

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.:PID0018128

<b>Program Name</b>	Inclusive Housing Finance Program
<b>Region</b>	Middle East and North Africa
<b>Country</b>	Arab Republic of Egypt
<b>Sector</b>	Finance
<b>Lending Instrument</b>	Program for Results
<b>Program ID</b>	P150993
<b>Borrower(s)</b>	Arab Republic of Egypt
<b>Implementing Agency</b>	Ministry of Housing, Utilities, and Urban Development
<b>Date PID Prepared</b>	January 12, 2015
<b>Estimated Date of Appraisal Completion</b>	January 29, 2015
<b>Estimated Date of Board Approval</b>	March, 2015

**I. Country and Macroeconomic Context**

1. ***Egypt's economic recovery is proceeding.*** Economic activity picked up in the third and fourth quarter of FY14, recording 2.5 percent and 3.7 percent respectively, compared to 1.2 percent in the first half of FY14. However, growth for the whole fiscal year remained subdued at 2.2 percent. Net exports continued to be a drag on growth, while investments started to contribute positively to growth alongside accelerated disbursement of stimulus spending. Public consumption grew in light of the accommodative fiscal policy stance, which is driving the saving ratio down to 5.2 percent in FY14. Economic recovery is important to establish stability ahead of the forthcoming Parliamentary elections, expected to be held by March 2015, which represent the final milestone in Egypt's political roadmap.

2. ***Inflationary pressures mounted early in FY14 due to higher taxes and fuel/electricity prices; however this was short lived and prices are starting to decelerate.*** Inflation increased in July 2014 by 3.5 percent, the highest monthly increase since the 2008 global food price shock. Accordingly, inflation averaged 11.2 percent in the first quarter of FY14, before decelerating in November to 9.1 percent on the backdrop of lower food inflation. Headline inflation is expected to average 11-12 percent in FY15. In addition, the unemployment rate declined for the first time since 2011 to reach 13.1 percent in September 2014 compared to 13.3 percent in June 2014. The latest poverty data indicate that 26.3 percent of the populations are living below the national poverty line in FY13. Fortunately, Egypt has benefitted from large scale financial support from the Arab Gulf Countries,<sup>1</sup> which allowed authorities to jumpstart the economy by embarking on stimulus spending worth three percent of Gross Domestic Product in FY14, lowering cost of borrowing by 400 basis points in FY14, and increasing foreign reserves.

3. ***Fiscal consolidation measures are finally being adopted, yet additional efforts are needed over the medium-term.*** The budget deficit is expected to decline to 11-11.5 percent of GDP in

<sup>1</sup> It is estimated that as of December 2014, financial commitment to Egypt from the Gulf Arab countries—Saudi Arabia, the United Arab Emirates (UAE), and Kuwait is around US\$ 24 billion.

FY15, compared to a preliminary figure of 12.8 percent in FY14, and 13.7 percent in FY13. Yet more efforts are needed to bring the fiscal and debt paths back on a sustainable track. Early in July 2014, the newly elected President approved a wide range of structural reforms, mainly increasing and/or enacting new taxes, as well as streamlining electricity and fuel subsidies. These measures are expected to generate fiscal savings of LE 80 billion (3.5 percent of FY15 projected GDP).

4. ***The official unemployment rate reached 13.1 percent as of end September 2014 up from 8.9 percent in the same quarter of 2010.*** Out of the 3.6 million currently unemployed persons, some 64.3 percent are between 15 and 29 years old, making youth unemployment the main challenge for economic inclusion and stability. Unemployment rates among males and females stand at 9.6 percent, and 24.5 percent, respectively. Urban areas recorded a higher unemployment rate (16 percent) than rural areas (10.9 percent). The construction and housing sectors are amongst the most labor intensive and largest employment sectors in Egypt, with close to 12 percent of total employment at the end 2012, and around 2.8 million employees.

5. ***Expanding housing options for the lowest income groups, particularly the impoverished youth, and improving their access to housing, public services and employment became key priorities for the Government post-revolution.*** The Government adopted a stimulus program in early 2014, with the housing sector being a priority. The economic rationale for investing public funds in the housing sector is its proven stimulus to domestic job creation and economic growth. The President ratified the Social Housing Law 33 of 2014 on May 2, 2014, establishing the Social Housing Fund (SHF) with the objective of providing one million homes for low-income households over a six year period. It is estimated that this program will generate more than 1.5 million job-years over the life of the program.

6. ***In addition, the Central Bank of Egypt (CBE) implemented a second stimulus for the housing sector through an infusion of below-market-rate funds, totaling LE 20 billion, into the mortgage sector to stimulate the financing of house construction for low- and middle-income groups.*** The low-income component of the stimulus, which provides mortgage loans at seven percent interest rates with a 20 year term, targets households with incomes as low as LE 1,000 per month and is implemented through the existing Affordable Mortgage Program (AMP). This stimulus will allow for the provision of mortgage-linked subsidies to creditworthy households with incomes just below the 20<sup>th</sup> percentile of the income distribution. Funds are made available through banks and their affiliated mortgage companies and additional upfront subsidies for qualifying low-income households are provided through the AMP.

## **II. Sectoral and Institutional Context of the Program**

### **Housing Sector Overview**

7. ***The housing sector in Egypt has been confronted by numerous challenges.*** Historically, the Government programs and policies have been implemented by multiple uncoordinated units within the Ministry and other public authorities, resulting in major gaps in the menu of housing programs for underserved groups, particularly for the lowest income segment. Moreover, the housing market suffers from serious inefficiencies that have not been systematically addressed. The result is chronic housing shortages and housing affordability problems. The housing backlog is up to three million units. Egypt requires approximately 300,000 new housing units per year to house newly formed households, plus an additional 254,000 units to gradually deal with the

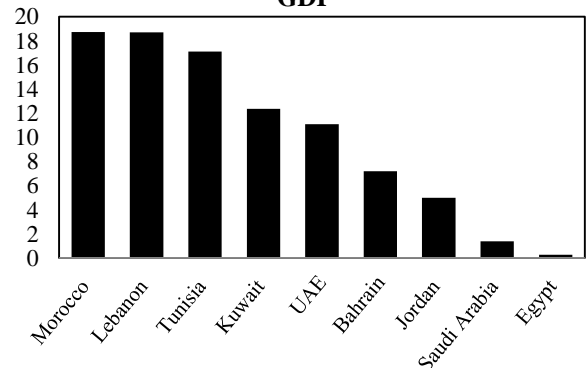
backlog of housing over five years.<sup>2</sup> However, total formal housing production in the country has not exceeded 200,000 units per year.<sup>3</sup>

8. *At the same time, a large proportion of existing houses is not available because they are left vacant or unfinished by the owners* (an estimated three million units in urban areas alone). This is associated with rent control and inadequate tenant regulations. The relatively low housing production levels, high vacancies, and low incomes relative to housing costs have resulted in a rapid growth in informal housing production, estimated at half of all housing production, and sometimes more. It is estimated that 12 to 20 million people live in informal housing areas.<sup>4</sup>

9. *The mortgage finance sector is still very underdeveloped.* In comparison with other countries in the Middle East and North Africa (MENA) region, Egypt has the lowest mortgage-to-GDP ratio (less than one percent) as shown in Figure 1. Egypt's legal and regulatory mortgage infrastructure was only developed in the first half of 2000. Foreclosure procedures have only recently been tested and issues with property registration in new developments have been resolved in 2013. Property registration of existing residences is still very limited. There is, therefore, a low level of awareness of the mortgage product by potential clients. The uncertain macro-economic environment of the past few years was also a contributing factor to the lack of growth of the mortgage sector.<sup>5</sup> Mortgage finance is evenly distributed among the Mortgage Finance Companies (MFCs), and the banking sector. Banks are serious competitors to MFCs, as they enjoy access to relatively cheap funding. However, mortgage lending focuses on the higher income brackets and formally employed customers disproportionately and shows a high degree of geographic concentration, where Cairo and Giza Governorates account for more than 69 percent of total loans outstanding.<sup>6</sup> At the same time, only few lenders (mostly NGOs) offer alternative housing finance products, such as consumer loans or lines of credit to borrowers who do not qualify for a mortgage loan because of informal employment<sup>7</sup> or lack qualifying collateral.

10. *Poor housing policies have had a major negative impact on the growth of metropolitan areas.* The lack of market mobility due to decades of rent control has led to stagnating neighborhoods that should have undergone change as part of urban and employment transformation (e.g., the downtown area of Cairo). In addition, most of the new housing is located in new towns in desert areas far away from employment opportunities for middle- and

Figure 1: Mortgage Debt as a Percent of GDP



Source: Hofinet (2014).

<sup>2</sup> Ministry of Housing, Utilities, and Urban Development (2014).

<sup>3</sup> National accounts show that the Egyptian economy has been investing on a two decades. These levels of investment are low compared to the housing need figures exclude informal housing production. Comparable lower middle income figures in housing. Average investments for MENA region are estimated at around 4.

<sup>4</sup> Central Agency for Public Mobilization and Statistics (CAPMAS), (2013).

<sup>5</sup> The vast majority of newly built properties in Egypt are purchased either with cash or through an installment loan system provided by the real estate developer.

<sup>6</sup> Egyptian Financial Supervisory Authority (EFSA), (2014).

<sup>7</sup> Estimated at 60 to 70 percent of the labor force.

low-income families, forcing a large proportion of the labor force to commute long distances to work.

11. *An overview of current housing options in Egypt’s urban housing market reveals a major gap in formal housing options for the lower-income segments of society* as shown in Table 1:

**Table 1: Product Gaps in the Egyptian Housing Market**

Income groups	1	2	3	4	5
Income bracket (LE per month)	<1,450	1,450–1,900	1,900–2,400	2,400–3,200	>3,200
Median Household Income*	1,100	1,700	2,100	2,700	4,100
Income Category	Very Low	Low	Middle	Upper Middle	Upper
Market Ownership					
Subsidized Ownership (demand-side)					
Rental Market (new rental law)					
Rent Control (decreasing)					
Informal (rental and ownership)					

Potentially Available (to the entire bracket)

Partially Served

Not Served

\* Median monthly income by quintile based on CAPMAS Income and Expenditure and Consumption Survey (2012/2013).

Source: CAPMAS, Income and Expenditure and Consumption Survey (2012/2013).

- *Formal home-ownership without subsidy* is accessible for households with incomes in the top 30 to 40 percent of the household income distribution.
- *Subsidized new formal ownership housing* has been the dominant type of Government housing program during the past few decades. Previous programs had unsustainably high subsidies on the supply side and through the financing of units, and suffered from difficulties to verify beneficiary incomes and eligibility. A new, more efficient subsidy program linked to a mortgage loan was launched in 2010, the AMP, and serves households with income as low as LE 1,000, which is below the 2<sup>nd</sup> decile of the income distribution.<sup>8</sup>
- *Subsidized self-construction* options existed in the past, but were poorly managed and have been discontinued.
- *The new formal rental market serves mainly middle and upper income households.* No new formal private rental housing is constructed for low income households. Public rental programs delivered only a small number of units. Rental units under old rent control contracts serve middle and higher income households disproportionately.
- *Informal rental and ownership housing* provide the most important housing options (estimated at 50 percent of urban units) and are utilized by very low to middle income households.

12. *Egypt has a long history of Government involvement in the housing sector.* The Ministry is the central policy making and project funding institution, implementing its programs through the housing directorates of local Governorates and the New Urban Communities Authority (NUCA), established in 1979 as an affiliated entity under the Ministry to develop new towns on desert land.

<sup>8</sup> Income verification remains a difficult issue, even though both GSF and lenders have to underwrite the client.

NUCA has the capacity to implement large scale social housing projects using private or public builders. Governorates often require more support from the Ministry for planning and contracting of residential development. The Ministry has a representative in each Governorate, who is responsible for the implementation of the housing policy in collaboration with the Governorates' housing directorates. The Governorates maintain their own applicant lists for housing projects and decide which mix of housing projects they require. This semi-decentralized structure can respond well to diverse housing needs in different Governorates.

13. ***Substantial policy reforms have been implemented in recent years.*** The measures undertaken by the Egyptian authorities to date include: (i) a streamlined land and property registration system for new urban developments; (ii) an improved Real Estate Tax Law rolled out in August 2014; (iii) a Unified Building Code; and (iv) a legal and institutional framework for the establishment of the mortgage market through the Real Estate Finance Law 148 of 2001. This law allowed the formation of non-bank mortgage finance companies and it established the Guarantee and Subsidy Fund (GSF)<sup>9</sup> that administers the AMP. A liquidity facility—the Egyptian Mortgage Refinance Company (EMRC)—was established in 2006 to provide long term funding for primary mortgage institutions.

#### **The Government Program (The Social Housing Program)**

14. ***In the wake of the January 25<sup>th</sup> revolution, the Social Housing Program was launched with the goal of providing one million houses.*** The Social Housing Law 33 of 2014 assigns to the SHP the mandate to “propose, plan and release social housing projects, and supervise their implementation, to secure suitable residences for low-income citizens and land lots for middle-income citizens.” The SHF is the implementing entity of the Social Housing Program within the Ministry of Housing, Utilities and Urban Development<sup>10</sup>, which is charged with designing housing laws and regulations and social housing programs, as well as providing oversight for their implementation in consultation with relevant housing entities, and managing financial resources for social housing. It is a legal entity whose Executive Director is nominated by the Minister, and appointed by the Prime Minister.

15. ***To reach the low-income housing goals, the SHF will consolidate and expand existing housing programs that have the ability to attain the needed scale and reach the targeted household groups.*** It will create new programs to fill the housing gap for the poorest and most underserved segments of the population, both for rental housing and ownership. It has been assigned considerable fiscal and financial resources to sustain such subsidy programs. In addition, the SHF will address major outstanding policy issues that hinder private investment in the housing sector, and cause the underutilization of the stock and poor location of new residential construction.

16. ***A key objective of the Government is to increase private sector participation in the low-income segment of the formal housing market; as such, demand-side subsidy programs are a***

---

<sup>9</sup> With the amendments of the Real Estate Finance Law 148 of 2003 in July 2014, the GSF moved from the Ministry of Investment to the Ministry of Housing, Utilities and Urban Development.

<sup>10</sup> Hereafter referred to as the Ministry, unless otherwise specified.

***prominent component of the SHF.*** The core home-ownership program of the SHF is a mortgage-linked subsidy program that targets households with incomes between the 2<sup>nd</sup> and 6<sup>th</sup> decile of the income distribution. SHF is also implementing a public rental program to speed up the provision of housing for households in the lowest income brackets, and specifically in poorer Governorates. SHF intends to develop new demand-side rental subsidy programs and implementation systems for its public rental housing program. It will develop new incentive programs to bring private rental landlords into the low-income rental housing sector, including a demand-side subsidy program for lower income tenants, and to stimulate owners of vacant units to utilize the new demand-side rental subsidy program to make their units accessible for low-income households. SHF may also consider rekindling alternative ownership housing options for the lowest income group.

17. ***The Social Housing Law 33 of 2014 that established the SHF, also sets guidelines for the location of land parcels for SHF programs, and requires that new developments include access to services, infrastructure and employment opportunities.*** To ensure broad access to the program, all Governorates have been asked to provide well located land for the Social Housing Program, and select the type of programs they require based on citizens' demand. The programs have been prepared in extensive consultations with stakeholders and market players.

18. ***The first phase of the one million houses program was introduced in July 2014, of which 52,000 units were constructed, nearly all by regional private contractors*** according to specifications by the Ministry—55m<sup>2</sup> units for rental housing and 75m<sup>2</sup> units for homeownership. Most of these units were built in smaller urban areas, and approximately 8,000 were constructed in rural areas. The second phase is currently being implemented, and includes approximately 90,000 units with a high concentration in Giza, Fayoum, Minya and Assiut. The program is set to complete the construction of 200,000 units in FY 2015/16, approximately 150,000 by the Governorates and private sector and 50,000 by NUCA. The Ministry is currently negotiating public-private partnership (PPP) agreements with private companies to develop mixed-income housing developments that would include a specified percentage of housing units affordable to the target beneficiaries of the SHF.

19. ***The Government has requested the World Bank Group's support to the SHF through the Inclusive Housing Finance Program.*** For the housing programs to deliver the desired outcomes in employment generation and economic growth, catalyze private sector participation in the low-income formal housing market, and improve housing options for the bottom 20 percent to alleviate poverty, the World Bank Group support is needed in several areas, including: (i) enhancing the institutional capacity of SHF; (ii) increasing the effectiveness of the Social Housing Program; (iii) improving access to homeownership and rental units; and (iv) promoting the utilization of vacant and unfinished units.

#### **Relationship to Country Partnership Framework and Rationale for Use of Instrument**

20. ***The proposed operation is closely linked to the WBG strategic twin goals, the Systematic Country Diagnostic (SCD) analysis, and the Country Partnership Framework (CPF).*** The World Bank Group is currently finalizing the SCD, and is preparing the CPF for the Arab Republic of

Egypt during the period of 2015–2019. The SCD indicates that reforming the housing sector, improving its governance structure, and increasing the supply of affordable, well-located and quality housing is essential for achieving the twin goals of ending extreme poverty and boosting shared prosperity. Furthermore, urbanization and affordable housing were identified as major development challenges in Egypt during the CPF consultations. The proposed operation, with a focus on supporting low-income housing through strengthening the institutional setup, is well aligned with pillars on inclusion that involve ensuring broader access by disadvantaged segments of the population—women, youth, the poor, and lagging geographical regions—to infrastructure, finance, and social services, and enhancing citizen and community participation in the design, implementation, and monitoring of Government operations. The operation is also in line with the 2014 MENA Regional Strategy. The World Bank Group will bring its cross country experience and regional knowledge to the operation to assist the Government in designing and implementing social housing programs that are efficient, equitable and sustainable; as well as maximizing job creation and economic growth. Hence, this operation will help Egypt in ending extreme poverty and boosting shared prosperity, especially since its focus is on underserved households.

21. ***Different financing instruments to support the Program were considered, including investment project financing, development policy financing, and program-for-results financing (PforR).*** Since the proposed operation focuses on enhancing the institutional capacity of the Government by consolidating the existing housing entities and programs (under the umbrella of the SHF) to achieve improved performance and efficiency, and design and implement new programs that will address gaps in the current housing programs for low-income households, the PforR instrument was considered the most suitable option. The PforR instrument can disburse flexibly against the Program results, strengthen the institutional capacity of the Ministry, support the design and consolidation of housing programs and enhance their efficiency, improve the targeting of subsidy programs, and enable increased participation by the private sector in the provision of housing for the poor. Essentially, the PforR instrument will help to incentivize the Government’s progression through a series of critical steps towards creating a functional housing system that ensures affordable housing for vulnerable and low-income households.

22. ***Development partners.*** The Gulf countries have supported Egypt’s post-revolution economic recovery. In the housing sector, funds were made available by Saudi Arabia to CBE under the stimulus plan, which provided funds to banks at below-market rates in order to stimulate mortgage lending, hence, increase house construction and employment. In addition, the United Arab Emirates (UAE) has signed an agreement for a LE 7 billion contribution for low-income housing construction through the SHF—50,000 units have recently been completed. In addition the Ministry has signed an agreement for private investments from UAE to provide more than US\$ 40 billion for new residential-commercial development in large metropolitan areas between 2014 and 2020. The World Bank will work closely with the various Arab Gulf Countries to ensure consistency and synergies in the implementation of the programs.

23. *The institutional capacity aspects of the proposed PforR operation will also help ensure that the interventions by the various development partners, as well as those by the World Bank Group, are implemented in a coherent and coordinated fashion.* The PforR will assist in defining the guidelines that would be followed by all programs implemented under the SHF. Among others, it will help in directing the funding from the Arab countries into projects that would not distort the market, and would be implemented in a transparent fashion, and more importantly, target the needy and the low-income households.

### III. Program Scope

#### The Government Program

1. *The SHF has the mandate to finance, manage and release social housing units, and provide commercial and vocational services necessary for these housing projects, using dedicated resources from multiple sources.* To this end, the main responsibility of the SHF is to coordinate social housing policy, as well as, design, monitor, and implement a sustainable and comprehensive set of support programs for the poor. Accordingly, SHF will strengthen existing programs and develop new ones for the low- and middle-income housing sector, both on the supply-side (direct construction of units) and the demand-side (financial support linked to households and investors).<sup>11</sup> The SHF will work on improving the housing sector, through: (i) the consolidation and coordination of different housing entities, and social housing functions of the various agencies within and outside the Ministry; (ii) the introduction and formulation of legislation, decrees, regulations and procedures to support social housing, as well as the unification of existing ones; (iii) the development of new social housing programs for rental and ownership; and (iv) the improvement of the management systems for housing programs. Improving management will be done primarily through building the institutional capacity at the SHF within the Ministry and the Governorate level, the establishment of research capabilities and Monitoring and Evaluation (M&E) systems; the maintenance of a complete social housing project and beneficiary data base; and the collection of land and social housing market data.

2. *SHF and CBE are effectively coordinating their housing programs.* The CBE stimulus has offered LE 20 billion to banks and their affiliated MFCs to make seven percent, 20 year mortgage loans to households qualifying under the AMP program and intends to expand the program with growing demand. To date 14 banks have signed up for the program for a total amount of LE 12 billion. SHF and the CBE are coordinating program implementation, and have the same target low-income group for both AMP and CBE programs. In addition, the Sub-Governor of the CBE is on the board of SHF; and bi-weekly progress reports are prepared on disbursements under the CBE-AMP programs. While the CBE program is currently still in expansion mode, SHF and CBE intend to closely coordinate the future phasing out of the program when interest rates come down and a stimulus is no longer needed, although no set trigger conditions have as yet been established.

#### The Inclusive Housing Finance Program

3. The Inclusive Housing Finance Program (the “Program”) will support the following aspects of the Government’s Social Housing Program: (i) institutional consolidation and capacity building;

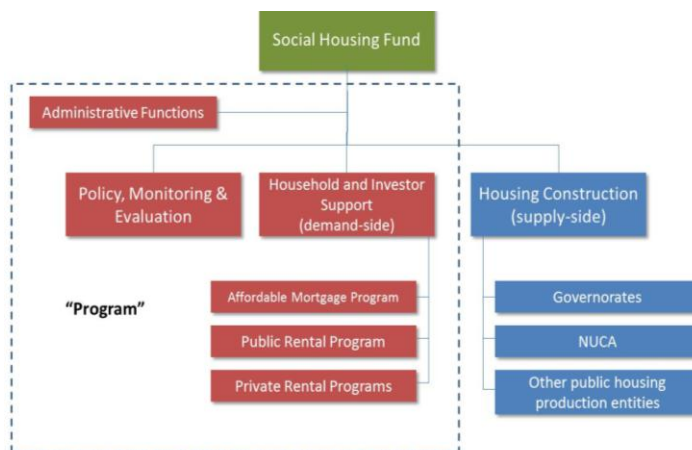
---

<sup>11</sup> The program boundaries supported by the World Bank are limited to the demand-side. This is explained later in the PAD.



(ii) development of housing policy, and the design of regulations and program guidelines; (iii) measures to improve the effectiveness of housing programs through research and M&E; and (iv) demand-side housing programs, including financial support to low-income households to help them access housing or housing finance. It will also assist in developing incentives for private rental investors to rent out their units to low-income tenants. This ensures sustainability of the Program, and allows the Government to focus on housing solutions for the lowest income and underserved segment. Housing programs that involve the direct construction of housing units are not part of the Program. A schematic overview of the Program is presented in Figure 2.

**Figure 2: Scope of the Inclusive Housing Finance Program**



Source: World Bank (2014).

4. ***Institutional consolidation, capacity building, policy development and research and monitoring and evaluation.*** The Program emphasizes support to improve the dynamics of the housing market, through research, legal and tax reforms, new policies, monitoring of government programs. Supporting SHF in these areas is the core of the Program and will allow SHF to play its key role in coordinating social housing policy and in designing, monitoring, and implementing a sustainable and comprehensive set of support programs for the poor. Capacity building activities during the operation are detailed in Section D and Annex 9 and include support to the housing finance sector which is critical for the implementation of SHF’s programs.

5. ***Develop and expand SHF’s social housing programs.*** The Program will support the SHF in expanding (in size and geographic reach) and strengthening its existing demand-side ownership program and in the development of financial products that will promote home-ownership for those currently excluded from attaining formal homeownership, including the poor and the informally employed. It will help create a new demand-side subsidy program for public rental housing and an incentive package for investors in private or employer rental housing with complementary demand-side subsidies for tenants.

**Table 2: Total Number of Household Beneficiaries under the Inclusive Housing Finance Program (2016-2020)**

	2016	2017	2018	2019	2020
<i>demand-side homeownership subsidies (AMP)</i>	125,000	275,000	425,000	575,000	725,000
<i>demand-side rental subsidies</i>	8,000	26,500	47,500	75,000	105,000
<b>Total Number of Household Beneficiaries</b>	<b>133,000</b>	<b>301,500</b>	<b>472,500</b>	<b>650,000</b>	<b>830,000</b>

6. ***The total number of Program beneficiaries*** is expected to reach more than 3.6 million individuals or 830,000 households with an average household size of 4.3 individuals. Based on a preliminary estimate of the distribution of units across Governorates, the total number of beneficiaries that are below the Household Poverty Line is expected to reach 1.6 million individuals (Annex 4), which represents 37 percent of total Program beneficiaries and around 7 percent of the total poor in Egypt (22 million individuals based on poverty rate of 26.3 percent in year 2012/13).

**i. Ownership Programs**

7. ***The Affordable Mortgage Program.*** This home-ownership program provides demand-side subsidies to complement an affordable mortgage loan, and a down-payment (ranging from 15 to 40 percent) for the purchase of new or existing houses. Mortgage loans under the AMP were made at market rates and for a maximum term of 15 years. Loans made under the new CBE stimulus program carry a rate of seven percent and have a term of 20 years, while other conditions are the same. AMP serves households with incomes between LE 1,000 and LE 2,500 per month, reaching from below the 20<sup>th</sup> to the 60<sup>th</sup> percentile of the income distribution, with the median at just above the 20<sup>th</sup> percentile. Approximately 24 percent of beneficiaries are female heads of household. The average subsidy under the pre-stimulus programs was in the order of LE 20,000 per household and is somewhat lower under the CBE loan program. The net present value (NPV) of the CBE interest rate subsidy is substantially higher given the current high interest rates (by 50 to 100 percent). However, the combined subsidy in NPV terms<sup>12</sup> is still below 50 percent of the house price for the lowest income segment. The combination of the AMP and CBE subsidies effectively decreases the inherent regressivity of the CBE interest rate subsidy and the combined subsidy decreases with higher incomes.<sup>13</sup> To date 10,700 subsidized loans have been issued under the market mortgage rate program, and around 10,000 loans were made under the new CBE low-interest rate program by December 2014. GSF received 155,000 applications after the announcement of the CBE stimulus program, which are gradually being processed. Support will be provided to develop a mortgage guarantee product to encourage lenders to include informally employed beneficiaries into the AMP and to assist financial institutions to establish mortgage systems, including in their branches.

8. ***Beneficiaries of the AMP can use the subsidy to purchase any housing unit on the market (existing and new) that is affordable to them under the conditions set by the AMP (i.e., income and other household qualifications, down-payment and mortgage loan qualifications).*** Although the first phase of construction of affordable housing units is currently being implemented mostly by regional small to medium private contractors, under contract with SHF, requiring only a small profit margin, the Ministry is finalizing new low-income housing PPP agreements for private developers to ensure their participation in SHF programs. Prior to the revolution, private developer participation in the low-income market segment was increasing. In fact, during the latter years of the National Housing Program (2005-2011), which aimed to deliver 500,000 housing solutions over 6 years, 22 percent of the completed units were built by private developers who assumed all risks, including market risk. Government entities only produced less than 50 percent of completed units.<sup>14</sup> Private developers left the low-income sector during the transition period when land contracts with government were retracted, inflation rates were volatile, and interest rates were too high for the low-income mortgage market to work. However, private developers are expected to gradually return, as the CBE program has made mortgage loans accessible for the low-income segment, and new land contracts are being put in place. Over the life of the Program, it is anticipated that at least 40 percent of the AMP subsidies will be used to purchase housing units

---

<sup>12</sup> Using a discount rate of 9.75 percent and a market rate of 14 percent, a house price of LE 135,000 and down-payment of 15 percent.

<sup>13</sup> The AMP subsidy amount decreases with increasing income, while the CBE subsidy increases with higher loan amounts.

<sup>14</sup> Under the National Housing Program (2005-2011), 320,000 units were produced until 2011; 150,000 by government entities, 70,000 by the private developers, and 100,000 self- construction parcels.

produced by private developers.<sup>15</sup> The Program will support the design of PPP agreements to ensure that AMP beneficiaries have a wide variety of units and locations from which to choose. The ultimate goal of the Government is to move away from the direct public construction of housing.

## **ii. Rental Programs**

**(a) Public Rental Subsidy Program for Tenants.** A new public rental program has been put in place by the Government to urgently provide housing for households with incomes below LE 1,500 per month. This is an ongoing program administered by the Ministry, which will be part of SHF. Units are fully paid by the Government so that rents only need to cover maintenance and management. Current rent levels are indeed set at a level that makes rents affordable to households in the lowest decile of the income distribution, based on a rent-to-income ratio of 25 percent. SHF intends to review rent-to-income ratios, and introduce supplementary demand-side subsidies to accommodate households with very low incomes, while making sure that rental incomes are sufficient for real estate companies to take on the management of the stock. The Program will support the design, implementation and financing of this demand-side subsidy and related management system for low-income tenants.

**(b) Private Rental Subsidy Programs for Investors (new, unfinished, vacant).** Incentive packages are necessary to attract private investors to rental housing for moderate income households. They consist in two distinct demand-side programs, for investors and for tenants. Incentive schemes will be offered to private rental investors who would commit themselves to rent out their units to households with moderate incomes (in the range of LE 900 to LE 2,500) for a given period of time. The scheme would concern investors buying newly-built units from developers or renting out previously-owned units that were either left unfinished, or kept vacant. The Program would support the design of the investor incentive program, which may include upfront subsidies by SHF.

**(c) Private Rental Subsidy Programs for Tenants.** In addition to investors' incentive packages, the Program will support the development of demand-side tenant subsidies aiming at filling the gap between the rent required by the investor and the payment affordable to the tenant, estimated at 25 percent of income. Technical support for designing the scale of the subsidy, the collection and monitoring of information on beneficiary households (income, family size, etc.), and the delivery of the subsidy (to the tenant, the manager or the landlord) will be provided under the Program. Improving the legal framework is a prerequisite to the development of these private rental subsidy programs in general as the present drawbacks deter investors from rental housing. The Program will support SHF in addressing legal constraints hampering the development of private rental housing.

## **IV. Program Development Objective(s)**

24. ***The main objective of the proposed operation (the “Program”) is to improve affordability for low income buyers and renters to acquire formal housing.*** A short-term, tangible goal of the SHF is to fulfill the Government's 2013 commitment to deliver one million homes for low-income households. The longer-term aspiration of the Government, however, is to use the SHF as a mechanism to transform the housing sector. To that end, the Program includes the five Results Areas described below. For each Results Area, the Program has a roadmap for working towards

---

<sup>15</sup> Given the anticipated mix of housing options from which AMP beneficiaries will be able to choose, there are no likely induced impacts from the supply-side activities of the SHF that require assessment under the Program.

the ultimate outcomes. Elements of that roadmap are reflected in the operation design as Disbursement Linked Indicators (DLIs), Program Action Plan (PAP) or Results Framework.

## **V. Environmental and Social Effects**

25. An Environmental and Social Systems Assessment (ESSA) was prepared in accordance with Operational Policy 9.00 for PforR financing. The Program has clear boundaries within the demand-side programs of the SHF. No supply-side activities (housing construction) will be supported by the Program, therefore no major environmental or social impacts and risks are expected. There will be no land acquisition, construction activities, or civil works. The Program does not include any Category-A type investments, does not pose a risk to natural habitats or physical cultural resources. Also, no negative impacts related to land taking or livelihoods are expected to result from the Program.

26. The Program will yield some environmental and social benefits, as the Program results are expected to improve the efficiency of the housing sector which would result in rationalizing construction activities. The Program will also help to reduce commuting time for employment with less traffic impacts. The Program will facilitate access to appropriate ownership and rental housing schemes among low- and middle-income groups and will be accommodating various income groups including the poorest who lack financial capacity and lack assets to place for loans guarantees.

27. There will be limited environmental and social risks. The occupation of housing units with some structural stability issues or with low fire safety precautions will form a community risk, which will be minimized through ensuring compliance with safety standards by requirements that buildings used by the Program beneficiaries have adequate occupancy certificates.

28. The main identified social risks include: (i) the possible leakage of the Program benefits to households that are not eligible; (ii) the inability to reach needy and priority cases; and (iii) the limited capacity to handle a potentially high volume of grievances. It is recommended that these social risks be minimized through enhancement of the institutional capacities of the SHF staff who will design and implement context sensitive information sharing mechanisms, consultation, communication and reaching out plans, and establish a robust local level grievance system mechanism.

29. Currently complaints are being handled through a number of mechanism, most importantly, a) the "Citizens' service Office" which affiliates to the Executive Agency of the Social Housing and established at central level in the Ministry in Cairo and b) direct communication with the Chairperson of GSF. Generally there is lack of clear distinction between the types of complaints that should be channeled through these two mechanisms and citizens do not receive sufficient guidance related to the channel that they should use, the timeframe which the complaint should be handled in addition to lack of easy local access. During Program implementation the SHF will need to develop a grievance mechanism, while the GRF will need to review the handling of complaints and grievances. In addition to this a customer satisfaction mechanism will be established.

30. In cooperation and coordination with the Ministry, the Bank team conducted a number of meetings, discussions, and two public consultation events with a wide range of stakeholders from the central Government as well as Assiut Governorate representing Upper Egypt. The environmental and social issues and inputs recorded during the consultation process were considered and included, as appropriate, in the ESSA (Annex 6).

## VI. Financing

Financing Source	(US\$ million)	Amount
BORROWER/RECIPIENT		1,509
IBRD		500
Others		
Financing Gap		
Total		2,009

## VII. Program Institutional and Implementation Arrangements

### Institutional and Implementation Arrangements

31. **Governance.** The SHF is governed by a Board of Directors whose primary role is to develop a general policy that guarantees the achievement of the Fund's objectives. Other roles include approving the draft budget, defining the investment policy, approving draft housing laws, regulations and guidelines, approving social housing programs, and appointment of program directors.

32. The membership of the Board reflects the multi-sectoral nature of the social housing sector. It consists of 15 members, including the Minister of Housing, Utilities and Urban Development, who serves as its chair. Other members include the Minister of Finance, Sub-Governor of CBE, Minister of Planning, Minister of Local Development, Minister of Social Solidarity, Minister of International Cooperation, a counselor in the capacity of Vice-President for the State Council, Deputy Minister of Defense, the Executive Director of SHF, and five competent and experienced members in areas related to the Fund activities in economics and finance who shall be appointed by a decree of the Minister. The legal affairs head of the SHF is also on the Board, but does not have voting rights.

33. **Organizational structure.** Under the Executive Director are three main departments, including the Central Department for Research, the Central Department for Finance, and the Central Department for Planning. These departments are supported by human resources, IT systems, public relations, and legal functions. The Executive Director has been appointed in November 2014, and the core team is currently being assembled. Moreover, an Executive Committee has been formed comprising main stakeholders from the public authorities, private sector, and civil society, to move forward with the implementation of the Program, and take the day-to-day decisions.

34. **Fiduciary implementation.** The Program's fiduciary functions will fall under the responsibility of the SHF. The Board of SHF will establish an Audit Committee including three non-executive members with relevant expertise, to monitor effectiveness of SHF's internal audit function, financial reporting, external auditing, and related controls. SHF will approve the annual budgets for the ownership and rental sub-programs and will be responsible for arranging the audit of these programs/funds.

35. *Social and environmental risk management.* Actions related to strengthening environmental and social risk management capacity have been included in the PAP and will be implemented by the SHF with support from the Governorates, and external consultants as needed. The screening of buildings for safety and suitability of water-supply and sanitary facilities will be carried out by the local units in each Governorate, with support from registered consultants as necessary; the SHF will have overall supervision of the process. A social officer will be assigned within the SHF to coordinate social dimensions of the Program. Local teams will also be mobilized at the Governorate level to be in charge of the actual implementation on the ground.

### **Results Monitoring and Evaluation**

36. *The SHF is expected to play an important role in researching, monitoring and evaluating social housing in the country with the objective of using this data to improve housing policy and programs.* Given that the SHF is a new entity, an assessment of how and to what extent monitoring, evaluation, and research functions are currently carried out by the Ministry and its many affiliates was conducted. Despite a significant commitment to social housing, as evidenced by the scale of investment in social housing production over the past decades, studies of the physical, economic, and social impacts of Government housing initiatives have been very limited. A general conclusion is that the focus of existing M&E activities in the Ministry and the Governorates has been solely on the production of units (i.e., number of units started, under construction, completed, and handed over) and the financial flows during this development process.

37. As a fundamental input to policy making and program design, research on and M&E of the housing sector are key functions of the SHF. Leveraging existing data collection processes in the Ministry's entities, SHF will need to significantly develop its M&E capacity to successfully assume this function. A strong M&E system within SHF and in specific housing programs will also be necessary to ensure the credibility of Program DLIs. A Central Department for M&E will be established within SHF and report directly to the Executive Director. In the short-term, the unit will take over the responsibility for tracking the implementation of social housing programs from the Housing and Utilities Sector. This process will be enhanced to include additional data requests and analyses based on policy making and program design needs. An in-depth review of housing data availability will be necessary to avoid duplication of effort. SHF's M&E unit will primarily rely on reporting from housing program entities like the GSF, NUCA, and the Housing Directorates in the Governorates for data on social housing units and beneficiaries. Mechanisms to automate or achieve other efficiencies in that collection process are being explored. Other sources of housing data will include census data from CAPMAS, private sector developers and financial institutions, and market analysis companies. The M&E unit will have a data analysis and dissemination role. This is well aligned with international best practice.

## **Disbursement Arrangements and Verification Protocols**

38. *Independent Verification Agent (IVA)*. A verification agent will be hired by the SHF to serve as the IVA for the Program,<sup>16</sup> providing independent confirmation of the results reported by the SHF to the Bank. In most cases, as detailed in Annex 3, the SHF will prepare reports explaining the achievement of DLI targets (based on predetermined content and criteria) for submission to the verification agent on a quarterly or annual basis. The agent will review the reports, conduct sample surveys if necessary, and provide a written opinion regarding the achievement of the DLI. These verified results will accompany any disbursement request to the World Bank by the Ministry of Finance, expected to be submitted once or twice a year.

39. *Advances and Prior Results*. The Government has informed the World Bank that advances will be needed in order to provide sufficient liquidity to launch all SHF activities. Advances up to 25 percent of the total financing can be made by the World Bank to the Ministry of Finance. The Ministry of Housing, Utilities and Urban Development will determine how much of an advance will be requested, within the 25 percent limit. When the DLI(s) are achieved, the amount of the advance will be recovered. The advance amount recovered by the World Bank is then available for additional advances ("revolving advance"). The World Bank requires that the Government refund any advances (or portion of advances) if the DLIs have not been met (or have been only partially met) by the Closing Date, promptly upon notice thereof by the World Bank. In addition, the loan may finance prior results, in the maximum amount of USD 25 million, for results achieved starting May 2, 2014, the date the SHF was established by law, and the date of the signing of the loan agreement.

## **VIII. Contact point**

### **World Bank**

Contact: Sahar Nasr  
Title: Lead Financial Economist and Task Team Leader  
Tel: +202-2574 1188  
Email: snasr@worldbank.org

### **Borrower/Client/Recipient—Government of Egypt**

Contact: Mohamed Hammam  
Title: Assistant to the Minister in charge of International, Regional and Arab Financing Institutions and Organizations  
Tel: +202 3912815  
Email: mehammam@gmail.com

### **Implementing Agencies—Ministry of Housing, Utilities, and Urban Development**

Contact: H.E. Dr. Mostafa Madbouly  
Title: Minister

---

<sup>16</sup> An independent entity, such as an audit firm or the Social Research Center at the American University in Cairo (AUC), who has been supporting the World Bank in conducting the Investment Climate Survey (ICAs) and Doing Business Report, will perform this role.

Tel: 002-02-27957836  
Email: madbouly@yahoo.com

**IX. For more information contact:**

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: <http://www.worldbank.org/infoshop>