

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

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Program Name	Inclusive Housing Finance Program
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Country	Arab Republic of Egypt
Sector	Finance
Lending Instrument	Program for Results
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Borrower(s)	Arab Republic of Egypt
Implementing Agency	Ministry of Housing, Utilities, and Urban Development
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Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

I. Introduction and Context

A. Country and Macroeconomic Context

1. ***The notable Gulf inflows since July 2013 have been a key driver for economic and social stability as well as a much needed buffer for the interim governments.*** Following the ouster of President Morsi in July 2013, the Gulf States (Saudi Arabia, the United Arab Emirates (UAE), and Kuwait) pledged sequentially around US\$ 20 billion in financial and in-kind aid to Egypt, of which around US\$16 billion has been received. More support -possibly in the form of investment financing- are expected in the near term. These exceptional inflows helped to improve investors' confidence and to reduce cost of domestic borrowing. In addition, the interim governments have utilized these exceptional financing to stimulate the economy, to improve social conditions while bringing the deficit down, to partially pay due arrears to foreign oil companies, and to plug in a widening fiscal and external financing gaps.

2. ***Early signs of an economic recovery are emerging, yet the upturn is still modest, feeble and need further nurture and momentum to make its mark on the deteriorating poverty and labor market indicators.*** Economic activity picked up somewhat in the third quarter of FY14, with growth up to 2.5 percent, more than double the average growth rate of 1.2 percent recorded in the first half of the year, and still higher than the 2.2 percent growth realized during the same quarter a year earlier. Growth continued to be mainly driven by private and public consumption, although the latter grew at a faster pace in light of the ongoing accommodative fiscal policy. Investments started to inch up, after three sluggish quarters, contributing meagerly to overall growth as the government started to disburse capital spending under the stimulus package. Net exports however continued to post negative growth due to the hardly hit tourism sector. On the supply side, growth was driven by a resilient agriculture sector and improved performance of oil refining, construction, real estate,

communication and manufacturing sectors. However, tourism and extractive industries continued to be a drag on growth. The uptick in growth rate is still inadequate to improve the deteriorated labor market indicators, with unemployment stabilizing at 13.4 percent during September 2013 to March 2014, yet up from 9.1 percent in March 2010. Likewise, new job market entrants continue to be largely drifted towards informal and subsistence jobs along with lower labor force participation rates. Finally, poverty rate has been increasing to record 26.3 percent in FY13 up from 25.5 percent in FY11 and 21.6 percent in FY09, mainly due to sluggish growth and persistent high inflation.

3. ***Fiscal consolidation and expenditure restructuring measures are finally being adopted, 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 and long awaited reforms, mainly increasing and/or enacting new taxes as well as streamlining energy subsidies, in an attempt to restore confidence in the Egyptian economy and to address the wide macroeconomic imbalances especially the large fiscal deficit, an explosive debt dynamics, and an acute energy crisis. These difficult measures are expected to generate fiscal saving of around EGP 80 billion (some 3.5 percent of FY15 projected GDP), and hence would bring the deficit down to 10 percent of GDP in FY15 compared to an expected outturn of 12 percent of GDP in FY14 and an elevated deficit worth 14 percent of GDP in FY13. Of these projected fiscal savings, some EGP27 billion will be directed to enhance spending on health, education and scientific research (in light of the new constitution pledges) and to enhance social spending. Also, the government is targeting an ambitious capital expenditure program worth 2.8 percent of projected FY15 GDP, some 40 percent higher than expected outturns in FY14 (2.4 percent of GDP). It is noteworthy that the newly introduced reforms represent to a large extent key fiscal component of the Stand-by Arrangement previously agreed on with the IMF team back in 2012.

4. ***Notable risks persist and need to be timely addressed to maintain economic and social stability.*** Main risk factors include the need for political inclusion and stability ahead of the forthcoming parliamentary elections and the sustained decline in national investments and saving ratios since FY10 that lead to infrastructure gaps and lowered Egypt's potential growth. Other direct threats to eradicating poverty and enhancing shared prosperity efforts in Egypt, are the economic hardship and rising public discontent associated with the recent decisions to increase fuel and electricity prices, as well as to raise taxes in the absence of well-targeted and effective mitigation measures that can shield the poor and vulnerable segments from projected high inflationary pressures that are likely to swiftly kick-in.

5. ***The housing sector has featured prominently in the Government of Egypt's attempts to rekindle economic growth, create employment and improve the living conditions of the population since the 2011 revolution.*** The Government has launched several economic stimulus packages and residential construction has been a major component of all because of its immediate effect on job creation and known economic multiplier effects.

B. Sectoral (or multi-sectoral) and Institutional Context of the Program

6. ***Egypt's public sector has played a major role in the provision of low- and middle income housing over the past decades through planning and land policies, direct construction, and finance. The Ministry of Housing, Utilities and Urban Development¹ is the central policy making***

¹ 'The Ministry' in this document refers to the Ministry of Housing, Utilities and Urban Development, unless otherwise specified.

and project funding institution, implementing its programs through local governments (governorates) or its own affiliated housing entities. The landscape of involved entities is as follows: (i) Governorates have delivered the majority of publicly-built housing units since the early 1980s, either with their own limited resources or with funding and implementation support from the Ministry; (ii) the second largest producer of publicly built housing has been the New Urban Communities Authority (NUCA) established in 1979 as an affiliated entity under the Ministry of Housing, Utilities and Urban Development to develop new towns on desert land; (iii) housing cooperatives, operating under an umbrella organization within the Ministry, provided considerable numbers of public housing units in the past as well, but have since dwindled;² (iv) the Housing and Development Bank was established in 1979 as an affiliated entity under the Ministry to provide the long-term financing for publicly-built houses in the form of soft loans. Other line ministries (Defense, Interior, Endowments ‘*Awkaf*’) built houses for their own staff. Together, these entities delivered 1.26 million publicly-built housing units during the period from 1982–2005—36 percent of all formal housing units built during this period in urban areas—mainly for homeownership and most at fairly high standards (63 m² to 75 m² finished units in multifamily buildings).

7. *By the mid-2000s, when a new Government housing program for the provision of 500,000 units was being planned (National Housing Program), the Ministry of Housing Utilities and Urban Development acknowledged that government funding, as well as, implementation capacity and systems were insufficient to address the housing shortages for the low and middle income market.* Approximately 75 percent of the population could not afford a house in the formal sector without government support. The level of subsidies required was extremely high (up to 75 percent of the unit cost), and the mechanisms for allocating the subsidies were flawed, excluding targeted low-income groups. Subsidized finance by government financial institutions became unsustainable.

Challenges

8. *More importantly, the fundamental distortions in the housing market had not been alleviated and new ones had been created by former programs.* These included a dysfunctional rental market, high vacancy rates, growing informal housing production, and an increasingly distorted growth pattern of urban areas:

- *A dysfunctional rental sector.* A large proportion of the housing stock in Greater Cairo was and still is frozen under the old rent control laws introduced in the 1940s and 1950s. In the last survey (2006), the proportion of units under rent control was estimated at 42 percent of the housing stock in Greater Cairo. Even though rent control was abolished when a new rental law was passed—Law 4 of 1996, as amended by Law 137 of 2006—the grandfathering conditions allowed for a long phasing out period and avoidance is common. While the number of units under rent control has decreased since 2006, it is still substantial and greatly constrains residential mobility, locks a large proportion of units out of the market, causes lack of stock maintenance, and distorts the overall housing market. Rent controlled units are, moreover, occupied disproportionately by upper-middle and higher income households. It is worth noting that the new rental laws of 1996 and 2006, improved the climate for rental investment considerably and works at all income levels. It facilitates eviction procedures without resorting to courts, and is overwhelmingly used for new rental contracts. Nevertheless, rental investment is hindered by unfavorable tax laws (treatment of

² There are some smaller housing supply entities within the Ministry- remnants from previous international development projects. Functions and programs are not necessarily coordinated.

rental income), limitations of rental contract conditions and cumbersome eviction procedures.

- ***An extremely high vacancy rate.*** According to the 2006 census 3.40 million units in urban areas were vacant. The long period of rent control created a tradition of keeping investment properties vacant. Many families buy houses for future use by their children (Greater Cairo Housing Survey 2006), but would not rent out the house for fear of not being able to access the house when they would need it; or would leave it unfinished. In addition, housing served as an inflation-proof savings and investment mechanism based on value appreciation without need of the rental yield. In the absence of penalties for keeping properties vacant,³ the proportion of vacant units continues to be high, even in areas with the highest housing needs and in the newly built government schemes (exacerbated by misallocation of subsidies and poor location in new towns).
- ***Rapid growth of informal housing production estimated at half of all housing production, sometimes more.*** CAPMAS (2013) estimates that 12–20 million people live in informal housing areas. Egypt requires approximately 300,000 new housing units per year to house newly formed households, plus an additional 254,000 to gradually deal with the backlog of housing over five years.⁴ New formal construction was only a fraction of that number in the past few decades, constraint as it was by high building and zoning standards, a bureaucratic and costly permitting process and uncompetitive building sector. The result was that a buoyant informal housing market on the fringes of existing urban areas began to cater to the needs of low- and middle-income households. These areas were unsuccessfully proscribed by the authorities and continue to grow at an alarming speed.
- ***Distorted urban areas--housing policies had a major negative impact on the growth of metropolitan areas specifically.*** First, the lack of market mobility due to decades of rent control led to stagnating neighborhoods that should have undergone change as part of urban and employment transformation (e.g., the downtown area of Cairo). Second, much new housing was located in new towns in desert areas far away from employment opportunities for middle- and low-income families, forcing a large proportion of the labor force to commute long distances to work. Moreover, the lack of investment in adequate road and transportation linkages between new residential areas and employment centers, created unbearable traffic congestion in most urban and metropolitan areas.⁵

Reform Agenda

9. ***In the mid 2000s the Government of Egypt began a serious effort to reform the housing sector, supported by donors and development partners, such as the World Bank, IFC and USAID.*** It initiated reforms of the land and property registration system, formulated an improved Real Estate Tax Law and a Unified Building Code, implemented amendments to the Rental Law, developed land contracts for private developers for the construction of low-income housing and expanded the variety of affordable housing typologies for the lowest income households offered under social housing programs (e.g. self-built schemes and subsidized rental housing). Jointly the USAID and the World Bank prepared in-depth policy notes on the housing sector that highlighted the distortions in the housing market and provided some initial recommendations for reforms in the following

³ Real Estate tax is now being gradually introduced and could contribute in addressing the high vacancy rates.

⁴ Ministry of Housing, Utilities and Urban Development, Database (2014).

⁵ Egypt Job Report, World Bank, (2012); Tohamy, S. Reshaping Economic Geography in Egypt, mimeo, (2011).

areas: (i) unlocking the vacant stock; (ii) developing a fluid rental market; (iii) expanding housing affordability through credit⁶ and improved subsidies for ownership and rental housing; and (iv) enhancing government's ability to facilitate the housing market and improve social housing policies and programs.

10. ***As a first step the government sought to increase private sector participation in formal housing production for the moderate income groups. This required an expansion of the mortgage market and the reform of financial subsidy systems from a non-transparent interest rate subsidy to upfront household subsidies acceptable to lenders.*** In 2001, the Real Estate Finance Law 148 of 2001 was passed, which established the legal and regulatory framework for the mortgage sector. The law allowed the formation of non-bank mortgage finance companies that have a greater interest in serving lower income households. A liquidity facility—the Egyptian Mortgage Refinance Company (EMRC) was established in 2006 with support from the World Bank Group to provide funding for the mortgage companies. The Real Estate Finance Law 148 of 2001 also stipulated the establishment of the Guarantee and Subsidy Fund (GSF) under the Ministry of Investment,⁷ with the dual function of delivering subsidies to low-income households to expand access to mortgage finance down-market and providing a guarantee to lenders to protect them against short-term inability to pay by borrowers.

11. By 2010, when a new mortgage-linked demand-side subsidy program, the Affordable Mortgage Finance Program was implemented by GSF, access by low-income households to formal home-ownership has greatly improved. Subsidy allocation systems that included background checks by both GSF and lenders, made it difficult to cheat. Participation by private developers had expanded and the direct role of the public sector in the construction of houses had decreased to 23 percent over the decade (Figure 1).⁸ Despite the challenging environment over the past three years, the program that started implementation in late 2010, has delivered 320,000 housing units as of July 2014.

12. ***The 2011 revolution limited the expansion of developer participation in the low-income housing program.*** The old land contracts were questioned after the revolution and undeveloped land allocated to private developers was retracted. This caused uncertainties and delays in the construction pipelines of private sector developers. At the same time, mortgage interest rates increased during the transition time, limiting mortgage lending and making it extremely difficult to build housing that is affordable for low-income households. Many developers moved to higher income segments using installment sale contracts (up to seven years).

Post-revolution Transition Period

13. ***Expanding housing options for the lowest income groups, particularly the impoverished youth, and improving their access to infrastructure and employment became key priorities for the***

⁶ The Egyptian Mortgage Refinance Company (EMRC) was established with the support of the World Bank—IBRD Loan in local currency through the Mortgage Finance Project, amounting to US\$ 37.1 million. In addition, IFC invested in EMRC, and sat on its Board to provide guidance and advisory services.

⁷ With the recently approved amendments to the Real Estate Finance Law 148 of 2001, GSF came under the Ministry of Housing, Utilities and Urban Development as of July 2014.

⁸ Under the National Housing Program (2005-2011) 320,000 units have been produced and 27,000 are still under construction; 150,000 by government entities, 70,000 by the private sector, and 100,000 self- construction parcels. In addition, government gives out approximately 70,000 to 80,000 parcels of 300 to 400 m² to individuals per year at varying costs, and about 1500 to 2000 acres of land for residential development to developers.

Government of Egypt post-revolution.⁹ As part of a broader economic stimulus program to generate employment and economic growth, President Adly Mansour, ratified the Social Housing Law 19 of 2014 on May 2, 2014, with the objective of providing a million homes for low-income households over a six year period, originally with a focus on rental and rent-to-own housing, but including the affordable mortgage program as well. The program received LE 10 billion in initial funds from the Government of the United Arab Emirates (UAE), sufficient to deliver and construct 50,000–60,000 units. The Social Housing Program is to be administered by the Ministry of Housing, Utilities and Urban Development. The NUCA and the Governorates do the initial implementation, based on local demand.

14. ***All Governorates have been asked to provide land for the Social Housing Program, and select the type of programs they require.*** Extensive consultations were initiated by the Minister of Housing, Utilities and Urban Development, with the participation of the local governorates and authorities, private sector developers and contractors, beneficiaries from different income brackets, Governors, banks, and mortgage companies. Consultations also took place in marginalized areas, including Upper Egypt to explain and discuss the Social Housing Program to ensure that lagging regions are included in the process. In addition, to ensure transparency, the Ministry established guidelines for the selection of land parcels and other conditions for SHP projects, which were ratified by the Cabinet in May 2014.

15. ***Successive Governments have tried to give shape to rental programs, both public and private, for the lowest income groups, and to find ways to deal with the vacant stock—two key challenges.*** The NUCA and the Ministry have developed several public rental options, however, the targeted low-income households showed little interest in a small pilot program (mostly because units of 42 m² were considered too small), causing units to remain vacant. Without a separate budget for operation and maintenance and other implementation support, neither NUCA nor the Governorates have been keen to subscribe to the rental programs. With the current low rent ceiling (LE 225 per month to make units affordable to households with incomes below LE 1,200) potential private rental investors have shown no interest. The Ministry is requesting urgent support from the World Bank to help develop improved social rental housing programs for low income groups, for public and private sector, *help develop systems for the management of social rental housing*, and programs/policies to incorporate the vacant stock into the housing market.

16. ***The 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 house construction for low- and middle-income groups.*** The low-income component of the stimulus (at seven percent interest rates) targets the same income level as the GSF's subsidies and is administered by GSF. *This stimulus will allow GSF to extend housing credit well into the low income segment or below the 20th percentile.* Funds are made available through banks and their affiliated mortgage companies and upfront subsidies for qualifying low-income households are provided through the GSF. The affordable housing program has been able to respond well to the growing demand (it received 155,000 applicants) and is limited mostly by the supply of new units.

⁹ In 2012 the Ministry of Housing, Utilities and Urban Development estimated that the housing backlog ranged from 0.9 to 3 million units, depending on how it is defined. The housing shortage was particularly acute for the 10 million impoverished youth (CAPMAS 2014 estimate).

17. *For the housing stimulus programs to deliver the desired outcomes in employment generation, economic growth and improved housing options for the bottom 20 percent in areas where housing is most needed, new rental and ownership programs have to be developed.*

Overview of the Urban Housing Market

18. *An overview of housing options in urban Egypt is provided in Table 1.* This includes: (i) formal home-ownership without subsidy is accessible for households with income >LE 2,500, i.e. only the top 25 percent of the household income distribution; (ii) subsidized formal ownership has increased over the last decades, but was in the past serving mostly upper-middle income households. The Affordable Mortgage Program has made this option available for households with monthly incomes between LE 2,500 and LE 1,500 (75th to <20th percentile of the income distribution, i.e. the middle and low income groups. The median income level of program beneficiaries was just above LE 1,500 at the 25th income percentile.¹⁰ The current program is still small relative to the demand (13,000 subsidies until June 2014), but the recent CBE stimulus package for the mortgage sector has increased interest by lenders and developers. Subsidized self-construction options exist for a small proportion of urban households, but have been discontinued for the low-income segment; (iii) private rental housing under new rental law is dominant for new formal rental units and utilized by all income groups. New law rental housing contracts are increasing relative to rent controlled units, but no recent figures for the size of private new law rental exist; (iv) rent-controlled units are serving middle and upper middle income groups disproportionately and are gradually decreasing in relative and absolute terms; and (v) informal rental and ownership housing provide the most important housing options (estimated at 50 percent of urban units) and utilized by very low to middle income households. Very low- and low-income urban households have few formal housing options. Public rental options are not yet included.

Table 1: Product Gaps in the Egyptian Housing Market

(January 2014)

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 (LE per month)*	1,100	1,700	2,100	2,700	4,100
Income Category	Very Low	Low	Middle	Upper Middle	Upper
(i) Market Ownership					
(ii) Subsidized Ownership (demand side since 2011)					
(iii) Rental Market (new rental law)					
(iv) Rent Control (decreasing)					
(v) Informal (rental and ownership)					



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

Summary of Recent Legal and Regulatory Reforms to Increase Housing Options for the Poor

19. *The Government of Egypt has recently showed its serious commitment to support the development of the housing sector and improve accessibility and affordability for low- and middle-income households, evident in undertaking key legal and regulatory reforms to advance*

¹⁰ GSF Database, (January 2014).

its social housing objectives. These include the following: (i) improvements in the property registration system by the New Urban Communities Authority (NUCA) and the beginning of an inclusive process to improve property registration broadly (July 2013); (ii) measures to increase private sector participation in housing production (August 2013); (iii) amendments to the Real Estate Finance Law 148 of 2001 that regulated the mortgage market (July 2014); (iv) the Social Housing Law (May 2014), and related requirements for access to services and infrastructure and location of low-income housing projects (July 2014); and (v) approval of the Regularization of Informal Areas Law by the Cabinet (July 2014).

20. ***Under the direction of the previous Deputy Prime Minister, an inclusive process was started in 2013 to improve real estate transaction and property registration systems.*** An inter-ministerial committee with participation from developers, lenders, EMRC and other industry groups prepared a Law on Real Estate Transactions registration in New Cities, which was passed by the Ministry of Justice. The new law allows: (i) NUCA authorities to issue a certificate for the property or the unit, which is financed via mortgage finance; (ii) the chairmen of the authority's administrative apparatuses to sign tripartite mortgage finance contracts to be ratified by the Minister of Investment; and (iii) part registration of large projects. These measures will make mortgage lending in NUCA territories possible and easier. The related Decree 10 of 2014 was issued by the Ministry on February 3, 2014. Continuing the legal and regulatory work on improving property registration is a high priority for the current Prime Minister as well.

21. ***The Ministry has negotiated new land contracts with the main residential developers*** and the industry shows renewed interest in the lower-income sector, particularly after the CBE announced the subsidy on mortgage credit focused on the lower-income sector. This had enhanced the private sector confidence in the sector and encouraged investments in the low- and middle-income housing.

22. ***The long-awaited recent amendments to the Real Estate Finance Law 148 of 2001 allow greater flexibility in setting limits to the proportion of income to be allocated to mortgage payments and in establishing qualifying income levels for mortgage-linked subsidies.*** The regulator, the Egyptian Financial Supervisory Authority (EFSA), immediately increased the maximum allowable payment-to-income ratio and, therefore, eligibility of lower-income households to access mortgage finance improved. With the recent amendments, the GSF became an independent entity under the Ministry of Housing, Utilities and Urban Development.

23. ***The GSF implements an improved demand-side mortgage subsidy program that started actual implementation in early 2011.*** By June 2014, 13,000 mortgage-linked subsidies had been disbursed of which 23 percent were allocated to female head households. Total funding will support at least 60,000 households. Beneficiaries' median income was LE 1,700 per month in June 2013 and LE 1,500 in January 2014 (the bottom 40 percent of the income distribution). Transparent and targeted subsidies reduce the down-payment requirement and/or the payment-to-income ratio. The subsidies increase with decreasing incomes and are linked to a maximum affordable mortgage loan by a financial institution of the beneficiary's choice. Incomes are verified not just by GSF but as part of the underwriting process of the financial institution and allocation to targeted households have greatly improved. Moreover, incentives for cheating on income are reduced. Declaring a lower income in order to obtain a higher subsidy will result in a lower affordable loan amount, which decreases the choice of houses available to the beneficiary.

24. ***During the political transition time, the overall economic uncertainty and increases in mortgage interest rates prevented the program from going to scale, however recent economic and political development has yielded some positive results.*** With the recent amendments to Real Estate Finance Law 148 and the stimulus package of the CBE, the program is growing rapidly and has received 155,000 applicants since the stimulus was announced, of which, it has already approved more than 50,000 applicants. It is able to reach households just below the 2nd decile of the urban income distribution or an income group as low as LE 1,200 per month.

25. ***A law on the regularization of informal areas was approved by the Cabinet in early July 2014 and is expected to be passed by the State Council.*** It allows residential buildings built on private land to be regularized upon payment of a penalty. This law will make it possible to extend services and infrastructure to informal areas, facilitates property registration and borrowing for improvements.

26. ***On May 2, 2014, the Cabinet of Ministers approved the new Social Housing Law 33 of 2014 which was ratified by a Presidential Decree and which formally instituted an initiative to build one million houses (commonly referred to as the Social Housing Program) under a broader economic stimulus program (with an initial allocation of LE 10 billion).*** Law 33 of 2014 established the Social Housing Fund under the Ministry of Housing, Utilities and Urban Development, an entity that will coordinate social housing policy as well as implement and develop a sustainable and comprehensive set of support programs for the poor. The new Social Housing Fund will be in charge and will host the different housing programs, and funds that have been operating in silos, to ensure synergies, and effective coordination. More important this would allow for the use of the national unifies database, using the national IDs to prevent any double subsidization, cheating, and fraud. Accordingly the different social housing programs within the Ministry will be integrated into the new entity, including the Affordable Mortgage Program, the improved rental subsidy programs, programs to provide credit for unfinished and vacant units, self-built housing program. A set of guidelines for their location relative to services, infrastructure and employment has been developed and approved by Cabinet. In addition, the Social Housing Law provided dedicated sources of funding for the Social Housing Fund to make it sustainable. In addition, a large-scale investment program in the housing sector has been agreed upon with the UAE, part of which may be implemented as part of the Social Housing Program

C. Relationship to CAS/CPS

27. The World Bank Group (WBG) has recently launched the public consultations which will help develop the Country Partnership Framework (CPF) for its partnership with the Arab Republic of Egypt during the period of 2015-2019. This is part of a larger exercise that includes a Systematic Country Diagnostic (SCD), which constitutes the analytical basis for the formulation of the CPF. The consultation process started with a kick-off event with the World Bank Group's Government counterparts on March 5, 2014. It was followed by a series of consultation meetings with different stakeholders in various governorates (Cairo, Alexandria, and Aswan) in June 2014.

28. ***The proposed operation is closely linked to the SCD, and the outcomes of the CPF consultations.*** The SCD assessed the potential role of the affordable housing sector in contributing to sustained economic growth, job creation, poverty alleviation, and shared prosperity. It has clearly indicated that 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, and improving the coordination of housing development with employment centers, is well aligned with pillars on inclusion that involves 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 Middle East and North Africa Regional Strategy.

D. Rationale for Bank Engagement and Choice of Financing Instrument

29. ***The rationale behind having a Bank operation is to provide financial and technical assistance to support the Government of Egypt to enable improved performance of the housing sector, especially increased access to affordable housing by low-income households.*** The WBG will bring its cross country experience and regional knowledge to the operation to assist the Government in: (i) designing and implementing social housing programs that are efficient, equitable and sustainable; (ii) maximize job creation and economic growth; and (iii) improve labor productivity by improving the link between housing and employment centers. Hence, this operation will help Egypt in achieving the WBG's twin goals of ending extreme poverty and boosting shared prosperity, especially since its focus is on underserved households.

30. ***The WBG has been supporting the development of the housing and financial sectors in Egypt over the last decade through a continuum of instruments, from analytical work¹¹, technical assistance, and lending from the International Bank for Reconstruction and Development (IBRD), to advisory services from the Consultative Group to Assist the Poor (CGAP), as well as International Finance Corporation (IFC) investments.*** The proposed operation is closely linked to the Mortgage Finance Project (US\$ 37.5 million) that was approved by the Board in 2006, which was complemented by IFC investments in the liquidity facility, EMRC. The operation also complement the Affordable Mortgage Finance Program Development Policy Loan (US\$ 300 million) that was approved in 2009, and the release of its 3rd tranche has been delayed because on the current macroeconomic framework. Together, these WBG activities have successfully established a mortgage market, setting the regulatory and institutional framework, and launched the mortgage-linked subsidy homeownership program for low-income households. Earlier technical assistance laid the foundation for reforms in the land allocation systems and the rental sector. Such mode of interventions and policy loans (that were legally binding) by the World Bank have ensured sustainability over the last years, and have proven success in terms of continuation and irreversibility of the reform agenda, even in most difficult and volatile periods of political unrest and economic uncertainty. With the numerous changes in regimes and cabinets, the Bank was able to maintain the policy dialogue, and proceed with right reforms required for developing the sector, and in reforming the housing subsidies and ensure that its transparent, efficient and well-targeted, as well as push legal and regulatory reforms that were critical for financial inclusion.

¹¹ Including: *Egypt Public Land Management Strategy* (2006); *Analysis of Housing Supply Mechanisms in Egypt* (2007); *A Framework for Housing Policy Reform in Egypt: Developing a Well-Functioning Housing System and Strengthening the National Housing Program* (2008); *Next Step Recommendations for Affordable Housing Policy and the National Housing Program: Mortgaged-Linked Subsidies and Housing Supply Considerations* (2008); *Egypt Urban Sector Update* (2008); *Reshaping Egypt's Economic Geography*: World Bank (2010); *Cairo Traffic Congestion Study Final Report*, World Bank (2010); *Egypt Job Report*, World Bank (2012).

31. *The different financing instruments to support the Social Housing Program were weighed, i.e., investment project financing, development policy loan, or Program for Results (PforR).* Since the operation will focus on enhancing the capacity of the Government of Egypt to consolidate existing housing entities and programs (under the umbrella of the Social Housing Fund) to achieve improved performance and efficiency, and design and implement new programs that will address gaps in the current menu of housing programs for low-income households, the PforR instrument was considered the most suitable option. The PforR financing instrument can disburse flexibly against program results, build the institutional capacity of the Ministry, support the design and consolidation of housing programs and improve 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.

II. Program Development Objective(s)

A. Program Development Objective(s)

32. The overall objective of the proposed operation (the "Program") is to increase access to new and existing housing for low-income households.

33. This would be achieved through: (i) developing a comprehensive menu of housing programs through the consolidation of existing programs and the design of new ones; (ii) improving the efficiency of existing housing entities and programs; (iii) strengthening the institutional framework and core analytical and technical systems of the Social Housing Fund to serve as the primary housing entity of the Government of Egypt; (iv) assisting in the designing and financing of demand-side social housing programs that will come under the umbrella of the Program; and (v) formulating a sound strategic approach to incorporate currently vacant and unfinished housing units into the housing market for the benefit of low-income households.

B. Key Program Results

34. It is anticipated that key program results will include:

35. **Results Area 1: Social Housing Fund Capacity.** Improved institutional capacity and efficiency through the consolidation of critical expertise, functions, entities, and programs related to low-income housing in one entity, ensuring effective coordination, and synergies. The Social Housing Fund will assemble core Ministry staff who are experts in the various areas related to the housing programs development and their funding to enhance the institutional capacity.

36. **Results Area 2: Effectiveness of Social Housing Programs.** Improved management of Social Rental Housing through capacity building for Governorates, including improved tenant selection methods, rent collection methods, tenant education and maintenance systems. Management systems are critical in the sustainability and effectiveness of social rental housing whether implemented through the public or the private sector. Second, enhanced policy design and decision-making through the establishment of a robust housing Monitoring and Evaluation (M&E) system as social housing finance programs need to be monitored regularly and adapted to changing social and economic environments, a sound M&E system is critical for their success.

37. **Results Area 3: Access to Homeownership and Rental Units.** Increased numbers of occupied social housing units. The Social Housing Fund focuses on developing housing for underserved households—youth, low-income, households in lagging regions, etc. and offering them a wider choice of tenure and house-types, such as rental options, employer provided housing, mortgageable ownership housing, self-constructed and progressively built housing with alternative credit options.

38. **Results Area 4: Reduced Geographical Mismatch.** Improved targeting and location of social housing units relative to employment opportunities and services. Current formal and affordable housing options for lower and lower-middle-income workers are often located far away from places of work, forcing employees to commute far distances, and making it difficult for firms to hire employees to industrial zones. This has a high cost to the economy and households and is known to hinder female workers to participate in the labor force. The Social Housing Fund will emphasize the development of housing in coordination with employers.

39. **Results Area 5: Absorption of Vacant and Unfinished Units.** In addition to creating new housing for low-income households, the Social Housing Fund will provide financial incentives to owners of vacant or unfinished units in both formal and informal neighborhoods to improve these units and bring them to market. It will work with the Ministry of Finance to develop tax penalties for keeping houses vacant, and help governorates to develop inventories of vacant units and enforce occupancy rules for publicly provided units.

III. Program Description

40. **The Ministry plans to address the housing sector challenges and rationalize the menu of housing programs available to low-income households through the new Social Housing Fund.** Improvements to the housing sector will require: (i) the consolidation and coordination of different housing entities within and outside the Ministry, including coordination with, or integration of the Affordable Mortgage Program; (ii) the introduction of new legal actions, regulations and procedures as well as unification of existing ones; and (iii) the development of new social housing programs for rental and ownership and improved management systems for these programs. In addition, it requires human resource capacity and funding to expand existing and new housing subsidy program for a fair distribution of benefits.

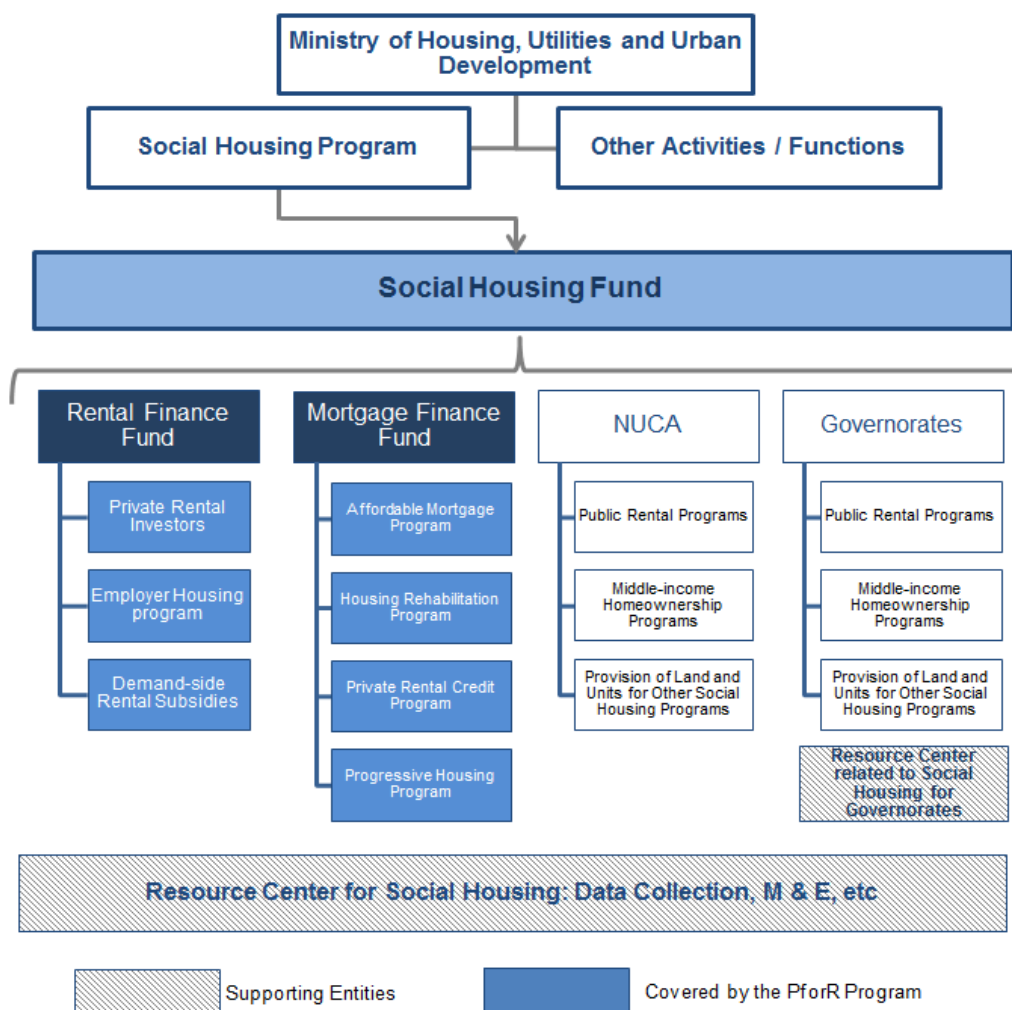
41. **The Government program.** The Social Housing Fund will include and develop a sustainable and comprehensive set of support programs for the low- and middle-income housing sector, both on the supply-side and the demand-side. It assigns to the Ministry of Housing, Utilities and Urban Development, the mandate to “propose, plan and tender social housing projects, and supervise their implementation to secure suitable residences for low-income groups and buildable land parcels for middle-income groups” in accordance with the Social Housing Program.

42. **The Social Housing Fund’s responsibilities include:** (i) preparing a national social housing policy, strategy and plan; (ii) addressing supply-side inefficiencies in the low- and middle-income housing and land sector; (iii) developing new social housing programs; and (iv) establishing comprehensive locational and targeting criteria and implementation guidelines for social housing programs. Its mandate will include the coordination of social housing initiatives by entities other than the Ministry, capacity building at the governorate level for social rental programs, the establishment of a M&E system, the maintenance of a complete social housing project and beneficiary data base, and the collection of land and social housing market data. It will be expected

to consolidate the social housing functions of several housing agencies, units and programs within the Ministry. The Social Housing Fund will also advise on the formulation of legislation and decrees, and decide upon the allocation of financial resources from the Fund to other entities tasked with social housing production.

43. A schematic overview of the institutions and elements of Social Housing Program (the Government program) is presented in Figure 1, with the portion included in the PforR Program highlighted in blue.

Figure 1 : Social Housing Program



44. The Social Housing Fund has an immediate mandate to support one million residential units for low- and middle-income households. Of the total, approximately 75 percent of the units are expected to be for ownership and 25 percent for social rental housing, to be decided by the implementing entities (Governorates or NUCA) based on household demand. It will incorporate

existing, well-functioning low-income housing programs, such as the Affordable Mortgage Program and develop new ones, particularly private and employer rental programs for low-income households, and credit programs for home-improvement for which the Ministry has urgently sought World Bank support. The Social Housing Fund received LE 10 billion in stimulus funds to launch the program. Approximately 83,000 units (including 50,000 units funded by the United Arab Emirates) have recently been delivered and another 94,000 are expected to be ready by the end of 2014. The majority of these units will initially be for home-ownership through GSF with its proven record of targeting the poor, at least until new rental subsidy programs will be developed.

45. ***The Social Housing Fund will work at a national scale through Governorates and NUCA that will decide on the mix of social housing programs they require based on local demand. Potential beneficiaries make the ultimate choice.***¹² The Social Housing Fund has asked Governorates and NUCA to provide appropriate sites for social housing, and has established initial criteria for site selection that include access to infrastructure and services. A campaign is underway to explain the program to local authorities. For its ownership programs, the Social Housing Fund works with banks and mortgage companies (both private and state-owned) that participate in the GSF or CBE program. The GSF administers the mortgage-linked upfront subsidies for beneficiaries in collaboration with banks. Eleven banks have signed up and training of the banks and their branch managers has started by the GSF director. The construction is done by private developers and NUCA. Similar arrangements will be developed for the planned self-built housing programs. The current rental program is implemented through the Governorates and NUCA as well, which are responsible for operation and maintenance. Uptake of public rental is expected to remain low, however, until an improved subsidy scheme is in place.

46. ***Key milestones*** related to the strengthening of the Program's institutional capacity are listed below. It is important to note that many of these milestones are currently in progress and will be completed while the proposed operation is under preparation. Moreover, while the Fund is new, the majority of the programs and entities that will fall under its oversight are not new.

- Developing the governance arrangements for the Fund, including: (i) its mission statement and executive by-laws; (ii) its organizational structure (decision making processes, human resource management, capacity building systems, financing model, fiduciary arrangements and operating systems); and (iii) its relationship to other housing and government entities.
- Strengthening the Fund's capacity to prepare social housing policies, including: (i) coordination of housing, infrastructure and employment policies; (ii) targeting and benchmarking tools; (iii) data collection systems; (iv) monitoring and evaluation systems; and (v) a unified social housing beneficiary database.
- Strengthening the Fund's capacity to prepare and implement reforms to improve the efficiency and equitability of the housing system in Egypt (i. e., supply-side constraints in the rental housing market, the mortgage market, and the land market) and to address the vacant and unfinished housing problem.
- Preparing a coherent and transparent housing support and subsidy system—funding mechanisms, efficient, equitable targeting and allocation systems, locational guidelines—to

¹² The Ministry and NUCA already abandoned one type of rental program for which demand was insufficient (small size of units; see para 15).

maximize the links between housing programs and social and economic poverty alleviation, and labor markets (increased housing mobility, improved location of social housing).

47. Establishing a management support system for social rental housing that includes capacity building for governorates, tenant selection methods and tenant education programs, rent collection/enforcement systems, maintenance issues.

48. Under the Program, the following package of new or recently established social housing programs is under consideration and development:

Low-income Ownership Programs

- ***Affordable Mortgage Program.*** The core home-ownership program is the Affordable Mortgage Program, which provides upfront demand-side subsidies to households with income between LE 2,500 and LE 1,500 (reaching below the 2nd decile). Qualifying households take out a maximum affordable mortgage loan with a participating lender and pay a minimum down-payment to acquire a new or existing house; according to their income level, they receive an upfront subsidy that can be used to lower the loan amount or the monthly payment. In the latter case, the subsidy amount is phased out over a 7 year period. The upfront subsidies are funded by the GSF with prior World Bank funding that will allow it to make at least 60,000 subsidies.

- ***Housing Rehabilitation Program.*** Credit schemes for the improvement and repair of existing and vacant units are under preparation or consideration. The vacancy program intends to incentivize owners to improve their units and get them ready for the rental or purchase market. The general home improvement credit program intends to use resident associations as intermediaries. Such scheme may be made accessible for regularized informal housing if a quality control system is developed.

- ***Progressive Housing Program.*** A self-built progressive housing and related credit program may be considered at a later date to cater to poor households who will not qualify for a mortgage loan and will require subsidies and alternative forms of credit (e.g., lines of construction credit, shorter term and successive loans). Experiences with such schemes in Egypt have not been positive in the past, mostly because of the way the programs were implemented; hence, new execution systems have to be developed.

Low-income Rental Housing Programs

- ***Demand-side Rental Subsidy Program.*** A demand-side social rental program is under preparation to urgently provide housing for households with incomes below LE1,500 (poverty group in SCD), . Rents are subsidized and systems are under consideration for external rent collection and maintenance. The Bank is providing technical assistance to develop an upfront rental subsidy that will complement the subsidized rents in a transparent way. Such upfront rental subsidies can later be adjusted for private sector rental investor schemes. The design of this program, including implementation guidelines, will be completed during the preparation of this proposed PforR operation.

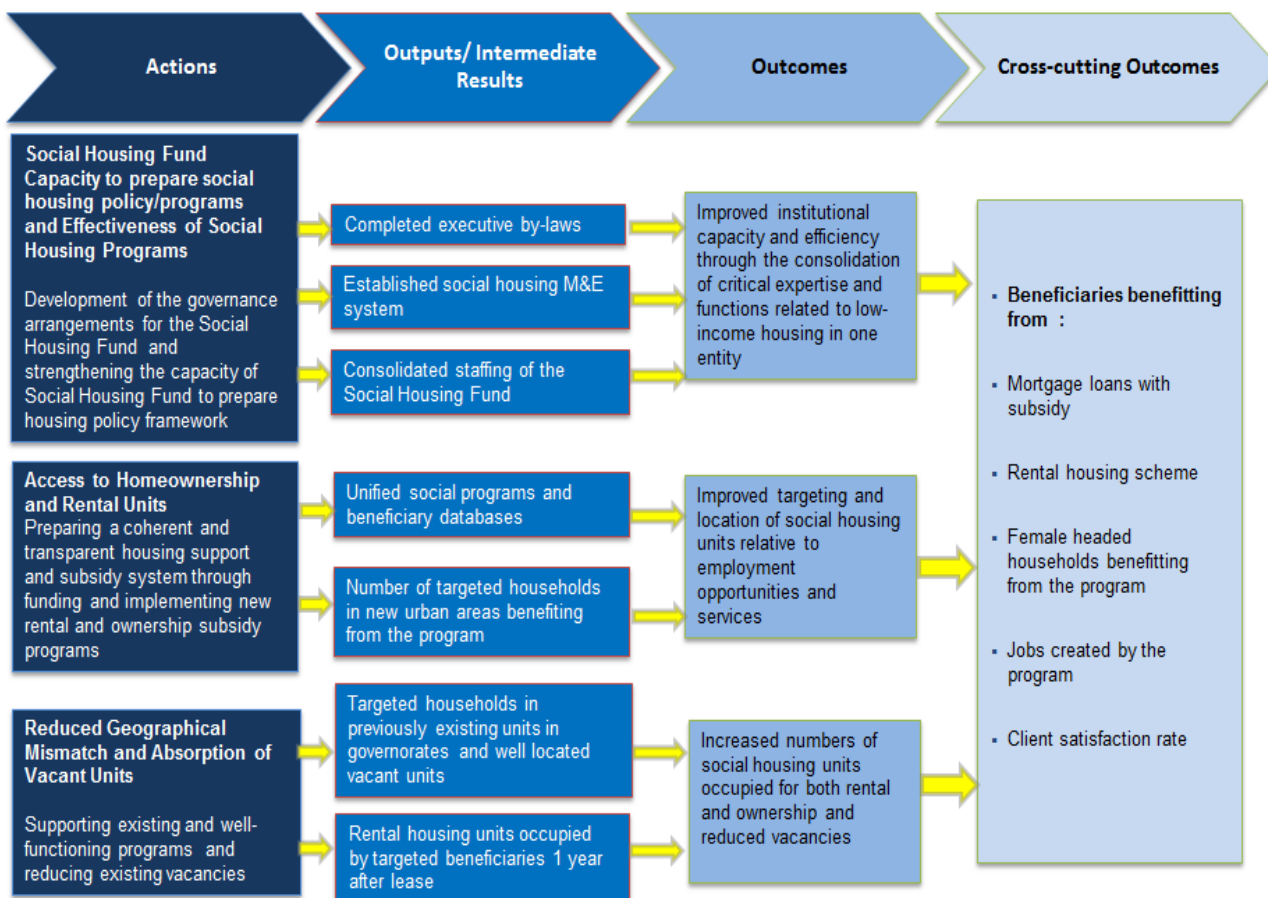
- ***Private Rental Credit Program.*** A rental investor credit program is being considered as one of the incentives for private landlords to participate in low-income rental housing.

- ***Private Rental Investors Program and Employer Housing Program.*** Employer-based and private sector rental programs will be prepared, starting with employers who are interested in constructing housing for their workers. The GSF can administer CBE loans to rental investors

(see above); details of the incentive scheme to employer-based and private rental investors are being developed.

49. *The Results Chain for the Program* is provided in Figure 2.

Figure 2: Results Chain of the Low-Income Housing Finance Program



50. *The PforR Program will contain Disbursement-Linked Indicators (DLIs) reflecting a combination of actions, outputs, and outcomes driven by the intended Key Results.* Table 2 provides an indication of the types and topics of the DLIs under consideration at the Concept Note stage. The overall approach would be to identify 2-3 DLIs for each Results Area that would provide the incentives necessary to improve the housing sector, but that would also be easily measurable.

Table 2: Preliminary Disbursement-Linked Indicators

Results Area	Preliminary DLIs
<i>Social Housing Fund Capacity</i>	<ul style="list-style-type: none"> Completed consolidation of relevant housing sector staff under the Social Housing Fund Completed guidelines and implementation plans for new social housing programs

<i>Effectiveness of Social Housing Programs</i>	<ul style="list-style-type: none"> ▪ Functioning social rental management system at local level ▪ Functioning social housing M&E system ▪ Functioning unified social programs and beneficiary database ▪ Functioning beneficiary satisfaction and grievance mechanism
<i>Access to Homeownership and Rental Units</i>	<ul style="list-style-type: none"> ▪ Number of households receiving mortgage loans with subsidy meeting the target criteria ▪ Number of homeownership units occupied by targeted beneficiaries 1 year after purchase ▪ Number of households receiving loans for progressive low-income housing construction ▪ Number of households receiving home-improvement loans for formal and informal low-income units ▪ Number of households receiving rental demand subsidies meeting the target criteria ▪ Number of rental housing units occupied by targeted beneficiaries 1 year after lease ▪ Number of private rental investors/employers participating in Social Housing Program/Public-Private Partnership arrangement ▪ Percentage of Program beneficiaries who are female-headed households ▪ Percentage of Program beneficiaries who are from minority or other vulnerable groups
<i>Reduced Geographical Mismatch</i>	<ul style="list-style-type: none"> ▪ Number of Program beneficiaries living within a X kilometer radius from an employment center
<i>Absorption of Vacant Units</i>	<ul style="list-style-type: none"> ▪ Number of previously vacant units occupied 1 year after inclusion into the Program

IV. Initial Environmental and Social Screening

51. ***The environmental and social risks and negative impacts of the Program are expected to be limited because the PforR operation will not be supporting the supply-side activities of the Government program.*** The demand side of the social housing program will only provide financing support or subsidies to low-income households and will not support any civil works which involve land acquisition. The beneficiaries have the power of choice regarding the selection of any houses or apartments on the open housing market to rent or buy using the subsidies received. Therefore, an Environmental and Social System Assessment (ESSA) will be prepared focusing mainly on the demand side.¹³ The content of the ESSA will include but is not limited to the following: (i) brief description of the program, including the objectives, relationships between government’s social housing program and the PforR, as well as the supply side and the demand side; (ii) potential environmental and social risks, impacts and benefits, including any potential issues related to induced development or environmental impact due to the scale of some of the housing developments that are indirectly stimulated by the introduction and augmentation of demand side subsidy program; (iii) the environmental screening process that is done by banks as part of their due diligence for providing mortgages, as this is considered a mitigation mechanism for environmental

¹³ The team has formally consulted this with the Regional Safeguards Advisor and informally consulted with staff, who have previous extensive experience in preparation of the ESSA of other PforR programs and its policies. It was advised that ESSA can focus on the demand side and be very simple if the program can be clearly defined without linking to any activities financed by the supply side.

risk under the program; and (iv) institutional arrangements and mechanisms to ensure local income households, particularly women-headed households and vulnerable groups, have equal access to the financing support and subsidies provided by the program. Consultations will be carried out with various stakeholders during preparation of the ESSA. The draft ESSA will be disclosed in compliance with OP/BP 9.0.

V. Tentative financing

Financing Source	Amount
BORROWER/RECIPIENT	100,000,000
IBRD	500,000,000
IDA: New	
Others :	
Total	600,000,000

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