income households and contributed to the development of informal neighborhoods. This problem has been exacerbated by the complex macroeconomic environment which has contributed to rising mortgage interest rates (ranging from 20 percent over the last few years) and weak development of the mortgage market. Under these conditions, the provision of formal and decent affordable housing for the poor is not possible without an effective and targeted state intervention.

¹ World Bank. 2008. *Towards an Urban Sector Strategy*, paragraph 32.

² Ministry of Housing, Utilities, and Urban Development 2014.

³ Central Agency for Public Mobilization and Statistics (CAPMAS) (the Egyptian Statistics agency) is currently conducting a survey to better understand current trends in the Egyptian housing market. The World Bank is supporting this activity in the context of the Enhancing Social Housing Governance Trust Fund. The results of the survey should become available by the end of April 2019 (after appraisal and closer to Board presentation).



Box 1. Evolution of the Affordable Mortgage Program (AMP)

The World Bank has been supporting the development of the housing and housing finance sector over the past two decades through a programmatic approach involving financial and advisory services, and knowledge sharing. In the early 2000s, the World Bank assisted in establishing the legal and regulatory framework for mortgage finance. To push forward necessary policy reforms in the housing subsidy and finance sector, the World Bank financed the Affordable Mortgage Development Policy Loan in 2009. Until that time, housing subsidies in Egypt were a mix of supply-side subsidies through land, services, and finance. The subsidies were poorly targeted, reaching mostly higher-middle-income beneficiaries, extremely inefficient (paying for an average of 90 percent of the house price) and distorting the mortgage market. No private lenders participated and the Housing and Development Bank, a state bank, ran deficits on its mostly subsidized mortgage portfolio.

The World Bank worked with the Ministry of Housing, Utilities, and Urban Development (MHUUD) and Guarantee and Subsidy Fund (GSF), the predecessor of the current SHMFF, to develop a national demand-side down payment subsidy program (the AMP) designed to minimize the required subsidy amount to reach low-income households. It leverages households' own contributions by making the subsidy conditional upon households taking out a maximum affordable market rate mortgage loan, with a step-up feature that increased monthly payments each year by 7 percent (public salaries had to be increased by that percentage each year) and a minimum down payment. At that time mortgage interest rates were in the order of 11 percent to 12 percent, but legal restrictions on payment-to-income ratios and loan terms made it challenging to reach the target group (the 20th to the 60th percentile of the income distribution). By the time these restrictions were removed, political and economic uncertainties and high inflation of the post-revolutionary period brought both house construction and mortgage lending to a halt. Mortgage rates reached more than 20 percent in 2012.

In that context, the CBE initiated a LE 20 billion stimulus package for the housing sector in May 2014, providing banks with low-cost funds which banks would on-lend to qualifying low-income households under the AMP at a highly subsidized fixed rate of 7 percent for 20 years. Banks were allowed a fixed margin of 4.5 percent and over time 24 banks were participating in the AMP, allowing the program to reach a wide geographical area. Non-performing loans (NPLs) are negligible across all household segments.

The World Bank provided a PforR loan for the Inclusive Housing Finance Program in May 2015 to support the SMHFF in scaling up its program and expand and strengthen it as an institution. The specific components of the subsidy package under the CBE program remained the same but the values of the down payment subsidy, the maximum house prices, and related loan amounts have been updated over time with inflation. The specific features of the current program are as follows:

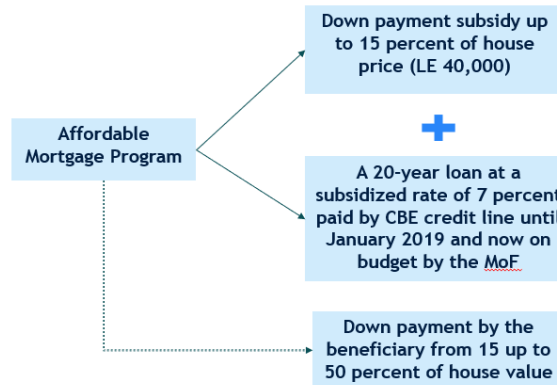
- (a) **A relatively small down payment subsidy** that is progressive with incomes, that is, the lower the income the higher the subsidy, and has a maximum value of LE 40,000 (equivalent to 15 percent of the current house price of LE 260,000) and an average of LE 20,000 (8 percent of the current house price).
- (b) **A down payment by the beneficiary** of a minimum of 15 percent of the house price and a maximum of 50 percent.
- (c) **A 20-year loan at a subsidized rate of 7 percent** with an amortization schedule that increases the monthly payment by 7 percent each year, based on the legal requirement to increase public salaries by 7 percent annually.

Since February 1, 2019, the CBE liquidity funding for AMP mortgages to the banks has stopped and has been replaced by a scheme where the interest rate subsidy is paid for by the MoF and banks use their own funds to finance the mortgage loans. This is a transition arrangement and an interest rate subsidy mechanism is expected to be implemented by the next affordable housing advertisement campaign⁴ in October/November 2019.

⁴ The SHMFF uses national (annual or semiannual) advertisement campaigns to inform potential borrowers that new units are available for sale.



Figure 1: Affordable Mortgage Program

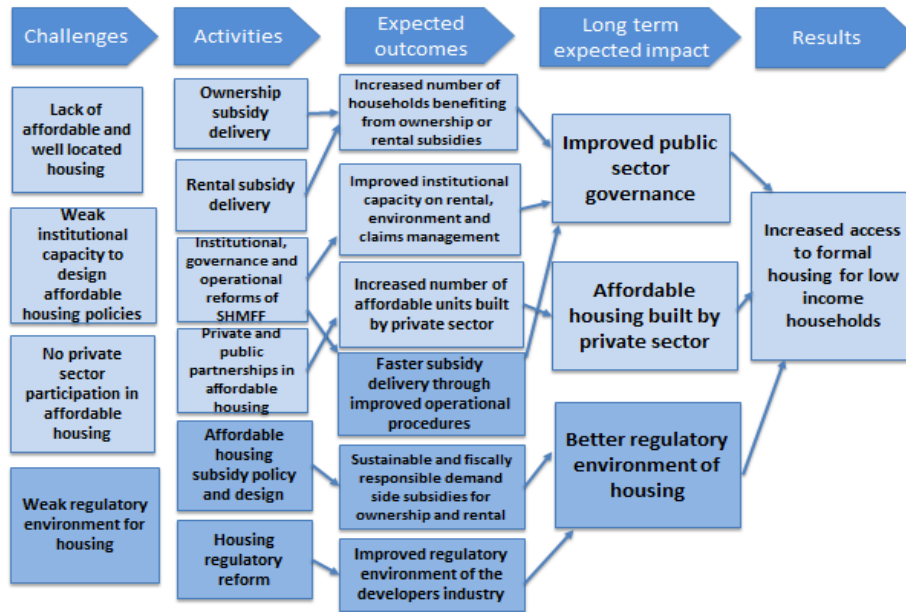


D. PforR Program Scope

7. As the parent project, the AF has the long-term objective of increasing access to formal housing for low income people and improving public sector governance in the area of affordable housing (see figure 2). The proposed AF would pursue the same objectives as the parent operation—which remain critically relevant to Egypt and for the World Bank Group’s Middle East and North Africa Strategy. To support these objectives, at the end of the project, the country is expected to have: (a) improved the regulatory environment for affordable housing; (b) strengthened the governance and institutional framework of SHMFF; (c) improved the operational efficiency, accountability and transparency of SHMFF; (d) increased the number of households benefiting from affordable ownership and rental programs; and (e) increased involvement of private sector in affordable housing construction. To achieve these outcomes, the program will (a) support the development and implementation of a more transparent and fiscally responsible scheme to replace the costly interest rate subsidy and regulating the private developers profession; (b) strengthen the governance of SHMFF by reviewing the composition of its Board and establishing new departments (environment, claims management and rental); (c) improve the operational efficiency by implementing new workflow arrangements and new mechanisms to tackle fraud; (d) increase access to affordable housing by scaling up the delivery of subsidies for ownership to reach additional 30 percent beneficiaries and developing a new rental program; and (e) promote more private sector participation in affordable housing construction.



Figure 2: Theory of Change – Egypt Inclusive Housing Finance Program



8. The proposed AF will include (a) scaling up of existing DLIs, (b) new disbursement-linked results (DLRs) for existing DLIs, and (c) new institutional and regulatory DLIs. The parent program has four components: Strengthening governance and institutional set up of housing Sector (Component 1); Enhancing transparency and accountability of social housing programs (Component 2); Improving access to affordable housing (Component 3); and Promoting well-located social housing (Component 4). The AF will build on the first three components of the parent program. Close to 73 percent of the AF will focus on supporting the scale up of Component 3 while the remaining 27 percent will focus on institutional building actions under Component 1 and 2 (table 1). All the proposed additions and changes are in line with the development objective of the parent operation. Program boundaries have not changed. The AF will continue financing the delivery of the demand-side subsidies and associated operational costs within the boundaries of the Affordable Housing Program. The development objective of the program remains the same but was updated to reflect the new name of the program implementation unit (from SHF to SHMFF). New DLIs, DLRs and an additional PDO indicator have been included to track progress of the new AF. The M&E framework remains the same but the deadline for achieving results was updated to reflect the closing of the AF (June 28, 2024).



Table 1. New Cost Allocation by Component

Component	Cost Allocation (US\$, millions)			
	Current	AF	Reallocation	Total
Component 1: Strengthening Governance and Institutional Set Up of Housing Sector	100	129	0	229
Component 2: Enhancing Transparency and Accountability of Social Housing Programs	50	6	0	56
Component 3: Improve Access to Affordable Housing	325	365	0	690
Component 4: Promote Well-located Social Housing	25	0	0	25
Total	500	500	0	1,000

9. **As part of the changes to Component 1 of the parent operation, the AF will focus on the improvement of the operational efficiency of the SHMFF.** Since the AF aims to scale up and expand in the program’s delivery of subsidies, the SHMFF will need to improve its operational efficiency to support the increase in the delivery of subsidies and ensure compliance. The AF will also contribute to the improvement of the efficiency of the subsidy delivery process through the implementation of pilots with selected banks in selected locations to explore full delegation of the approval process; in addition to reducing the number of SHMFF interventions during the subsidy approval process.

10. **As part of the changes to Component 1 of the parent operation, the AF will focus on the improvement of the financial, economic, and regulatory environment of affordable housing finance.** This will be done through supporting the SHMFF in adopting an interest rate subsidy mechanism, and supporting the Government in the regulation of the real estate profession.

- a. *Interest Rate Subsidy Exit Mechanism.* The AF will contribute to the development and adoption of a financially sustainable and fiscally responsible subsidy methodology that progressively phases out the interest rate subsidy. With the expiration of the CBE credit line and the transition of the payment of the interest rate subsidy to the Ministry of Finance (MoF), it is critical to implement a progressive phase-out of this subsidy.
- b. *Regulation of the Real Estate Profession and Installment Sales Practices.* The AF will support the adoption of legislation to regulate the real estate developers’ profession and installment sales. Two levels of regulatory and supervisory intervention are envisioned under this component: at the construction phase and at the installment phase (post construction).

11. **As part of the changes to component 1 and 2, the AF will support a second generation of institutional and regulatory reforms in the area of housing.** The parent program has supported the institutional strengthening of SHMFF’s and the institution has a solid track record of implementation of reforms (i.e. internal audit unit, M&E systems). However, the institution needs to implement a second generation of institutional reforms to ensure its governance systems and institutional structures are conducive to the delivery of the ambitious targets and long-term sustainability of the program. For example, the subsidy delivery process is administratively heavy and requires fine tuning to meet the 1 million houses target. The claims process is scattered and requires consolidation to respond more effectively to citizen complaints and to minimize fraud. Rental is a critical element of affordable housing and vacancy remains a key issue in Egypt, but no dedicated unit exists to support the design of the relevant



policies. Environmental aspects have not been taken into consideration in affordable housing to date by SHMFF and a dedicated unit to support these aspects should be created.

12. ***As part of the changes to Component 3, the AF aims at scaling up the delivery of demand-side subsidies for ownership.*** The AF aims at scaling up the delivery of demand-side subsidies for ownership to reach additional 30 percent beneficiaries. The SHMFF is serving close to 10,000 beneficiaries per month (or 120,000 per year) and can potentially increase the pace to 12,000 (or 144,000 per year) if improved internal processes are implemented. The assessments made for the preparation of the AF confirmed that the 12,000 subsidies per month target would be a maximum. Therefore, by aligning the closing date of the parent program with the one of the AF (that is, 2024) and by providing an AF of US\$250 million for this component, the SHMFF will be able to deliver 1 million subsidies by 2024 which corresponds to the Government's program ultimate objective. The scaling up will consist of extending the deadline to meet DLI 5 to 2024, increase the target from 725,000 subsidies to 1 million by program completion, and provide an AF of US\$250 million to factor the supplemental 275,000 subsidies.

13. ***As part of the changes to Component 3, the AF aims to increase private sector participation in affordable housing (DLI 8 of the parent operation).*** Private sector participation remains problematic since the current PPP framework is not viable for private developers. The key obstacles identified by private developers in the context of a workshop in March 2019 were: letter of guarantee required by NUCA, density (number of units per building), mixed use of developments (i.e. commercial vs. housing notably retail on ground floor), competition with government construction companies, certain construction norms (i.e. parking requirements, land size/location). Larger developers are of the view that the existing PPP system called 70/30 system (i.e. 30 percent of developed projects back to the government for affordable housing without the company taking the construction risk) is the only way forward until the mortgage environment in Egypt improves. Medium size private developers are of the view that it is possible to develop viable affordable housing projects outside of the existing PPP system if more flexible standards are applied including: price and size of units, mixing affordable with middle income developments, and larger share of commercial areas within affordable housing projects. Different approaches should be piloted. The AF will encourage concrete actions to support private sector participation in affordable housing, including (a) revision (and development of new) of the PPP guidelines addressing key bottlenecks identified by private developers, (b) call for proposals under the new PPP guidelines, and (c) roll out 10 PPP pilots representing at least 10,000 units.

14. ***As part of the changes to Component 3, the AF will contribute to the development and implementation of an Affordable Rental Program.*** A rental program is needed to serve the population that cannot afford a mortgage or prefer renting. The Affordable Mortgage Program serves households with incomes between LE 1,500 and LE 4,750 per month. However, a large segment of poor households still cannot afford the monthly payment or qualify for a mortgage loan. Although 90 percent of Egyptian households prefer homeownership, some life starters and young workers with moderate income will also temporarily prefer a rental accommodation to remain mobile or benefit from a more central location. A large proportion of the housing stock is still frozen under the old rent control, particularly in Cairo, the rental risk is deemed high by landlords, the cost of refurbishing the unit after tenants have left is high and eviction procedures, though much improved, are still considered cumbersome. Tenants also face the risk that the rent could be increased beyond his/her level of affordability. As a result of the dysfunctional rental market, there is not enough investment in new rental programs and landlords keep many units vacant in both the old and new stock.



15. The AF will support two new interventions to encourage the development of the affordable rental market in Egypt:

- *Institutional.* The AF will include an institution building component that would materialize through the creation of a Rental Unit within the SHMFF with a clear mandate to design and implement rental development strategies, policies, and action plans. It would also include a digital platform aimed at facilitating the enrollment of landlords and tenants and matching of rental demand and supply. The platform would provide all the information needed by both landlords and tenants on existing laws, procedures, types of contracts, and intermediation experiences in the rental market, as well as on the rights, benefits, and obligations pertaining to the specific the SHMFF programs.
- *Incentive packages.* The AF will also support the development and implementation of a package of incentives aimed at stimulating private sector individual landlords to rent out their apartments/houses to low-/middle-income households. This would not only concern investors in newly built rental housing but also induce owners of vacant or unfinished units in both formal and informal neighborhoods to improve these units and bring them into the market. The package would consist of two distinct programs: (i) one for landlords, with guarantee schemes; and (ii) one for the tenants, on the development of demand-side tenant subsidies aimed at filling the gap between the rent required by the investor and the payment affordable to the tenant, estimated at 25 percent of income.

C. Program Development Objective(s)

16. The objective of the Program is to improve the affordability of formal housing for low-income households in the Arab Republic of Egypt and to strengthen the Social Housing Mortgage Finance Fund's capacity to design policies and coordinate programs in the social housing sector.

D. Environmental and Social Effects

17. **An Environmental and Social Systems Assessments (ESSA) was prepared in accordance with the Operational Policy 9.00 for PforR financing.** The AF program will continue focusing on financing the demand-side subsidies. On the expenditure program, the parent PforR has contributed to the financing of demand-side subsidies (i.e. home ownership and rental) and related operating costs. The AF is expected to follow the same approach. The AF Program has clear boundaries within the demand side programs of the SHMFF. Accordingly, following the parent program, no supply-side activities will be supported by the Program, therefore no major environmental or social impacts and risks are expected. Within the defined boundaries of the Program, there will be no land acquisition, construction activities, or civil works. The AF will not cause any environmental impacts that could be considered significant, diverse, sensitive or unprecedented.

18. **The social risk management system described in the parent ESSA is still largely applicable in terms of laws, regulations, standards, procedures, and its actual implementation.** The main change



identified by the ESSA addenda is the merger of the project implementation entity, the Social Housing Fund, with the Guarantee Support Fund (GSF). The merger has resulted in the creation of a new entity, the Social Housing Fund and Mortgage Finance Fund (SHMFF) which was created by the Law No. 93 of 2018. The objective of this merger was to maximize the scope of intervention of these two instruments and exploiting more efficiently their synergies with an aim of providing better services to low-income citizens through one single entity.

19. **A number of risks have been identified as part of the ESSA preparation and consultation process.** The majority of the identified risks relate to the limited institutional capacity, which might be considered as a crosscutting threat for the program sustainability. The other risks identified under the proposed AF are quite similar in nature to those identified in the parent Program and included in the original ESSA. The risks include: (i) possible leakage of the Program benefits to households that are not eligible (mitigation measures included adoption of legislation to prevent fraud); (ii) inability to effectively serve the target population such as workers working in the informal sector (to mitigate this risk alternatives methods to capture informal incomes were identified); and (iii) limited capacity of SHMFF to handle a high volume of grievances (mitigation measures included creation of a new complaints system and new procedures for claims handling have been developed). Complaints are currently being handled through a number of mechanisms. To receive and answer applicants' complaints and inquiries, the SHMFF has set up customer service centers, call centers, and SMS services, in addition to inquiry system on the web portal. Service level agreements (SLAs) have been implemented between different departments, including the legal unit, for better management and handling of complaints.

20. **Other issues, including the social exclusion of different marginalized groups have emerged.** The risk of exclusion of the poorest groups continues to exist, in spite of the government's efforts to prioritize the lowest income bracket of the population in the social housing program. These groups are less likely to enroll in ownership schemes, as it remains very expensive for them. Those who do not have access to formal work also face hardship, due to their lack of credit history. In addition, less than 2% of the SHMFF's portfolio focus on rental, which is the component that is supposed to serve those who cannot afford a mortgage. Other emerging issues include territorial exclusion (where geographical targeting is recommended) and the exclusion of women, elderly, and youth aged 21-30.

E. Financing

Program Financing

Sources	Amount (USD Million)	% of Total
International Bank for Reconstruction and Development (IBRD)	500.00	100.00
Total Program Financing	500.00	



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