

THE ARAB REPUBLIC OF EGYPT
INCLUSIVE HOUSING FINANCE PROGRAM

TECHNICAL ASSESSMENT

APRIL 9, 2015



THE ARAB REPUBLIC OF EGYPT

Currency Equivalents

Unit of Currency = Egyptian Pound (LE)

US\$ 1 = LE 7.63 (as of March 31, 2015)

Fiscal Year

July 1–June 30

ABBREVIATIONS AND ACRONYMS

AHS	American Housing Survey	LSDF	Local Service and Development Fund
ALMO	Arm's Length Management Organization	M&E	Monitoring and Evaluation
AMP	Affordable Mortgage Program	MBA	Mortgage Bankers Association
CAPMAS	Central Agency for Public Mobilization and Statistics	MFA	Mortgage Finance Authority
CBE	Central Bank of Egypt	MFC	Mortgage Finance Company
CIDA	The Canadian International Development Agency	NA	Not Applicable
CONAVI	La Comisión Nacional de Vivienda	NAHB	National Association of Home Builders
DLI	Disbursement-Linked Indicators	NAR	National Association of Realtors
DPL	Development Policy Loan	NHP	National Housing Program
EFSA	Egyptian Financial Supervisory Authority	NPV	Net Present Value
FHFB	Federal Housing Finance Board	NUCA	New Urban Communities Authority
ELMPS	Egypt Labor Market Panel Survey	NUO	National Urban Observatory
EMRC	Egyptian Mortgage Refinance Company	PD&R	Policy Development and Research
ESA	Egyptian Survey Authority	PforR	Program-for-Results Financing
FONHAPO	Fondo Nacional de Habitaciones Populares	PPP	Public Private Partnership
FY	Fiscal Year	REIT	Real Estate Investment Trusts
GACH	General Authority for Cooperative Housing	REPD	Real Estate Publicity Department
GDP	Growth Domestic Product	SEDESOL	Secretaría de Desarrollo Social
GOPP	The General Organization for Physical Planning	SHF	Social Housing Fund
GSF	Guarantee and Subsidy Fund	SOMA	Survey of Market Absorption
HBRC	Housing and Building Research Center	TA	Technical Assistance
HDB	Housing and Development Bank	UAE	United Arab Emirates
HPI	House Price Index	UK	United Kingdom
HUD	Housing and Urban Development	USA	United States of America
LE	Egyptian Pound	USAID	United States Agency for International Development
LIHTC	The Low Income Housing Tax Credit	US\$	United States Dollar

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I. PROGRAM DESCRIPTION

1. The proposed Inclusive Housing Finance Program (the “Program”) will assist the Government of Egypt to improve the performance of the housing sector, especially increasing access to affordable housing to low-income households. It will do this by strategically consolidating housing entities and programs under the umbrella of the newly established Social Housing Fund (SHF). This will be done in order to achieve improved performance and efficiency, as designing and implementing new programs will address gaps in the current menu of housing programs for low-income households.

A. Government Program

2. In the wake of the January 25th Revolution, a Cabinet decree established the Social Housing Program with a goal of providing one million homes for low-income households. Commitment to the one million homes goal has persisted through multiple transitions in national and ministerial leadership. To implement the Social Housing Program, Social Housing Law 33 of 2014 was ratified by a Presidential Decree in May 2014. It assigns to the Ministry of Housing, Utilities and Urban Development¹ the mandate to “propose, plan and release social housing projects, and supervise their implementation, to secure suitable residence for low income citizens and land lots for medium income citizens”. The Law also provides for the establishment of the SHF a legal entity whose Executive Director is nominated by the Minister of Housing, Utilities and Urban Development.

3. 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 oversee a sustainable and comprehensive set of support programs for the poor. Accordingly, the 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).² 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, which will be done primarily through building the institutional capacity at the SHF; the establishment of research capabilities and Monitoring and Evaluation (M&E) systems; the maintenance of a complete social housing project and beneficiary data base; establishment of a transparency and accountability mechanism for the social housing sector; and the collection of land and social housing market data.

B. Inclusive Housing Finance Program (the “Program”)

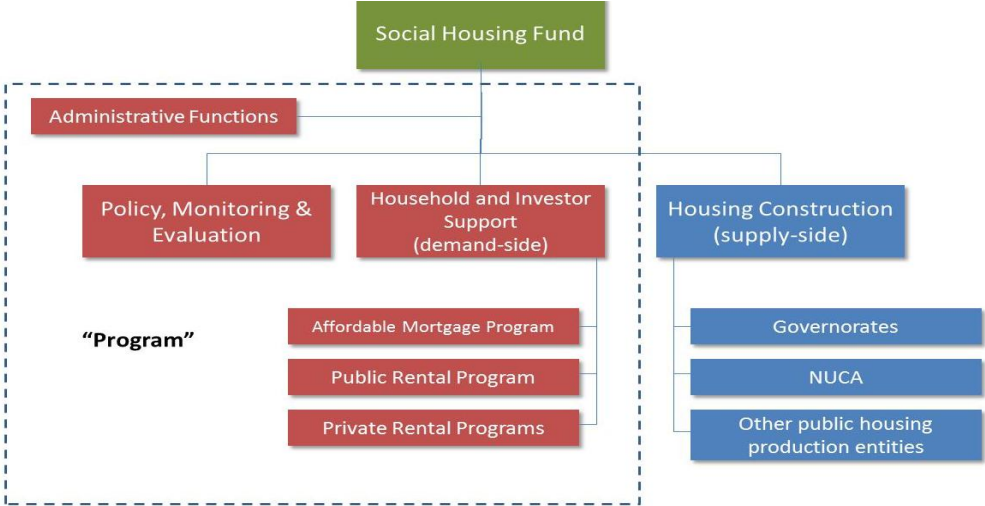
4. The Program will support the following aspects of the Government’s Social Housing Program: (i) institutional consolidation and capacity building; (ii) development of housing policy, and the design of regulations and program guidelines; (iii) measures to improve the effectiveness,

¹ Thereafter referred to as the Ministry, unless otherwise specified.

² The program boundaries supported by the World Bank are limited to the demand-side. This is explained later in the Project Appraisal Document (PAD).

transparency, and accountability of housing programs; 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

Figure 1: Scope of the Inclusive Housing Finance Program



Source: World Bank (2014).

Program. A schematic overview of the Program is presented in Figure 1.

5. The program will support the SHF in expanding its social housing programs (in size and geographic reach), and strengthen its existing demand-side ownership program through the development of financial products that will promote homeownership for those currently excluded from attaining formal homeownership, and in particular the poor and the informally employed. It will help create a new demand-side subsidy program for public rental housing, and provide an incentive package for investors in private or employer rental housing, in addition to the complementary demand-side subsidies for tenants.

6. The purpose of the subsidy programs is the improvement of housing consumption by underserved households and increasing the supply of affordable housing. In countries with inefficient housing markets, the most efficient and effective type of subsidy mechanism to reach these goals has proven to be demand-side subsidies (vouchers) to households linked to well-defined housing programs—both rental and ownership. These types of subsidies can be designed to be progressive with income and can be applied to ownership and rental housing. For ownership programs, demand-side subsidies can be linked to a maximum affordable loan, this will therefore, reduce the required subsidy amount relative to subsidizing the overall cost of housing, and provide the beneficiaries with a choice of housing options.

7. Designing the optimal package of housing subsidies is critically important. In the past, most governments supported the housing sector through direct supply-side subsidies—Egypt was no exception. However, international experience demonstrates that supply side subsidies do not work well for the housing sector; as they do not allow proper targeting of beneficiaries, are not portable and are prone to misallocation by developers. Moreover, they are often off-budget and lack transparency, and therefore allow for inefficiencies in the management of public investments

and resources. The most complete comparative housing subsidy analysis was conducted in the US in the 1970s, the Experimental Housing Allowance Program, where housing vouchers/demand side subsidies were proven to be most efficient and least distortive. Another option would be to provide households with unconditional cash-transfers, and leave the choice to households to find better housing. Studies have shown that cash transfers will not necessarily be used for the improvement of housing, nor will they translate into increased supply of affordable housing because of market inefficiencies and market incompleteness.³

8. The other important observation is that one type of housing subsidy cannot serve all underserved households. Segmentation of underserved households according to housing requirements, income and employment are the first steps in the design of a comprehensive subsidy package. Households that could, with some assistance, access credit for housing should leverage their capacity to borrow and therefore reduce the need for subsidy. Households that will not be able to acquire a mortgage need rental solutions or may be assisted to manage the construction of their own house, with the use of short-term lines of credit. These studies and observations have guided the choice of demand-side subsidies.

9. Chile was one of the first emerging market countries to use demand-side subsidies in the form of vouchers to be disbursed towards the down-payment to increase access to formal housing for middle and lower middle-income groups and stimulate the supply of affordable housing (initiated in 1978). Many countries in Latin America, including Mexico, Brazil, Colombia, Peru, and Costa Rica, have since introduced demand-side voucher subsidies linked to finance. The US and many European countries have introduced demand-side subsidies for rental housing.⁴ The program supports only demand-side subsidies for both ownership and rental housing.

10. The total number of Program beneficiaries is expected to reach more than 3.6 million individuals or 827,400 households with an average household size of 4.3 individuals (Table 10). 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, which represents 37 percent of total Program beneficiaries, and around seven percent of the total poor in Egypt (22 million individuals based on poverty rate of 26.3 percent in year 2012/13).

II. PROGRAM STRATEGIC RELEVANCE

A. National Context

11. Egypt's economic recovery is proceeding—economic activity grew by 6.8 percent in the first quarter of Fiscal Year (FY) 2015, the highest rate since the financial crisis, on the backdrop of improved sentiment, rebound in tourism, and base effect. This followed better economic activity in the third and fourth quarter of FY14. However, growth for the whole fiscal year remained subdued at 2.2 percent. Net exports continued to limit growth, while investments started to contribute positively to growth alongside accelerated disbursement of stimulus spending.

³ See also Olsen, Edgar O. "Getting More from Low-Income Housing Assistance." Washington, DC: Brookings Institution, The Hamilton Project, (2008). Ibid "Housing Programs for Low-Income Households." In Means-Tested Transfer Programs in the USA, edited by Robert A. Moffitt. 365–441, National Bureau of Economic Research, (2003).

⁴ Hoek-Smit, Marja C and Douglas Diamond, (2003) "Subsidizing Housing Finance", *Housing Finance International*, June 2003, London, UK. Hoek-Smit, Marja, Subsidizing Housing Finance, in Loic Chiquier and M. Lea, *Housing Finance in Emerging Markets*, World Bank, (2009); Susin, Scott. "Rent Vouchers and the Price of Low-Income Housing." *Journal of Public Economics* 83, No. 1, (2002): pages. 109-52; Peppercorn, Ira Gary, and Claude Taffin. *Rental Housing: Lessons from International Experience and Policies for Emerging Markets*. World Bank Publications, (2013).

Economic recovery is important to establish stability ahead of the Parliamentary elections (a major milestone in Egypt's political roadmap), which were expected to be held by March 2015, but were postponed due to a supreme court verdict that deemed some articles of the electoral law unconstitutional. However, the President requested that these amendments take place in a month, to allow the elections to be carried out at the soonest.

12. Fiscal consolidation measures are finally being adopted, yet sustaining reform momentum, as well as additional efforts are needed over the medium-term to put public finance in order. The budget deficit is expected to decline to 11-11.5 percent of Gross Domestic Product (GDP) in FY15, compared to a preliminary figure of 12.8 percent in FY14, and 13.7 percent of GDP in FY13. The projected decline in deficit is notable given that FY15 includes 0.4 percent of exceptional receipts compared to more than three percent of GDP in FY14. Yet more efforts are needed to bring the fiscal and debt paths back on a sustainable track, address growing gross financing needs, and meet the Government's medium-term debt target of 80-85 percent of GDP.

13. Egypt's economy continues to be negatively affected by the prolonged political tensions since 2011. The official unemployment rate reached 13.1 percent as of end of 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 latest poverty data indicate that 26.3 percent of the population was living below the national poverty line in FY13. 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, with around 2.8 million employees.

B. Government Commitment to Social Housing

14. The Government has a long-established commitment to social housing. The first project to address the needs of the poor and working classes was the Workers City, which began in 1952 in a suburb of Cairo. From that time until 2005, it is estimated that government entities delivered about 2.4 million public housing units. As a point of comparison, the United States of America (USA) has only 1.2 million public housing units; over 5 million council housing units were built in the United Kingdom (UK) between 1945 and 1980.

15. 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. On the housing demand-side the Government adopted a stimulus program in 2014, with the housing sector being a priority. 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 houses for low- and middle-income groups. The low-income component of the stimulus provides mortgage loans at seven percent interest rates with a 20 year term. This stimulus will allow for the provision of mortgage-linked subsidies to creditworthy households with incomes just below the 20th percentile of the income distribution. Funds are made available through banks and their affiliated mortgage companies. The economic rationale for investing public funds in the housing sector is a proven stimulus to domestic job creation and economic growth.

16. The Social Housing Program was launched in the wake of the Egyptian revolution with the goal of providing one million houses. The Social Housing Law 33 of 2014 was ratified on

May 2, 2014, establishing the SHF with the objective of providing houses for low-income households. The SHF was mandated to “propose, plan and release social housing projects, and supervise their implementation, to secure suitable residences for low-income citizens, and land management for low and middle-income citizens.” The SHF is the implementing entity of the Social Housing Program within the Ministry 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. The entire housing stimulus programs of the SHF will positively contribute to generating job opportunities for skilled and unskilled labor. Based on an elasticity of employment in the construction sector of 1.5, it is estimated that the total number of jobs generated through the SHF over a six year period is 1.5 million job-years. Another critical economic rationale to assist the housing sector that is closely linked to the strategic goals of poverty reduction and shared prosperity is improving the link between housing and labor market.

17. The CBE stimulus is part of a larger economic stimulus package provided by the Gulf States. 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)⁵ has signed an agreement for a LE 6.5 billion contribution for low-income housing construction through the SHF—50,000 units have recently been completed. Funds are offered to the banks at 3.5 percent and 4.5 percent for on-lending to low-income households at seven percent and middle-income households at eight percent respectively. Current market rates are in the order of 15 percent to 16 percent.

C. Snapshot of the Housing Sector in Egypt

18. Access to affordable housing in Egypt remains a major challenge for low- and middle-income households. The housing backlog, as estimated by the Ministry, 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 to gradually deal with the backlog of housing over five the past years.⁶

19. Homeownership is dominated by the highest income quintile especially in urban areas, where 52 percent of owned houses belong to the 5th quintile (the highest income segment). The poorest quintile has a very low share in homeownership. Indeed, the Egyptian housing market suffers from major gaps, especially for the lower income segments of society (Table 1):

- *Formal homeownership 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

⁵ In terms of UAE support to the housing sector in Egypt, there are two distinct programs: (i) UAE Government support to Egypt, amounting to LE 6.5 billion (equivalent to US\$ 900 million), targeted to low-income households. This program comprises 50,000 units, with LE 135,000 unit cost, which were allocated in-kind to the Ministry. The proceeds from the sale of units will be utilized to capitalize SHF; and (ii) UAE private sector investments through Arabtec Company, targeted to provide housing units to middle and high-income households, over a five-year period (2015-2020). The unit price starts from LE 400,000, thus not targeting social housing and not at all part of the SHF. This project has been approved by the Government of Egypt in April 2015.

⁶ Ministry of Housing, Utilities and Urban Development, Database (2014).

verify beneficiary incomes and eligibility. A new, more efficient subsidy program linked to mortgage was launched in 2010, which serves households with income as low as LE 1,000 (below the 2nd decile of the income distribution).

- *Subsidized self-construction* options existed in the past, but were poorly managed and have been discontinued.

- *New formal rental market serves mainly middle and higher 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.

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 the Central Agency for Public Mobilization and Statistics (CAPMAS) Income and Expenditure and Consumption Survey (2012/2013).

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

20. The provision of low and middle income housing over the past decades was dominated by public entities through planning, land policies, direct construction, and finance. The Ministry is the central policy making and project funding institution, implementing its programs through local governments or its own affiliated housing entities. Briefly, the primary entities involved in the social housing sector include:

- **Governorates.** The 27 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;

- **New Urban Communities Authority (NUCA).** NUCA, established in 1979 as an affiliated entity under the Ministry to develop new towns on desert land, is the second largest producer of publicly built housing;

- **Housing Cooperatives.** The housing cooperatives, operating under an umbrella organization within the Ministry, provided considerable numbers of public housing units in the past, but have since dwindled⁷; and

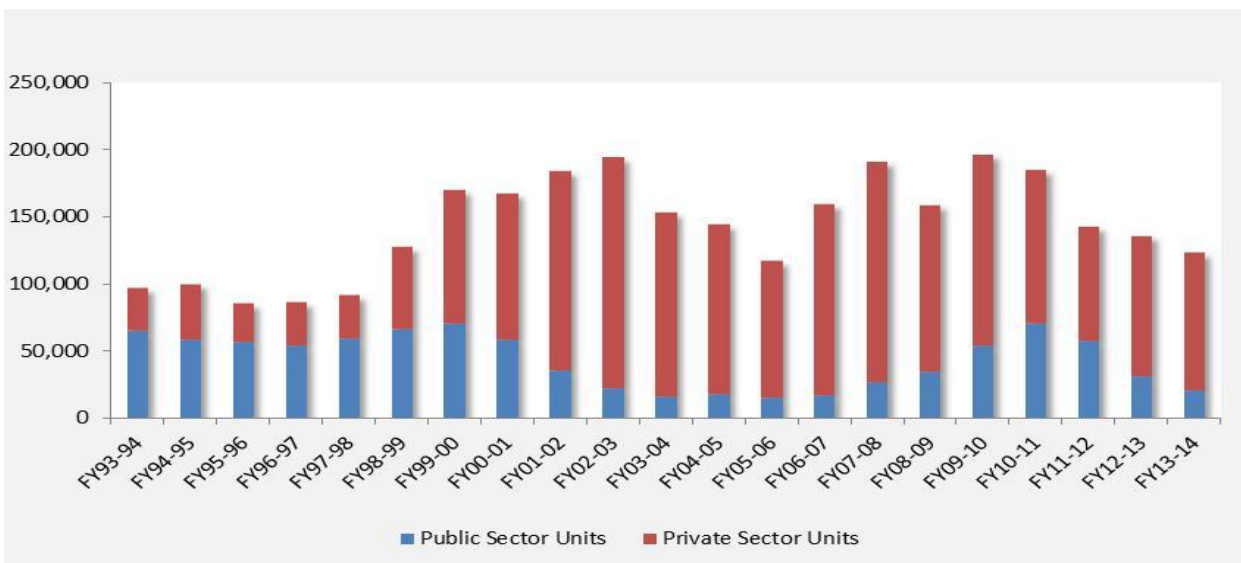
- **Housing and Development Bank (HDB).** The HDB was established in 1979 as an affiliated entity under the Ministry to provide the long-term financing for publicly-built houses in

⁷ There are some smaller housing supply entities within the Ministry—remnants from previous international development projects. Functions and programs are not necessarily coordinated.

the form of soft loans.

21. 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, accounting for 36 percent of all formal housing units built during this period in urban areas—mainly for homeownership, and mostly at fairly high standards (63 m² to 75 m² finished units in multifamily buildings). However, with the exception of an increase in public construction between 2010 and 2012, the participation by private developers expanded and the direct role of the public sector in the construction of houses decreased to 22 percent over the last decade (Figure 2).⁸ Aware of the lack of sufficient funding and capacity, the Government has been keen on increasing private sector participation in formal housing production for the moderate income groups.

Figure 2: Formal Housing Units Built by the Public and Private Sector in Egypt



Source: Ministry of Housing, Utilities and Urban Development (2014).

22. Over the past decades there have been multiple attempts to reform the housing sector. Measures undertaken included streamlining the land and property registration system, formulating an improved Real Estate Tax Law and a Unified Building Code, developing land contracts for private developers for the construction of low-income housing, and expanding 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). In addition, in order to develop a mortgage market, in early 2001, the Real Estate Finance Law 148 of 2001 was passed, establishing the legal and regulatory framework, and allowing the formation of non-bank Mortgage Finance Companies (MFCs) that would have a greater interest in serving lower income households. A liquidity facility—the Egyptian Mortgage Refinance Company (EMRC) was also established in June 2006 to provide long term funding for primary mortgage institutions. The Guarantee and Subsidy Fund (GSF) was also established⁹ with the dual function of delivering

⁸ Under the NHP (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 1,500 to 2,000 acres of land for residential development to developers.

⁹ With the amendments of the Real Estate Finance Law 148 of 2001 in July 2014, the GSF has now moved from under the Ministry of Investment to come under the Ministry of Housing, Utilities and Urban Development.

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 the borrowers.

23. 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 (NHP)(2005-2011), which aimed to deliver 500,000 housing solutions over six years, 22 percent of the completed units were built by private developers who assumed all risk for the development and sale of affordable units, while government entities only produced less than 50 percent of completed units.¹⁰

24. However, despite these reforms, the existing systems and programs have been insufficient to address the housing shortages for the low- and middle-income market, and most importantly they have not been well coordinated and have lacked a coherent vision. In response to these challenges, the Government has recently undertaken substantial policy reforms, to further strengthen the legal, regulatory and institutional framework in the housing sector.

D. Distortions in the Housing Market Impacting Affordability

25. The Egyptian housing market suffers from some fundamental inefficiencies related to poor policies—a dysfunctional rental market, high vacancy rates, growing informal housing production, and an increasingly distorted growth pattern in urban areas.

26. **Rental Sector.** With regards to the 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. The proportion of units under rent control was estimated at 27 percent of the housing stock in Greater Cairo in 2006.¹¹ 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, limitations of rental contract conditions and cumbersome eviction procedures.

27. **Vacancy.** An extremely high vacancy rate is one of the main characteristics of the housing market in Egypt. Around 3.4 million units in the urban areas were vacant in 2006¹², and the trend to leave units vacant does not appear to have abated. The long period of rent control created a tradition of keeping investment properties vacant. Many families buy houses for future use by their children, but will 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 has served as an inflation-proof savings and investment mechanism based on value appreciation without need of the rental

¹⁰ Under the NHP (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.

¹¹ United States Agency for International Development (USAID) Demand Study (2008).

¹² Based on the 2006 Census.

yield. In the absence of penalties for keeping properties vacant,¹³ 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).

28. Previous 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. NUCA has 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. Minimum unit size for public rental units has been increased to 55m². 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 little interest.

29. ***Informal Housing.*** At the same time, there has been a rapid growth of informal housing production estimated at half of all housing production, sometimes more. It is estimated that 12–20 million people live in informal housing areas.¹⁴ New formal construction was only a fraction of that number in the past few decades, constrained by high building and zoning standards, a bureaucratic and costly permit 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.

30. ***Geographical Mismatch between Housing, Jobs, and Services.*** Another challenge is that housing policies have had a significant and negative impact on the growth of metropolitan areas. 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). In addition, most of the 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.

31. All social housing in Egypt has been and continues to be located exclusively on State land, which means in most cases on desert land far from existing urban networks. Social housing estates located in the new towns (and also in some newer governorate projects) are almost all in remote areas that require journeys of many kilometers to reach centers of employment, major commerce, and services. Moreover, most social housing estates are in remote locations within the new towns, all of which are developed on vast land parcels at very low densities. This location problem creates fundamental difficulties for Egypt's social housing efforts to meet its goals; for newer social housing projects the search for large tracts of empty State land has become more and more difficult and involves seeking land further afield.

32. The costs of poor location are several. First, living in remote housing estates, especially in new towns, imposes a significant transport cost on inhabitants. In addition, moving around within a new town is inconvenient and expensive, and in government housing estates local shopping is

¹³ The Real Estate Tax has been introduced in August 2014, including for vacant units, meaning that there would be real expense for property owners choosing to keep their units unoccupied. This expense, together with incentive packages (see paras 72-86 below) may convince owners of vacant units to rent their units out.

¹⁴CAPMAS (2013).

poor and goods are considered expensive. Most households in social housing rely on public minibus transport; in urban Egypt less than 15 percent of households have access to a private vehicle. Secondly, the targeted beneficiaries of social housing programs are struggling to make ends meet on very limited incomes. A lower level government employee or worker in a factory cannot live on this salary alone, and it is common for such wage earners to also have a second casual job or a small business. The main source of such secondary income is the informal economy that thrives in dense urban areas. As many studies have shown, casual and informal economic activities rely heavily on personal contacts and geographically-specific markets. For someone living in a new town or isolated governorate housing estate, accessing the informal economy will require such a high daily transport bill that may nullify the income gained.

33. **Targeting.** A major concern has been that housing subsidies are not reaching the targeted income groups and lack transparency. Previous programs have been plagued by widespread cheating on income questionnaires, and a point system developed to improve allocation to the most deserving households (low-income, families with children and those living in the poorest living conditions) was not enforceable because of lack of sound data. Many units have ended up in the hands of higher income households and the connected, leaving low-income households with no housing and many of these units vacant. Double subsidization is a problem because there is no unified data base. Privileged families have had access to several housing subsidies under different program, while others have no access at all. An attempt to improve allocation by providing the subsidies to developers failed as well, and most developers simply increased their profits rather than lower the price of the house, as there was no monitoring system. The Affordable Mortgage Program (AMP) was designed to address that problem by tying the subsidy to a maximum affordable mortgage loan and on a scale that increases the subsidy for lower income households. Both the GSF and the lender have to verify the income. Cheating on income would qualify the borrower for a lower mortgage loan amount and, therefore, for a smaller unit.¹⁵

34. **Housing Finance.** The mortgage finance market has confronted major constraints. Despite the issuance of the law, the creation of the EMRC and the GSF, the mortgage-to-GDP ratio accounts for less than 0.5 percent of GDP, lagging behind many neighboring economies. This is mainly due to the relatively small proportion of existing units with property registration, not well tested foreclosure procedures; and inadequate long-term financing.¹⁶ Also, the population is not familiar with the mortgage product and the payments-to-income ratio stipulated in the Real Estate Finance Law (now amended) made it hard for low for low-income households to qualify for a mortgage loan.

35. **Revolution.** Access to affordable housing for the low- and middle-income households became more challenging during the transition period post revolution. The turbulent political and economic environment during the period of transition, limited the expansion of developer participation in the low-income housing program. The numerous changes in regime, Cabinets and Ministers led to major uncertainty in the sector. 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

¹⁵The initial phase of the million houses program, which does not yet involve private developers, but rather private contractors building houses under government contract, has one standard house-type for ownership, eliminating the advantage of offering multiple types and sizes of units for different income groups according to affordability.

¹⁶The vast majority of newly built properties in Egypt are purchased either for cash or pursuant to an installment loan system provided by the real estate developer.

making it extremely difficult to build housing that is affordable for low-income households. Many developers have moved to higher income segments using installment sale contracts (up to seven years).

E. Recent Housing Reforms

36. In response, after the June 2013 Revolution, the Government put the expansion of housing options for the lowest income groups high on its list of priority reform, along with improving their access to infrastructure and employment as part of advancing the social housing objectives. The Government's commitment to improve accessibility and affordability for low- and middle-income households is evident in the undertaking of key legal and regulatory reforms aiming at increasing housing options for the poor, most notably improving building codes; introducing regularization of informal areas; initiating reform of subsidies; improving real estate transaction and property registration systems; promoting private sector participation; enhancing inclusion and facilitating access to mortgage loans; and streamlining foreclosure procedures. These reforms were complemented by the strengthening of the institutional framework for social housing through the adoption of the law establishing the SHF, expanding housing options for the lowest income groups, as well as improving their access to services and employment

37. First, 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 Real Estate Transactions Registration in New Communities Law, which was issued by the Ministry of Justice. The law allows: (i) NUCA authorities to issue a certificate for the property or the unit that is financed via mortgage finance; (ii) the chairmen of the authority's administrative apparatuses to sign tripartite mortgage finance contracts to streamline the registration process; and (iii) part registration of large projects. These measures will make mortgage lending in NUCA territories, where most of the new units exist, possible and easier. The related Decree 10 of 2014 was issued by the Ministry on February 3, 2014 allowing for the streamlining of land and property registration in urban areas through a tripartite agreement between the Ministry of Housing, Ministry of Justice, and NUCA, allowing the chairmen of the authority's administrative apparatuses to sign tripartite mortgage finance contracts to streamline the registration process. In addition to streamlining property registration, there has been a significant reduction in land and registration fees from three percent of property value to a flat fee not exceeding LE 2,000.

38. Second, in order to promote the increase in private sector participation in the housing sector, various measures were undertaken by the authorities. In early June 2014, the Ministry renegotiated old land contracts with the main residential developers, and a resolution committee was formed to settle any debatable land contracts with the private sector and many cases were solved. As a result, the industry showed renewed interest in the housing sector. Moreover, the Government's commitment to support the expansion of the sector, particularly after the CBE announced the subsidy on mortgage credit focused on the lower-income sector, enhanced the private sector confidence in the market. The Ministry is currently finalizing new contract agreements to incentivize private developers to enter the low-income housing market.

39. Third, CBE implemented in June 2014, an economic stimulus for the housing sector through an infusion of 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 AMP. This stimulus will allow the AMP 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 AMP. The program received 155,000 applicants under the new CBE program.

40. Fourth, the long-awaited amendment to the Real Estate Finance Law 148 of 2001 was ratified by the President in July 2014, allowing 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. This allowed AMP to offer mortgage-linked subsidies to lower income households. During the political transition time, the overall economic uncertainty and increases in mortgage interest rates prevented the AMP from going to scale, but recent economic and political developments have 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 it has already approved more than 40,000 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 1,000 per month.

41. Fifth, a law on the regularization of informal areas was approved by the Cabinet and the State Council in July 2014. It allows informal residential buildings, built without a license on private land, to be regularized upon payment of a penalty. This law will incentivize the formalization and regularization of houses, making it possible to extend services, utilities, and infrastructure to informal areas. This facilitates property registration and borrowing for improvements.

42. Sixth, and most important to this operation, the Social Housing Law 33 of 2014, which was ratified by a Presidential Decree, solidified the SHF into a sustainable entity for the provision of low-income housing. The SHF is responsible for coordinating social housing policy, as well as, implementing and developing a sustainable and comprehensive set of support programs for the poor.

F. An Opportunity to Transform the Housing Sector

43. The SHF will consolidate the various housing programs and funds that have been operating in silos, to ensure synergies, and effective coordination and improve efficient use of funds. This integration of programs will allow for the general use of the national unified database, based on national IDs to prevent any double subsidization, cheating, and fraud.

44. It cannot be underscored enough how important the establishment of the SHF is for transforming the housing sector in Egypt. Bringing together dedicated streams of financing, policy and programming control, inter-agency coordination, and high-level commitment to reform will help to incrementally shift the Egyptian government from being a producer of social housing to being an enabler of the housing sector as a whole.

III. TECHNICAL SOUNDNESS

45. The SHF has an immediate mandate to support one million residential units for low- and middle-income households. Of the total, approximately 85 percent of the units are expected to be for ownership and 15 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 and develop new ones. The SHF received LE 10

billion in stimulus funds to launch the program. The SHF will have access to various sources of funds in order for it to be sustainable once the funds from the stimulus packages end (see Section V for more detail on the financial sustainability for the SHF).

46. The SHF will work at a national scale through Governorates and NUCA which will decide on the mix of social housing programs required based on local demand, where potential beneficiaries make the ultimate choice¹⁷. The SHF has asked the Governorates and NUCA to provide appropriate sites for social housing and the Social Housing Law 33 of 2014 has established criteria for site selection which include access to infrastructure and services. It is anticipated that all new housing developments will be built on publically owned, undeveloped land that is allocated, auctioned, or disposed of through a Public-Private-Partnership (PPP) arrangement with the selected public or private developer. A campaign is underway to explain the program to local authorities. For its ownership programs the SHF works with banks and mortgage companies which participate in the AMP/CBE program. The GSF administers both the mortgage-linked upfront subsidies for beneficiaries and the CBE low-interest program in collaboration with banks. Fourteen 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. The current rental program is implemented through the Governorates and NUCA as well, which are responsible for operation and maintenance, however, uptake of public rental is expected to remain low, until an improved subsidy scheme is developed.

47. The Government is keen on seeking ways to increase the participation of private sector developers in affordable housing, and giving out preferential incentives under special conditions if used for low-income housing—so that the Government focuses on playing the role of the regulator. Private sector developers showed renewed interest in the lower-income sector, especially after the CBE announced its stimulus program on mortgage credit focused on the lower-income sector.

A. Role of the SHF in Housing Policy and Finance

48. The SHF is an agency within the Ministry of Housing, Utilities and Urban Development tasked with designing housing laws and regulations, designing social housing programs, with overseeing their implementation in consultation with relevant housing entities, and with managing financial resources for social housing. As stated in its Executive Regulation, the SHF's main tasks include:

- Proposing Social Housing programs, laws and regulations to the Minister of Housing, Utilities and Urban Development in the fields of social housing, affordable housing, and participation of private sector in supplying affordable housing;
- Setting guidelines for social housing and affordable housing programs: location, house-types/size, costs, beneficiary qualifications, rent setting, management, financing, and subsidies systems. Such guidelines are approved by the Minister and implemented by the SHF through its implementing entities (NUCA, Governorates);
- Making recommendations for implementing the Social Housing Program and for meeting the target number of units set by the Ministry (current target is one million new units in the next six years);
- Proposing to the Minister an annual Social Housing program;

¹⁷The Ministry and NUCA already abandoned one type of rental program for which demand was insufficient.

- Managing all funding for social housing and affordable housing;
- Administering funds from foreign donors and lenders;
- Allocating funds and monitoring their use;
- Collecting data from housing entities via its own information technology system and according to guidelines it establishes;
- Quantifying existing supply and demand-side subsidies; and
- Possibly, engaging, as contracting authority, in contracts with housing entities for the construction and management of housing units.

49. The SHF issues guidelines for social housing programs and affordable housing programs for all of Egypt. Such guidelines are approved by the Minister and are binding for all public housing entities and Governorates. The SHF also has the role of allocating funding to housing entities that are not under its direct authority, including NUCA and the Governorates.

50. **Planning.** Based on objectives and priorities set by the Government and the Ministry, and based on the budgets allocated to the Fund, the SHF sets a multi-year and annual target of new housing units to be built and other program targets, and the overall cost. The program is approved by the Minister and endorsed by the Government. It is binding for the entities covered by the program. For the implementation of the program, the SHF enters into contracts with the different entities and Governorates, each contract sets out objectives, budgets, reporting indicators.

51. To prepare the multi-year plan and annual targets, the SHF maintains a waiting list of applicants to social rental and ownership affordable housing units. The SHF relies on the data collected from its national waiting list and from Governorates. The SHF prepares a program for construction and financing of housing units which sets out the broad allocation of types of units and programs (public rental programs, private rental programs, affordable ownership housing), geographical location of units, initial allocation of units among housing entities, and indicators for performance reporting.

52. **Policies, Laws, and Regulations.** The SHF is the sole authority in the Ministry in charge of drafting laws, executive regulations and guidelines for social housing programs and affordable housing programs. The Minister may demand that the SHF drafts laws, regulations and guidelines as needed. The SHF can propose to the Minister, draft laws, regulations and guidelines.

53. **Data Collection and M&E.** The SHF is entitled to collect data from all public housing entities (NUCA, Governorates, NGOs and other participating entities in the social housing program). The SHF defines the format and type of data to be collected by each agency, after proper consultation with each agency. An agreement with each entity defines the rules for the collection of data. The SHF may use the data for the following tasks; research, M&E, and policy design.

B. Housing Programs Supported by the “Program”

54. **Affordable Mortgage Program.** The core home-ownership program of the SHF is the Affordable Mortgage Program (AMP). AMP provides demand-side subsidies to complement an affordable mortgage (with a maximum term of 15 years and a minimum 10 percent down-payment) for the purchase of a new or existing house. The transparent and targeted subsidies reduce the down-payment requirement for savings-constrained households and/or the monthly payment for income-constrained households. The subsidies are set to increase with decreasing income levels, and are linked to a maximum affordable mortgage loan by a financial institution of

the beneficiary's choice. As part of the verification and underwriting process, incomes are assessed by both the program and the lender. The underreporting of income has a negative impact on the affordable loan amount, and thus affects the type and price of the house that can be

55. The AMP serves households with incomes between LE 1,000 and LE 2,500 per month, reaching just below the 20th percentile of the income distribution and with a median beneficiary income of LE 1,750 per month. The average subsidy is in the order of LE 19,000 per household under the current subsidy program. The additional and temporary CBE interest rate subsidy is substantially higher in Net Present Value (NPV) terms¹⁸ (by 50 to 100 percent) given the current high interest rates. The combination of the AMP and CBE subsidies effectively decreases the inherent regressivity of the CBE interest rate subsidy as the combined subsidy decreases with higher incomes.¹⁹ To date 14,000 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. The AMP received 155,000 applications after the announcement of CBE stimulus program, which are gradually being processed. It has to reach another 70,000 to 80,000 subsidies by July 2015 and needs to enhance its capacity for subsidy processing. SHF/GSF is the administrator of the CBE's stimulus program for the mortgage sector and coordinates bank's enrollment in the program and the allocation of funds. The GSF has 55 staff members.

56. **Background and history.** The GSF was established by Presidential Decree in 2003 as part of the Mortgage Finance Authority, the regulator for the newly established MFCs under the Ministry of Investment. The GSF has the mandate to develop innovative products to stimulate the private housing finance industry to grow in scale and expand down-market. The GSF had by Law three types of mechanisms to fulfill its mission: (i) issuing guarantees/credit enhancement initiatives (with the full faith and credit of the Government); (ii) providing upfront subsidies to qualifying beneficiaries; and (iii) engaging in physical development of low-income housing for which it would receive government land free of charge.

57. The land development function was considered as a means to raise revenue and create opportunities to initiate mortgage lending. The GSF was capitalized with 1200 residential units (and some shops) and roughly LE60 million in cash and LE274 million in receivables. The residential units were sold to qualifying GSF beneficiaries who also obtained upfront subsidies and were matched with mortgage lenders. With amendments to Real Estate Finance Law 148 in 2014, this function of the GSF was eliminated.

58. The guarantee component of the GSF provided a three-month nonpayment insurance for which it charged a one percent fee (on the loan amount) to lenders. The program was never capitalized separately and was considered ineffective and an additional cost by MFC lenders without providing much credit risk protection.

59. The subsidy component was targeted to low-income households (as defined in the Real Estate Finance Law 148 of 2001). The subsidy was a flat LE 10,000 subsidy to households (later increased to LE 15,000) towards the purchase of a low-cost house and was linked to a mortgage by MFCs and banks. In 2005, the NHP set the standards for a low-cost flat of 63m², which could be delivered for a maximum value of LE 90,000 because of other subsidies on land and infrastructure. While the subsidy program was an improvement over the subsidies to developers provided by the NHP, its budget was constrained, its design was inefficient and administrative

¹⁸ Using a discount rate of 9.75 percent and a market rate of 14 percent, a house price of LE135,000 and down-payment of 15 percent

¹⁹The AMP subsidy amount decreases with increasing income, while the CBE subsidy increases with higher loan amounts.

procedures between GSF, households, and lenders were cumbersome. The program remained small.

60. In 2008 it was decided by the Ministry to create an integrated transparent household subsidy that would be scaled according to income and linked to a market-rate mortgage loan and would be adjusted according to a measure of house-prices and interest rates. The Ministry had, through its HDB and other financial entities within the Ministry provided subsidized loans, which had a negative impact on the viability of its financial institutions. An agreement was reached between the Ministry and the Ministry of Investment to make GSF the administrator of the new subsidy program in close collaboration with mortgage lenders. Income levels for qualifying low-income households were at that time determined by Real Estate Finance Law 148. The World Bank was asked to support the design of the new program and the establishment of the administrative and technical systems and procedures. A Development Policy Loan (DPL) for US\$ 300 million was approved in 2009 (US\$ 200 million disbursed to date) and, after establishing the administrative and technical systems, the new Affordable Mortgage Program began operations in 2010. The GSF improved its governance system and established transparent guidelines for its program, and rules of engagement with lenders and beneficiaries.

61. The AMP was however severely constrained by conditions on loan-to-value ratios set in Real Estate Finance Law 148 (a maximum of 25 percent), legally stipulated income levels and by rising interest rates. Amendments to the law were sought but the revolution of January 2011 interfered. The Amendments were finally passed in April 2014 and included the following:

- Delegation to EFSA (the new regulator of the non-bank MFCs to set Payment-to-Income ratios and Loan-to-Value provisions for mortgage lending.
- Delegation to the Board of GSF “to issue decisions on determining the rules and conditions of entitlement to low-income subsidized housing as well as establishing the criteria of low-income housing projects”.
- Defining the GSF as an entity under the supervision of the Ministry. The functions of the GSF are expanded and include: “responsibility of subsidizing the mortgage finance activities in the field of sale or use of housing units, or leasing them through the rent to own system. It may also support the housing lease for low-income categories by all means, including payment of a part of the value of installments in cases of sale or lease ending with ownership, in a way that reduces the burdens of finance to the limits affordable by their income and provided that the installment shall not exceed the maximum limit determined by the Board of Directors”.
- The GSF’s guarantee program for non-payment was eliminated but it kept the option to “assume activities to eliminate the risk of non-payment of the obligations arising from mortgage finance”.
- The GSF was given the right to establish strict rules on fraud by beneficiaries in obtaining and using subsidized housing units, and setting heavy penalties in case of fraud, including imprisonment.

62. With these amendments, GSF became part of the Ministry, and GSF and the Ministry had much greater flexibility in deciding on the parameters of the program when market conditions or policies would change. However, mortgage lending had virtually stopped during the unstable financial period since the revolution with high inflation rates and rising mortgage rates. Developers moved to a higher income customer who could pay for housing by shorter term installments.

63. In May 2014, when the CBE decided to create an economic stimulus program focused on the housing/mortgage sector, it adopted the same criteria to define low-income household eligibility for its program as the GSF. It provided LE 20 billion in funds to be utilized by banks for mortgage lending to low-income households at seven percent at a fixed margin of 4.5 percent. SHF/GSF administers the program with the banks and its subsidy program is now linked to the special CBE financed loans.

64. The AMP has been able to reduce the subsidy amounts and reach a lower income group as a result of the CBE program. CBE and the Ministry/SHF will have to coordinate their programs closely when the CBE decides that the macro-economic situation allows for a phasing out of the stimulus program. Discussions have focused on how such coordination may best be institutionalized. As a first step, the CBE has been included as a member of the board of the SHF.

65. **Program performance.** Prior to the announcement of the CBE stimulus, 14,000 subsidies were provided by the AMP through the market rate mortgage channel. After the CBE stimulus was announced the AMP received 155,000 applications, and an additional 10,000 subsidies were issued by the end of 2014. The AMP is yet to increase its capacity to process subsidy applicants and expand its interface systems with participating banks and bank branches in order to reach the scale required to achieve the SHF's short-term one million houses. A breakdown of beneficiaries shows the following:

- *AMP reaches households well within the low-income target group of LE 1,000 to LE 2,500 per month* with a median income for beneficiary households of LE 1,700, or just above the poverty level established for Egypt by the World Bank. That is a major achievement with relatively small average subsidy amounts of LE 19,000 (US\$ 2800). In comparison, most upfront subsidy programs in Latin America require subsidies of double that amount. Subsidy amounts are, however, difficult to compare because Egypt still provides additional supply side subsidies on land and infrastructure.
- *AMP has a broad geographic reach* and while under the old regime subsidies mostly went to households in NUCA developments around the major cities, under the new SHF program with CBE loan conditions its beneficiary pool includes households from 16 Governorates spread over the Delta, Upper Egypt and Greater Cairo.
- *AMP includes an above average proportion of female headed households in the income brackets its serves.* The third and fourth percentiles of the national income distribution include 20 and 15 percent female headed households respectively and AMP includes 24 percent female headed households in its program to date. For a mortgage-linked subsidy program this is a rare achievement.

66. **Delivery mechanism.** When a new tranche of the AMP is publicly announced, interested households submit an application to the GSF. The GSF enters the applicants in its computer system and checks whether the applicant has received a previous housing subsidy. Incomes and residences are verified by two external firms reporting to the GSF. The GSF includes the credit bureau report in the applicant's file. Once approved the applicant selects a lender of its choice from a list of participating financial institutions for the mortgage loan. The GSF sends the electronic beneficiary file to the bank. Computer systems are linked in real time. The bank underwrites the household, if found acceptable and creditworthy, issues the loan and pays the developer at the same time that the GSF pays out the subsidy. The GSF rejects roughly 25 percent of applicants and the banks an additional 10 to 15 percent. Beneficiaries can choose any housing unit on the market (existing and new) that is affordable to them under the conditions of the AMP

(i.e., income levels and other program requirements, down-payment and mortgage loan requirements). Table 2 shows details of the allocation of subsidies under the old subsidy regime across regions, gender and income.

67. However, the numbers reached are small even if the program operated only for a short period before the revolution interrupted the demand for the product. Lack of housing units in the market and low LTV ratios that limited low income households' ability to qualify for a mortgage, were the main reasons given for its small size. However, GSF did little to advertise the program and refrained from embarking on a publicity campaign. It did post educational material on its website, but the public had no way to find out about the program. With the official announcement of the CBE program (in May 2014), the true demand for the product has come into perspective—155,000 applications were received within days of the announcement. What needs to happen now is to scale up the capacity of SHF/GSF to process applications. In addition, the SHF has to entice private developers to re-enter the market and increase production levels of qualifying units. They will need to have confidence that the CBE program will remain in place until mortgage rates have come down, before embarking on project design.

68. The SHF and the 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. The SHF and the CBE are coordinating program implementation, and apply their subsidies to the same targeted low-income group. In addition, the CBE is on the Board of the SHF, as well as on the GSF's Board. Bi-weekly progress reports are prepared on disbursements under the CBE-AMP programs. While the CBE program is currently still in expansion mode, the 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. The CBE will review and adjust its stimulus program in close coordination with the SHF in the next months in order to accelerate its optimal use, in particular for the low-income bracket, for which the demand from banks is higher due to the increased availability of finished homes.

69. Strengthening the program to reach targeted numbers of beneficiaries. As the core program of the SHF, the AMP will need to issue at least 150,000 subsidies per year within three to four years and going forward in a steady state. This will require funding, system improvements and expansions, including:

- Increasing funding in order to reach required numbers of beneficiaries;
- Expanding IT systems and automating the process of applicant screening and data entering;
- Improving outreach programs to beneficiaries in order for self-screening to work more efficiently;
- Integrating systems into the unified subsidy database of the Ministry; and
- Increasing consumer education programs, and instruction programs for local authorities to improve their understanding of the AMP, in order for them to better guide applicants and enforce program rules.

Table 2: Affordable Mortgage Finance Program Applicants by Income Band—up to May 2014

Income	Total	Percentage	Delta Governorates			Greater Cairo			Upper Egypt Governorates			Male	Female
			Male	Female	Total	Male	Female	Total	Male	Female	Total		
1,000	416	3.9	42	20	62	258	84	342	12	7	19	312	111
1,100	614	5.7	127	51	178	371	91	462	1	3	4	499	145
1,200	1,066	10.0	251	94	345	646	141	787	5	3	8	902	238
1,300	702	6.6	168	50	218	433	85	518	6	2	8	607	137
1,400	733	6.9	146	62	208	441	87	528	21	6	27	608	155
1,500	1,348	12.6	234	53	287	946	174	1,120	18	7	25	1,198	234
1,600	883	8.3	140	39	179	643	90	733	12	2	14	795	131
1,700	938	8.8	166	43	209	652	106	758	10	7	17	828	156
1,800	589	5.5	121	31	152	408	55	463	9	4	13	538	90
1,900	387	3.6	80	30	110	257	37	294	4	3	7	341	70
2,000	575	5.4	132	36	168	386	36	422	2	1	3	520	73
2,100	360	3.4	65	35	100	237	30	267	4		4	306	65
2,200	409	3.8	70	39	109	280	35	315	7	3	10	357	77
2,300	301	2.8	63	35	98	178	37	215	2	5	7	243	77
2,400	440	4.1	81	57	138	269	35	304	4	1	5	354	93
2,500	397	3.7	81	29	110	277	37	314	11	5	16	369	71
Total	10,700	100.0	1,967	704	2,671	6,682	1,160	7,842	128	59	187	8,777	1,923

Source: Guarantee and Subsidy Fund (2014).

70. As a champion of the low-income mortgage sector, SHF/GSF will also need to play a strong leadership role in finding ways to include existing housing units in the mortgageable property pool and help design incentives for lenders to expand into more risky segments of the market. It may need to work with mortgage insurers to develop special products to alleviate increased credit risks they may be exposed to when moving into down-market segments. SHF/GSF may also consider developing a special lender guarantee program to stimulate lending to creditworthy informally employed.

71. An additional task GSF may be able to embrace is in the development of non-mortgage housing finance products together with financial institutions that operate in that space and in finding ways to connect subsidies linked to such products.

72. ***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 is part of the 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. The 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.

73. For example if the monthly income is LE 900, the rent level would be set at LE 225 (which is the maximum rent to income ratio which has been set at 25 percent), this would allow for the unit to be affordable without an additional subsidy. Whereas if households have an income of LE 800 for example, the amount of monthly subsidy would be equal to the difference between the rent (LE 225) and the household's contribution of LE 200 (25 percent of 800) of its income, thus leaving LE 25 which is unpaid amount in need of subsidy. Similarly it would amount to LE 75 for an income of LE 600 and so on. Special attention should be paid to households with very low-incomes for whom 25 percent of income is still a high burden. Under an income level to be defined, a small but flat contribution may be preferable. The Government is considering a refundable security-deposit of LE 1,000 as a protection for non-payment in addition to a LE 1,000 deposit for maintenance. The SHF will have to consider if these deposits will be possibly covered by an additional demand-side subsidy, not to eliminate lowest-income applicants due to eligibility.

74. ***Delivery mechanism.*** Assuming the management of the public rental units is outsourced, which the World Bank strongly recommends. The subsidy should be paid monthly by the SHF to the manager of the unit, thus ensuring that the money is used to pay the rent. The tenant would then be charged only for the difference between the rent due and the subsidy provided. The manager would warn the SHF immediately in case of relocation of the tenant, or the non-payment of the rent. This will allow the SHF to discontinue the payment of the subsidy.

75. ***Monitoring.*** This type of subsidy requires not only an initial assessment of the beneficiary's income but also its periodic update. In homeownership programs, those applicants who would try to declare a lower income in order to get a higher subsidy would be penalized by

not getting their loan or getting a lower amount than expected. With a rental subsidy, such a counterweight does not exist, which makes assessment of income quite a challenge.

76. An initial statement along with a periodic income statement (including all types of income from all household members) will be required. The difficulty arises in verifying the information provided. If administrative data exists, it needs to be also checked whether the household is enrolled in any other social benefit programs, and if so penalties should be enforced (such as the loss of right to maintain occupancy). For example, assuming that the units are allocated to the beneficiary for a seven year period, it is strongly recommended that the incomes are checked at the mid-term point, which is after three and a half years of their presence in the premises. The tenant should also be allowed to ask for an earlier revision of his/her subsidy in case he undergoes –and can prove- an important and durable income change.

77. *International Experience.* Direct subsidies to tenants have been introduced in most developed economies because they proved to be more effective, that is to say better targeted, more transparent and more flexible than subsidies provided to builders or investors. However, they have a few drawbacks, including:

- They entail heavy fiscal commitments: their cost to the budget is 0.8 percent of GDP in France and 1.5 percent in UK; applicable rents must therefore be capped or the number of assisted household limited USA;
- They require the collection and update of information on beneficiaries: this is an obstacle to their introduction in emerging countries which have not developed the sophisticated interconnected databases on social programs beneficiaries that are in use in developed economies; and
- They have a limited impact on quantity and quality of the private rental housing sector.

78. Most European countries use a combination of tenant and investor subsidies. As their social housing stock had become sizeable, they tended to emphasize tenant subsidies but very few (Netherlands) stopped subsidizing the supply of social rental housing. In the few countries which have not adopted tenant subsidies (Belgium, Luxemburg, and Portugal), the rent in the social housing sector is first calculated based on a cost-rent method and then adapted to household income. This system is complicated to manage and often requires the payment of balancing subsidies to the landlord. In the USA, project-based rental subsidies given directly to landlords are based on a similar mechanism. This type of subsidy was the most common form in the USA in the 1970s but now plays only a small role.

79. Nowadays, the most popular forms of these types of subsidies are allowances and vouchers:

- Housing allowances in the form of direct payments to the tenants to assist them with monthly payments are given in most European countries; and
- Vouchers are given to tenants in the USA so that they can find affordable accommodation in the private rental sector. The tenant selects the dwelling, and the landlord receives the difference between a portion of the tenant's income and a predetermined rent. Sometimes this is done on the basis of a formula; other times the amount of assistance is determined by an assessment of area market rents.

80. *Private Rental Subsidy Programs for Investors (new, unfinished, and vacant).* As mentioned above, tenants' subsidies are not usually sufficient to increase the supply of private

affordable rental units. Incentive packages are therefore necessary to attract private investors to rental housing for moderate income households. They consist of 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 the SHF.

81. Rental housing is an attractive investment only if the after-tax net rate of return compares favorably with that of alternative investments that have similar risk and liquidity. In theory, the benchmark for this type of comparison is the government bond of a frequently used maturity (10 to 15 years), plus some additional return to compensate for the actual or perceived risk. When data on tenants' default are not available, investors tend to overestimate this risk. When the rental law is unbalanced and favors tenants, or when court decisions are not enforced, the rental risk is high and investors will add a high risk premium.

82. *Targeting and subsidy size.* Two types of private investors or landlords are usually distinguished, individuals or small-scale owners, and institutional investors. The first category is the most numerous in almost all countries, individuals own 70 percent of all rental units in Mexico, more than half in the USA, and 67 percent in Germany. In the second category of landlords are medium- and large-scale institutional owners, such as insurance companies, pension funds, or real estate investment trusts (REITs). These entities typically invest in all asset classes. Housing is usually a small share of their portfolios, mainly for diversification purposes, and it is often limited to the top-of-the-range part of the market. Even if they are few, it is important to have them on the market, because they will play the role of "champions" and drag along in their wake the numerous small scale investors who do not have their knowledge of the market.

83. Incentive schemes should thus be offered to private rental investors committing themselves to rent out their units to households with moderate incomes for a given period of time (to be determined). The schemes could concern both investors buying newly-built units from developers or renting out previously-owned units that were either left unfinished, or kept vacant.

84. The amount of the subsidy will be based on the calculation of the risk-adjusted rate of return agreed upon by investors and the Government, given the commitments accepted by the investor (maximum rent charged, and number of years). The form of the subsidy should be different for individuals and institutional investors. The former will prefer short term incentives such as upfront subsidies or tax cuts, whereas soft loans may better suit the latter, which are long-term investors. Different types or scales of subsidies should apply to new investment and unfinished or vacant units.

85. *Delivery and monitoring.* Subsidies will be administered by the GSF as long as they consist of soft loans or in the form of upfront subsidies, because the monitoring would be the same (see below). Only if they were in the form of tax subsidies, they would of course be allocated by and be under the control of the Internal Revenue Service.

86. *International Experience.* Specific incentives for private investors are not often met because rental housing is neglected by many governments (in Brazil the official reason is that it is a speculative activity). The best example is probably Germany. This country supported the

construction of a large rental stock after World War II with a combination of direct subsidies, loan guarantees and accelerated depreciation to all investors against administrative tenant allocation and maximum rent for a limited period. In France, tax incentives have been granted to individuals investing in newly-built rental housing since 1984, in order to boost the house building sector in general and the private rental sector in particular. Indeed, private rental had been subject to massive disinvestment due to increasing tax burden, rent controls and other restrictions for landlords. Two types of schemes have been used, a proportion of the investment is either directly deductible from the income tax, or from the rental income (“accelerated depreciation”), thus creating a deficit that can offset taxes on other income. Units have a maximum purchase price limit and must be rented during a minimum period during which a rent ceiling is applied; in most schemes, there is no income ceiling. These schemes proved to be efficient to increase developers’ production, but many investors resell after the required rental period, often to reinvest in a new rental unit.

87. The Low Income Housing Tax Credit (LIHTC) provides incentives for private sector production of low income housing in USA (1986 Tax Reform Act). It consists in a "present value" tax credit of 70 percent of the cost of new construction (9 percent annually over a 10-year period) or 30 percent of the cost of acquisition of existing low income housing (4 percent annually). There are two options for commitments, either 20 percent of units must be rented to households with income less than 50 percent of the county median income, or 40 percent of the units must be rented to households with income less than 60 percent of the county median income. The maximum gross rent, including utilities, should not exceed 30 percent of the maximum qualifying income and units should be maintained as low income for a 15 year period (or tax credits are recaptured).

88. In these three countries, various types of subsidies are also available for modernization, with a recent emphasis on energy conservation works. France has several schemes when modernized units are rented to low-income. It has also introduced a tax penalty for owners of vacant units, it is either a specific tax (vacancy tax) in the larger urban areas, or a piggyback of the property tax.

89. ***Private Rental Subsidy Programs for Tenants (new, unfinished, vacant, and decontrolled)*** 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 Assistance (TA) 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 to support the implementation of the Program.

90. ***Targeting and subsidy size.*** Targeted beneficiaries are lower-income households, in the range of LE 900 to LE 2,500. The rent level and its subsequent increase will be set by the Government. Assuming that the initial rent agreed upon taking into account the subsidies granted to the investors is LE350, and the rent affordable to the tenant is estimated at 25 percent of his/her income as above, tenants with incomes below LE 1400 would be eligible to a subsidy. The maximum subsidy amount would be allocated to households with a LE 900 monthly income, reaching LE 125 (= 350 – 900*0.25).

91. *Delivery mechanism and monitoring.* These items are similar as in the case of public housing tenants except that the stakeholders are different, tenants have higher incomes and owners are private instead of public. As for the self-targeting option, it may exist too provided that developers and investors offer different types of units.

92. *International Experience.* A specific danger of tenant's subsidies in the private sector is their inflationary effect when rents are not kept under control. This risk does not exist when rents that investors are allowed to charge are set by contract or by law during the period when subsidies are granted to investors and tenants. In case of rent decontrol, the risk exists and limits must be set to the rent charged or to the subsidy amount, or to both. When France introduced demand-side subsidies at the same time as a new rental law (1948), rent increases were regulated, and finally, a new rent control was established.

93. *Capacity Building for a Successful Rental Housing Sector.* Egypt does not have deep experience with social rental housing programs, and the SHF will require significant capacity building and TA to establish 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, and maintenance issues. In addition, the SHF needs support for the design of employer rental housing.

94. *Public Rental Housing Program (Support to Governorates).* The SHF will support Governorates in implementing the government public rental housing program. Assistance will be provided to the SHF to establish efficient and equitable targeting and allocation systems, as well as maximize the links between housing programs and social and economic poverty alleviation, and labor markets (increased housing mobility, improved location of social housing).

95. *Targeting and Allocation Rules.* The public rental program put in place by the Government will provide housing for households with incomes below LE 1,500. The term of the contract will be seven years. Security of tenure is important for low-income households who have no alternative on the formal housing market. However, unlimited right of occupancy should indeed not be granted without ever checking eligibility. These contracts should roll-over if the eligibility criteria are still fulfilled. Better-off tenants should not be evicted, but should be required to pay a higher rent. A mix of incomes among tenants in one building or development is desirable both from social and economic perspectives.

96. In order to reduce the risk of misallocation, priority criteria could be added to the eligibility criteria. A point system designed to allocate units to the neediest households (families with children, widows, disabled and those living in the poorest living conditions) is a fairer and more transparent solution than delivery on a first-come first-served basis or through a lottery. Although previous attempts proved not to be enforceable because of lack of sound data, fraud and administrative incompetence, this mechanism should be privileged.

97. *International experience.* Targeting and allocation rules used to select future tenants in social rental programs vary a lot between countries (and over time). However, they always are among the following:

- No targeting;
- Income targeting;
- Self-targeting (size, cost of housing or land);
- Group targeting (young workers, handicapped, refugees, urgent need, etc.);

- Combination of criteria (system of points);
- Waiting lists (first arrived, first served); and
- Lottery.

98. EU experience shows that, in countries where housing policy is decentralized at the local level (Denmark, Ireland, Netherlands, UK, or Sweden), there are no or little eligibility rules other than being a local resident. Priority is therefore the most important, whereas, in countries where housing policy is centralized or standardized (Belgium, France, Germany and Italy), eligibility rules are more important. Waiting lists are based on a system of points in Germany, Ireland, Netherlands, and UK, and on a first-come first-served basis in Denmark, Finland, Sweden, and Belgium (Flanders). In Italy and Luxemburg, available units are attributed by independent allocation commissions.

99. *Exit Rules.* Security of tenure is quite general (if no misbehavior or unpaid rents) and results in an obligation to re-house the tenant if the building is destroyed (in France, no rent increase is allowed in this case). In Germany, the city must re-house tenants at the end of the contractual period. In Sweden, the tenant has the right to exchange his unit with another tenant in the social or in the private sector. When tenant's income exceeds limits, he/she has to pay a higher rent (France and Germany). In France this is compulsory by law when the income gap is more than 20 percent above the ceiling. The rent reaches market level in order to incite those who can afford it to leave the social sector. In extreme cases, when income remains high during several years, the tenant is required to leave.

100. *Management of the Social Rental Housing Stock.* In the few countries that remain deeply involved in social rental housing (mainly in Central and Northern Europe), the most widespread form of property management is by private entities. These entities have multiple types of legal status—non- or limited profit ad-hoc organizations (France, Netherlands, and UK), cooperatives (Denmark, Finland, Germany, and Italy) and, in some cases (Czech Republic, Germany, and Switzerland), individuals and legal entities. Cooperatives are present in many countries, but it is the associations and companies that manage the most sizeable housing capacities. This is the case in the UK and in Ireland with the Housing Associations, and in the Netherlands with the working cooperatives, which are associations or private foundations.

101. Local governments may be involved through PPP and higher level governments only provide subsidies and guarantees. More and more often, tenants play a role in the management. In the UK, where local governments remain the principal manager of social rental housing, the publicly-owned social housing stock is managed by recently created organizations, the "ALMOs" (Arm's Length Management Organizations). ALMOs' board is composed of tenants, local authority members, and independent persons. This historic means of direct management by public authorities only subsists in a minority of EU member States. Delegation to public establishments remains on the contrary widespread in Finland, France, Germany, Poland, and Sweden. The level of attachment is most often local, but it can be intermediate (department in France or region in Italy) or national, in smaller countries (Luxemburg, Northern Ireland and Portugal).

102. Private management is more likely to avoid or reduce the risks that led public rental housing to failure in many countries including Egypt, generally due to the occasional misallocation, poor rent collection and consequent lack of frequent maintenance. Companies should be chosen with regards to their successful experiences in private rental management, was

has been preferably focused on low-middle income properties. Their terms of reference should include; allocation rules, rent collection (non-payment issues) and maintenance guidelines, relations with the SHF (reporting) and Governorates. Given the lack of past experience and the limited utility of international cases, an early experimentation is absolutely necessary.

103. ***Guidelines for Employer Housing Program.*** Developing employer housing is important to coordinate the development of housing and economic activities and reduce commuting time. There are not many examples of employer housing in Egypt. Employers will build a few units as a reward to their best executive but will not provide units for their lower income employees. Some parastatal employer housing was built by state economic authorities such as the Suez Canal, the railways and the petroleum sector. Low-cost housing estates were built by the Ministry of Interior and the Ministry of Defense for their officers and staff. The creation of a new Suez Canal, with the expected one million jobs, provides an opportunity to experiment employer housing in Egypt.

104. ***International Experience.*** Due to the increasing flexibility requirements for labor in a globalizing economy, increasingly liberalized housing markets, low returns and high capital deployment, employer housing has considerably lost in relevance and has been marginalized. On the positive side, since origination and collection is linked to the labor contract and enforcement methods are strong (e.g. wage garnishment), legal issues are less relevant. Also, employers as corporations usually are subject to fairer tax treatment than individuals.

105. As an alternative to the direct provision of units to employees, French private companies contribute to a mutual Fund through the compulsory “One percent levy”, now limited to 0.45 percent of all salaries. In return a number of units are allocated to their workers in the social rental housing programs. Comparable systems exist in Greece and Tunisia, but they are focused on home-ownership.

C. Egypt’s Mortgage Market

106. The mortgage sector will be of critical importance for the successful implementation of the SHF one million houses program, since the mortgage-linked subsidy program will be the major program in the SHF. The mortgage linked subsidy program is the most efficient of the subsidy programs in terms of subsidy costs per beneficiary household, and can reach income groups just below the 20th percentile if combined with the CBE stimulus funding. So far the CBE has made available LE 20 billion for low-income mortgage lending by banks, enough for approximately 200,000 mortgages of LE 100,000 (assuming an average unit price of 135,000, down payment of 15 percent or LE 15,000, and an average subsidy of LE 19,000). The CBE intends to expand the program further if needed. No trigger criteria have been set for the future phasing out of the program. Irrespective, the mortgage sector is critical for the success of the affordable mortgage program whether dependent on the stimulus funds or its own funding sources. Its potential for growth is, therefore, a concern of the Program.

107. ***Development of the Mortgage Sector.*** Egypt’s mortgage market is young and still small. However, over the past decade, the major building blocks for a developing mortgage market were put in place. One of the main objectives of Egypt’s financial sector reform program in the early 2000s was the creation of a vibrant mortgage market. A number of critical reforms were initiated in the early period of 2001 to 2008 and the legal framework for a mortgage finance system were put in place, including:

- *Issuance of Real Estate Finance Law 148 of 2001*, which set the rules for the types of loan products banks and MFCs could offer to borrowers (including the tripartite mortgage agreement), the rules of enforcement, and established the institutions that would regulate the mortgage sector—the Mortgage Finance Authority (MFA), and the GSF.²⁰ The functions of the MFA were incorporated in EFSA in July 2009.

- *Issuance of Law 143 of June 2006 which amended the stamp-duty law of 1980* and eliminated stamp-duty on mortgage loans.

- *Amendments of Law 88 of 2003 in June 2005 allowing the sharing of individual credit information* upon the individual signing a consent clause, the establishment of a private credit bureau (Q3 of 2007- I-Score), and the sharing of credit information with non-bank financial institutions. Credit information proved invaluable in the underwriting process and has lowered credit risk for lenders.

- *Clarification of Real Estate Finance Law 148 concerning the use of adjustable rate mortgages in 2008*, allowing the use of adjustable rate mortgages.

- *Establishment of a mortgage liquidity facility*—EMRC established in June 2006, which provides mortgage lenders access to longer-term re-financing of their housing finance loans (see Box 1).

- *Enforcement of foreclosure provisions stipulated in the law* showed that foreclosure on delinquent mortgagees went through the courts in 2008 with a shortened property recovery and eviction time, setting positive precedents and providing confidence to mortgage lenders.

- *Enhancement of consumer protection and financial education* minimum disclosure requirements pertaining to loan information and establishing programs of consumer education run by the EFSA.

- *Streamlining of property registration* through a nationwide mapping and titling program. In addition the time to register a mortgage and the fees charged have been significantly reduced. Fees for title registration were lowered in August 2007 to a maximum of LE 2,000²¹ as a significant incentive for owners to register their property.

- *MFA, working closely with the Ministry of Justice issued three circulars that were widely distributed to all Real Estate Publicity Department (REPD) offices*; (i) January 2007: lists the procedures governing the authentication of mortgage contracts, the registration of a mortgage as an encumbrance on the land, the requirement of lender approval as a precondition for registration of subsequent transactions on mortgaged properties, and procedures associated with foreclosure; (ii) March 2007: instructs REPD offices to facilitate block registration of NUCA landholdings (a prerequisite to the subsequent registration of *Takhssiss* contracts); and (iii) Clarifies the tripartite contract.

- *NUCA and MFA signed a protocol in September 2006 to stimulate property registration in the new urban communities*. The protocol provides for the transformation of the *Takhssiss* form of land allocation (a conditional transfer of ownership) into a legal instrument acceptable to lenders. This transaction is made possible through NUCA's authorization of

²⁰GSF was formed partly to channel subsidies to eligible lower-income groups. The law required the GSF to provide temporary social safety for borrowers who experience adverse life events, such as a loss of employment that might lead to payment defaults. It would guarantee up to three monthly mortgage payments on behalf of borrowers in times of demonstrated social hardship. The guarantee fee was set at one percent of the loan amount. This provision was removed as part of the amendments to Real Estate Law 148 in 2014.

²¹ The fee has dropped successively from 12 percent in the early 1990s to 6 percent, 4.5 percent, 3 percent, and then to a flat fee.

landholders to mortgage their contract (in effect converting it to ownership), provided that they paid NUCA the full land price owed. This latter provision remained a hurdle in low income housing mortgage provision.

- *Following this agreement, in 2013, a Law on Real Estate Transactions registration in New Cities was passed, it allows: (i) NUCA authorities to issue a certificate for a 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.*

- *A related decree (No.10 of 2014) was issued by the Minister of Housing and Urban Development on February 3, 2014, on new procedures and institutions for registration of Mortgaged NUCA properties.*

Box 1: The Egyptian Mortgage Refinance Company (EMRC)

EMRC is a joint stock, wholesale (second tier), specialized liquidity facility operating on commercial principles with a profit making goal. It is majority privately owned by the users of its financial services, mainly participating mortgage lenders (PMLs)—active banks and real estate lending companies. Many public and private lenders joined the capitalization of the EMRC. The CBE was the strategic investor with an approximate 20 percent ownership share, the GSF had a 2 percent ownership share, and 19 banks and 6 mortgage companies held the remaining shares.

The EMRC does not take deposits nor does it lend directly to households. It helps to set up prudential lending standards for mortgage lending while enhancing competition in the mortgage market by creating a longer-term funding source accessible to both depository and non-depository institutions. Primary lenders use EMRC refinancing to improve the efficiency of their portfolio and risk-management activities, which helps lower financial spreads in the market to the benefit of borrowers. EMRC's core business is the refinancing or purchase with recourse of longer-term residential mortgage loans originated by primary lenders for which it would raise term funding by issuing bonds and notes in the capital markets. The initial on-lending funds were provided by the World Bank.

EMRC's narrow mandate was intended to strengthen the credit quality of its bonds and keep its cost of funds relatively close to rates on government bonds. EMRC began its refinancing operation in August 2008. Its outstanding refinancing portfolio reached LE525 million at the end of 2013 up from LE 277 at the end of 2010 and a cumulative portfolio size of LE 710 million. Participating lenders are mostly made up of MFCs who do not have access to deposit funding. The total mortgage market size was LE 4,800 million at the end of 2013, split 50-50 between banks and MFCs. However, the global financial crisis and the macro-economic volatility following the 2011 revolution created an unfavorable climate for EMRC to go to the capital market. At the same time, mortgage lending stagnated since 2012.

Recently, EMRC created two new products which were approved by its board, the assignment of rights for two big banks in good standing, and the portfolio acquisition of installment sales by developers through mortgage companies. This latter business line is limited to 25 percent of EMRC's portfolio. The refinancing is based on pre-signed checks and the registered collateral, and the portfolio has to be registered with EFSA. The assignment of rights for the two banks will allow refinancing of a mortgage portfolio rather than individual loans. The mortgage loan documentation is still not standardized across institutions, and it is therefore time-consuming for EMRC to prepare each refinancing transaction. Standardization of documentation across the industry and automation will be a high priority when growth in the mortgage sector takes off.

* There are a number of international examples of liquidity facilities, including the Federal Home Loan Banks in the US, CagamasBerhad in Malaysia, Caisse de Refinancement de l'Habitat in France, the Jordan Mortgage Refinance Company, and the Swiss Pfandbriefe Institute. These institutions have similar missions but somewhat different structures, powers and privileges.

108. For new residential construction to grow as required by the SHF, the lack of capacity at the Egyptian Survey Authority (ESA) in providing cadastral information will need to be addressed.

109. These legal building blocks spurred the growth of the mortgage sector in Egypt, both in terms of outstanding loan amounts and in its geographical distribution. The sector reached LE 4750 million in outstanding loans by the end of 2012 with banks having 50 percent and MFCs 50 percent of the total outstanding loans.

110. Since 2012 the mortgage market has stalled below LE 5,000. Reasons for the stagnation in mortgage lending have been three-fold: (i) the global financial crisis and the deteriorating macro-economic situation in Egypt after the Egyptian revolution increased interest rates and decreased demand for mortgages, and limited supply; (ii) stagnation in the construction of affordable houses because of the retraction of land contracts after the revolution and a flight by developers to a higher income market segment that could afford to buy a house with develop installment financing; and (iii) restrictive provisions in Real Estate Finance Law 148 for loan-to-value and payment-to-income ratios that made it hard for the low-income households to qualify for a loan.

111. The first constraint has been addressed by the stimulus program for the housing sector implemented by the CBE, at least temporarily. The restrictions in Real Estate Finance Law 148 have recently been removed through the legal approval of amendments to it. The lack of private sector supply of low-income units is still a major concern and has temporarily been solved by government contracting out the construction of housing units. This latter concern is not core to mortgage sector development.

112. Amendments to this law were sought as early as 2010, but the revolution delayed passing of the amendments until April 2014. Amendments included the provision that the decision to establish Payment-to-Income limits and Loan-to-Value provisions for mortgage lending should be made by the regulator – EFSA- rather than have statutory limits included in this law. Moreover, the board of GSF was given the authority to propose the rules and conditions of low-income subsidized housing and establishing the criteria for low-income housing projects. EFSA immediately drafted Executive Regulations that set the maximum annual income level of beneficiaries of the subsidy program to LE 27,000 for individuals and LE 40,000 for households and the maximum Payment-to-Income ratio at 40 percent as recommended by GSF Board.

113. Amendments also stipulated that GSF did not have to enforce the credit guarantee program mandated for MFCs under the Law. The guarantee protects the lender against non-payment by the borrower for a period of three months at a one percent fee of the loan amount. It was, however, perceived by MFCs as expensive relative to potential benefits, as unfair because commercial banks are not force to buy this guarantee and as an ineffective tax because it did not appear to respond to a product in demand by either the lenders or the borrowers. In addition, lenders had misgivings about the level of capital held by GSF to pay out claims particularly in case of a systemic reason for default. GSF has, since the amendments were passed, removed the guarantee provision, and has stimulated private insurers to develop mortgage insurance for the low-income lending program. It has agreements on rates with several insurers that have entered into this market.

114. EFSA has developed other regulations that will be helpful for the growth of the mortgage sector and housing market, these include regulations: (i) on the structure of Real Estate

Investment Entities; (ii) on the issuance of bonds allowing for shelf-registration; (iii) on bond issuance by government entities for infrastructure financing; and(iv) on the new regulations for private pension funds.

115. The current legal and regulatory system for the mortgage sector appears therefore to pose no major constraints to its growth. On the financial side, the main constraint is the uncertain macro-economic situation of the country and related high cost of funding. Banks are liquid and when the macro-economy stabilizes, the liquidity facility can play a role in the risk management of financial institutions. The regulatory infrastructure exists for new mortgage insurance companies to write mortgage insurance contracts.

116. ***Mortgage Sector and the CBE Stimulus.*** In May 2014, the CBE implemented a stimulus program focused on the mortgage sector on the request of the Ministry. It made 4.5 percent funds available to banks for on-lending at seven percent to the low-income group as defined by GSF. MFCs are excluded from the program (they are not regulated by CBE) but may receive CBE funds through their affiliated banks with a maximum of 20 percent of the total allocation to the bank. While this places the MFCs at a disadvantage to the banks in the expansion of their mortgage portfolios, it will not necessarily negatively affect the implementation of the SHF program. The banks, with their large branch systems and greater liquidity will be in better position to roll out a large-scale decentralized mortgage program for low-income households. SHF/GSF administers the program with the banks.

117. When the CBE program was announced it immediately resulted in a flood of mortgage cum subsidy applications at the GSF (155,000 applications were received). This shows the sensitivity of the demand for mortgages/housing to interest rate changes. The Program has therefore two main concerns:

- Will the CBE program be extended to allow the growth of the low-income mortgage portfolio of banks to reach the required number for the Affordable Mortgage Program (AMP) for the next few years? Or if it is phased out when interest rates come down how will that process be coordinated and what criteria for the phasing out will be set?

- When CBE stimulus funding remains limited to the current level of LE 20 billion (200,000 low-income mortgages) will banks be able and interested to fund the growing requirements for loans from their own funds? What role will the EMRC be able to play or capital markets more generally? And will the AMP be able to increase subsidy levels in such a way that low-income households will be able to benefit from the program?

118. Much depends on the movement of interest rates in the economy. The current trend of decreasing interest rates is positive. If mortgage interest rates come down to their “natural” level of, for example, 12 percent, the AMP can increase the subsidy levels modestly to still reach the low-income household target.

D. Location of New Housing Units

119. The one million housing units to be built as part of the SHF over the next six years are planned to be distributed across all Governorates according to demand. A tentative distribution plan has been prepared based on population (see Table 3), and NUCA and the Governorates will identify specific parcels of land for the developments. It is anticipated that all new housing

developments²² will be built on publically owned, undeveloped land that is allocated, auctioned, or disposed of through a PPP arrangement with the selected public or private developer.

120. The Social Housing Law 33 of 2014 that established the SHF also sets guidelines for the location of land parcels for the SHF programs. Specifically, it requires that selected land is designated for social housing use in the prevailing master plan, it is served by utilities and basic services such as schools and education, and is connected to the transport network. Governorates submit a list of land parcels to the SHF for review. A committee comprised of technical staff from the SHF, the General Organization for Physical Planning, and from the Governorates will conduct site visits to all proposed areas and will evaluate that the site meets with the established criteria. The committee then sends their recommended list for decision to a higher committee comprised of representatives from all ministries.

Table 3: Preliminary Distribution of Low-Income Housing Development under SHF by Governorate

Governorate	Unit Allocation	Percent of total	2013 Population	Percent of total
Cairo	139,400	13.9	8,911,178	10.7
Alexandria	48,400	4.8	4,616,625	5.5
Port Said	14,300	1.4	640,603	0.8
Suez	7,200	0.7	591,824	0.7
Damietta	13,100	1.3	1,271,196	1.5
Qaliubiya	51,400	5.1	4,537,560	5.4
Dakahlia	63,600	6.4	5,692,113	6.8
Sharkia	63,700	6.4	6,174,048	7.4
Kafr El-Sheikh	34,600	3.5	3,019,191	3.6
Gharbiya	49,400	4.9	4,546,650	5.5
Monofia	40,800	4.1	3,757,152	4.5
Beheira	56,500	5.6	5,494,904	6.6
Ismailia	22,700	2.3	1,113,836	1.3
Giza	77,300	7.7	7,205,122	8.7
BeniSuef	44,000	4.4	2,689,399	3.2
Fayoum	29,800	3.0	2,979,029	3.6
Minya	51,400	5.1	4,865,896	5.8
Assiut	47,100	4.7	4,011,564	4.8
Sohag	48,700	4.9	4,345,836	5.2
Qena	39,400	3.9	3,427,691	4.1
Aswan	14,600	1.5	1,355,420	1.6
Luxor	14,300	1.4	489,533	0.6
Red Sea	12,800	1.3	328,839	0.4
New Valley	3,900	0.4	214,419	0.3
Matrouh	4,300	0.4	408,634	0.5
North Sinai	2,600	0.3	409,401	0.5
South Sinai	4,700	0.5	160,894	0.2
Total	1,000,000		83,258,557	

²² Existing units (e.g., formerly vacant units) are also eligible under the AMP and private rental programs.

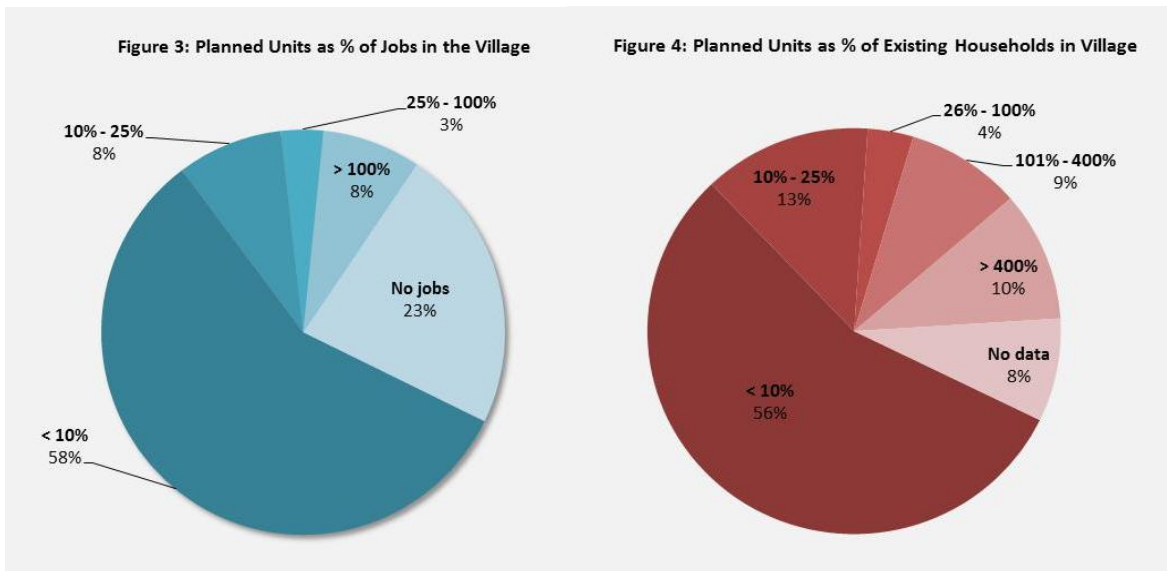
121. In total 266 marakez (or villages) may benefit from SHF housing ranging from 9 to 116,520 units with an average allocation of 4,500 units. In this scenario, the largest governorate beneficiaries are Badr City (116,520 units) and 15 Mayo (50,760) in the Cairo Governorate.

122. By way of an example of evaluating the quality of the sites selected for development, an analysis was conducted to compare the number of units preliminarily planned for construction with the existing number of jobs and current population. This analysis was done at the marakez level. As a proxy for access to job opportunities, the ratio of new units to the number of existing jobs (employment density) was calculated.²³ A low ratio (i.e. small number of units being built in a village with a high number of jobs) indicates that families occupying the new units would have a greater chance of accessing employment near to their home. A high ratio, or null for the villages that have no formal jobs, indicates that it would be difficult or impossible to access employment within the village. Based on this blunt filter, over half of the planned units could be characterized as having a good location in terms of access to employment opportunities (see Figure 3). Obviously, the presence of a job within the boundary of the village does not necessarily mean that the new housing occupant will be able to get a job, but it is a positive indicator of economic activity and opportunity.

123. On the other hand, about 31 percent of the planned units will be located in villages with either no formal jobs (according to the Egypt Labor Market Panel Survey—ELMPS) or with a number of jobs that is less than the number of planned units. It is possible that some of these villages neighbor more economically dynamic villages in which the new housing occupants could seek employment, but depending on the distance between villages, it could still represent a significant transportation burden.

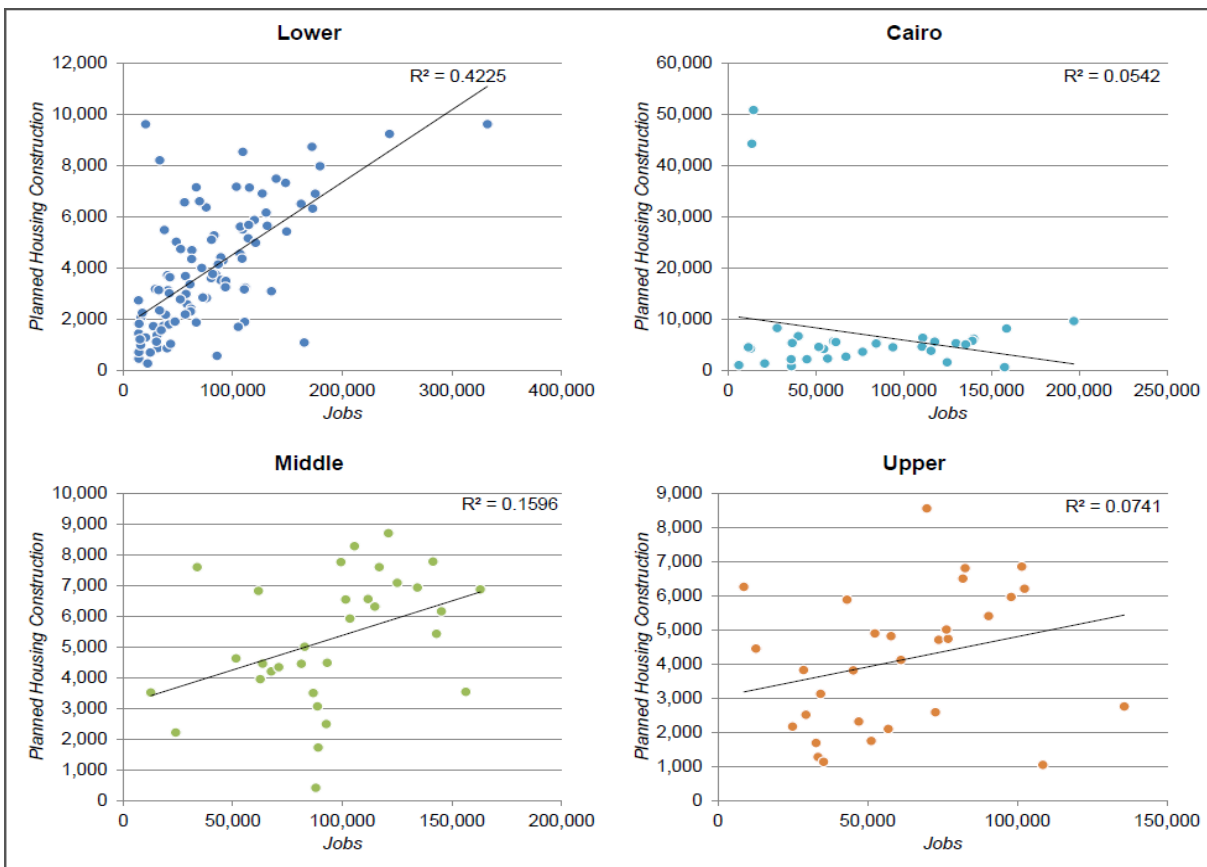
124. Another blunt filter was used to measure access to community services – future population (once units are occupied) compared to existing population. A low ratio (i.e., small number of new population compared to the existing) indicates that the new families can be relatively easily absorbed into the existing community and make use of community services such as schools, health centers, retail shops, recreation, etc. A high ratio indicates that the new housing development will have a significant impact on the existing village, especially in terms of demand for services. Based on this analysis, it could be concluded that more than half of the new units (56 percent) can be easily absorbed into their respective villages (Figure 4). However, a large portion of the planned units represent a significant increase in the village population. An example is Badr City where the new development represents a 24 fold increase in population.

²³Egypt Labor Market Panel Survey (2012) was used to estimate the number of jobs.



125. The distribution of preliminarily planned housing construction vs existing jobs for each village was plotted by region (Figures 5). With the scatterplot, a positive trend would be a higher number of units in villages with a higher number of jobs. By this measure, Upper Egypt fairs the best and Greater Cairo the worst. Figures 6–9 provide this same set of data in map format.

Figure 5: Scatterplot of Preliminarily Planned Housing Construction vs. Existing Number of Jobs per Village



126. Based on this analysis, there is a clear need to develop a set of differentiated methods to judge the adequacy of proposed land parcels for the location of social housing developments. Such methods need to take into account employment opportunities, current and future, not just in the villages where housing units are planned but in adjacent villages and districts. Similarly, the analysis of the impact of new housing developments on existing community services needs to be refined. The location of new social housing may be appropriate from the perspective of employment opportunities but not from the perspective of access to services. Such projects may require additional funding to support new community infrastructure such as schools, health clinics, and public safety. Also, significant coordination with the private sector on the planning and location of new housing is necessary. The SHF needs support to develop such methods and procedures and improve the geocoded data bases to do the necessary analyses. It needs capacity to monitor the implementation of its locational guidelines.

Figure 6: Map of Preliminary Distribution of Housing Units and Existing Jobs – Lower Egypt

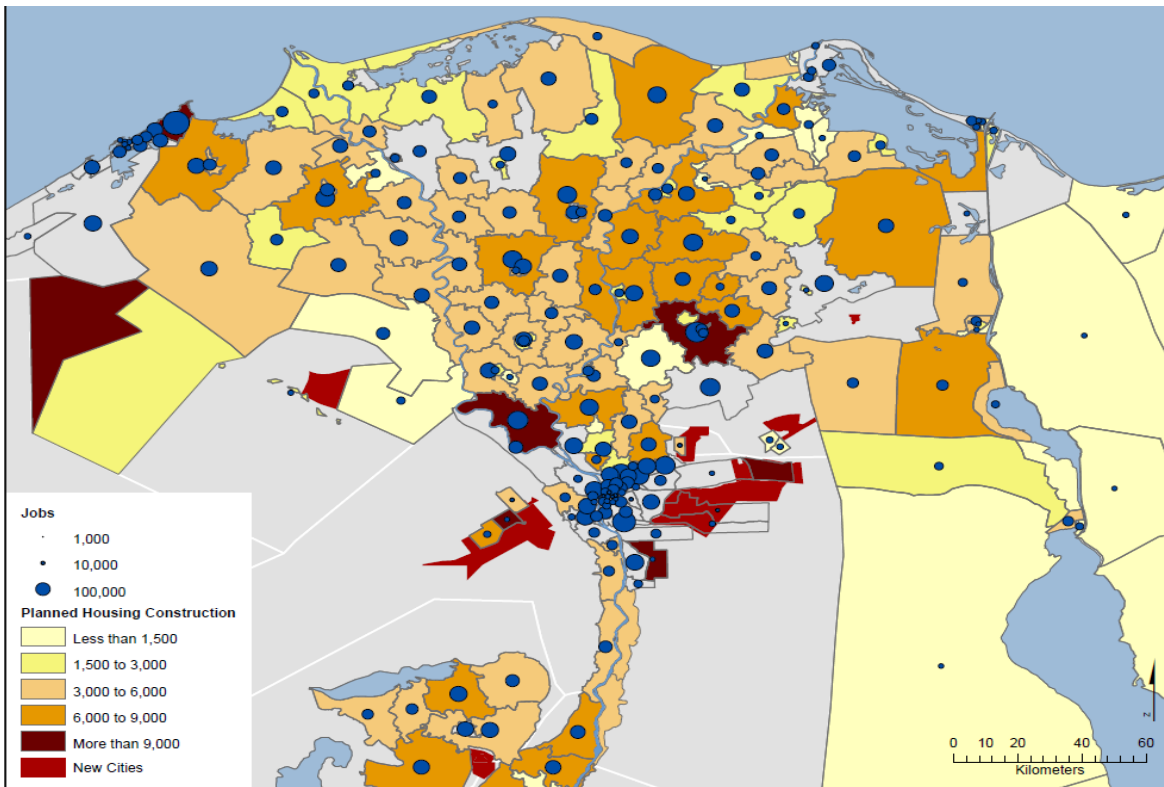


Figure 7: Map of Preliminary Distribution of Housing Units and Existing Jobs – Greater Cairo

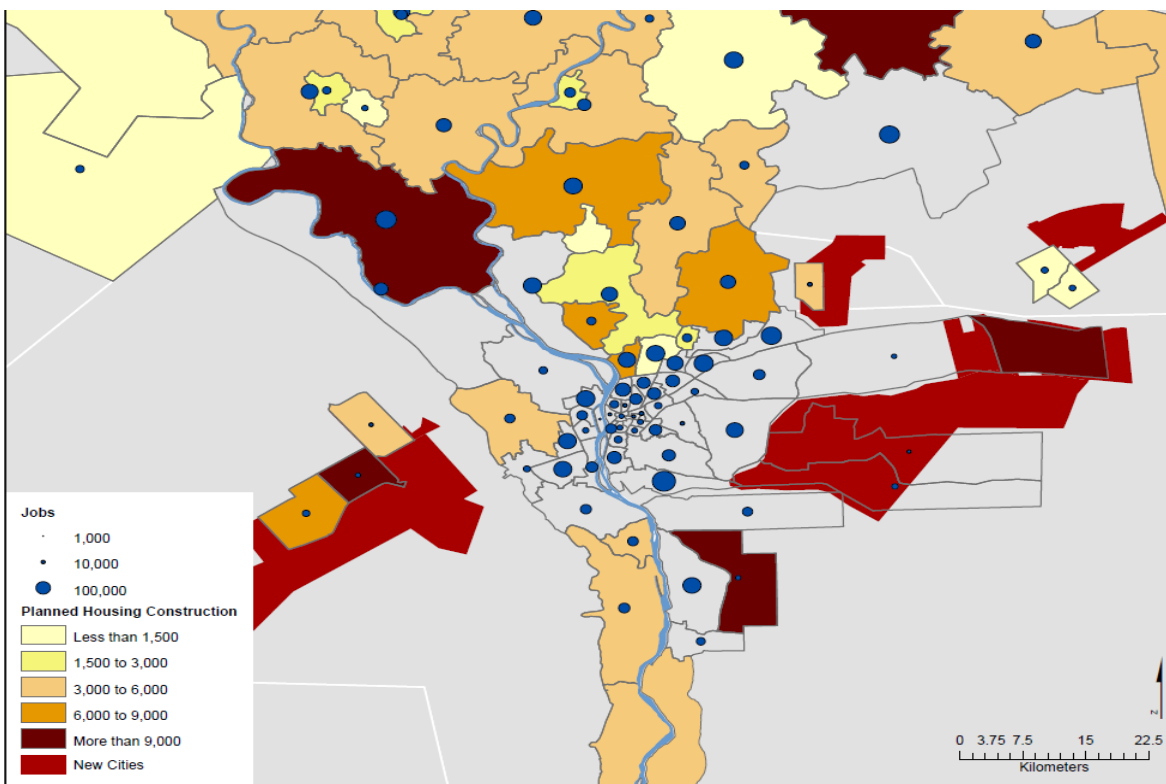


Figure 8: Map of Preliminary Distribution of Housing Units and Existing Jobs –Middle Egypt

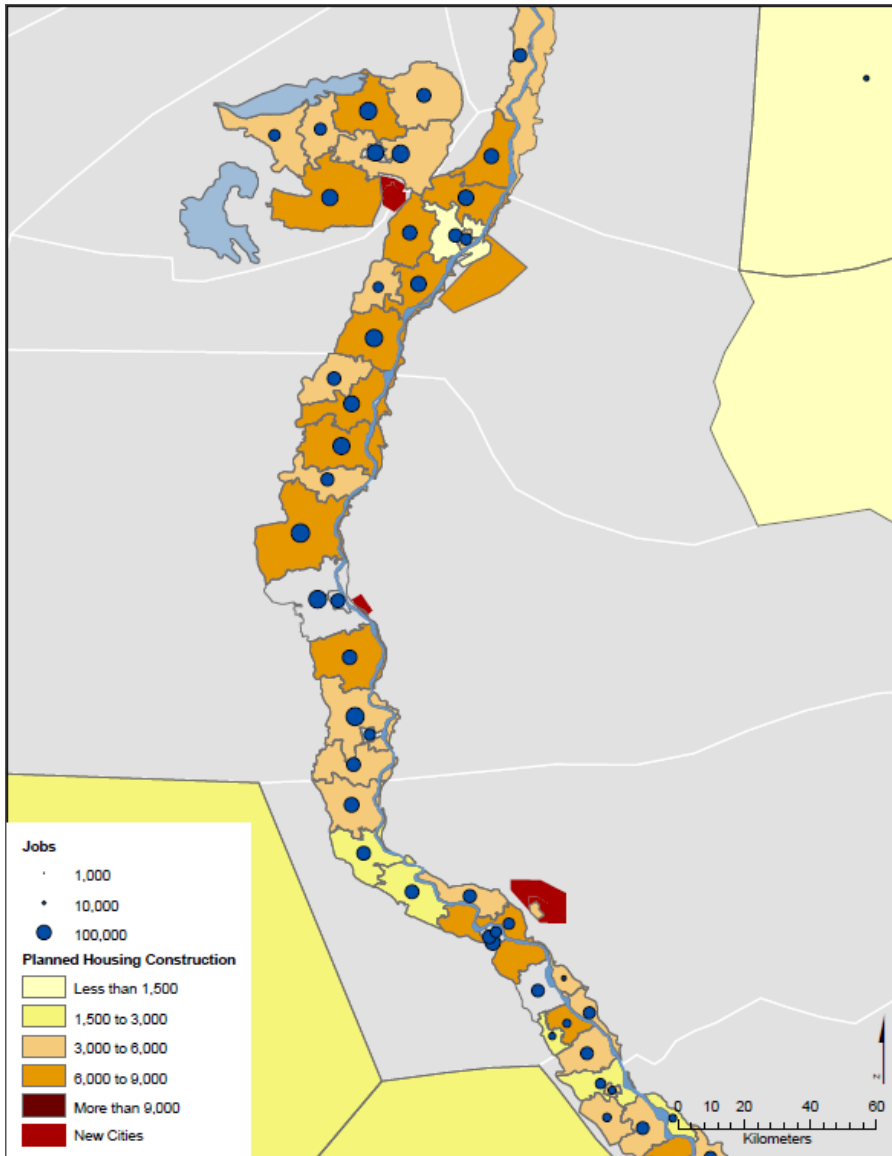
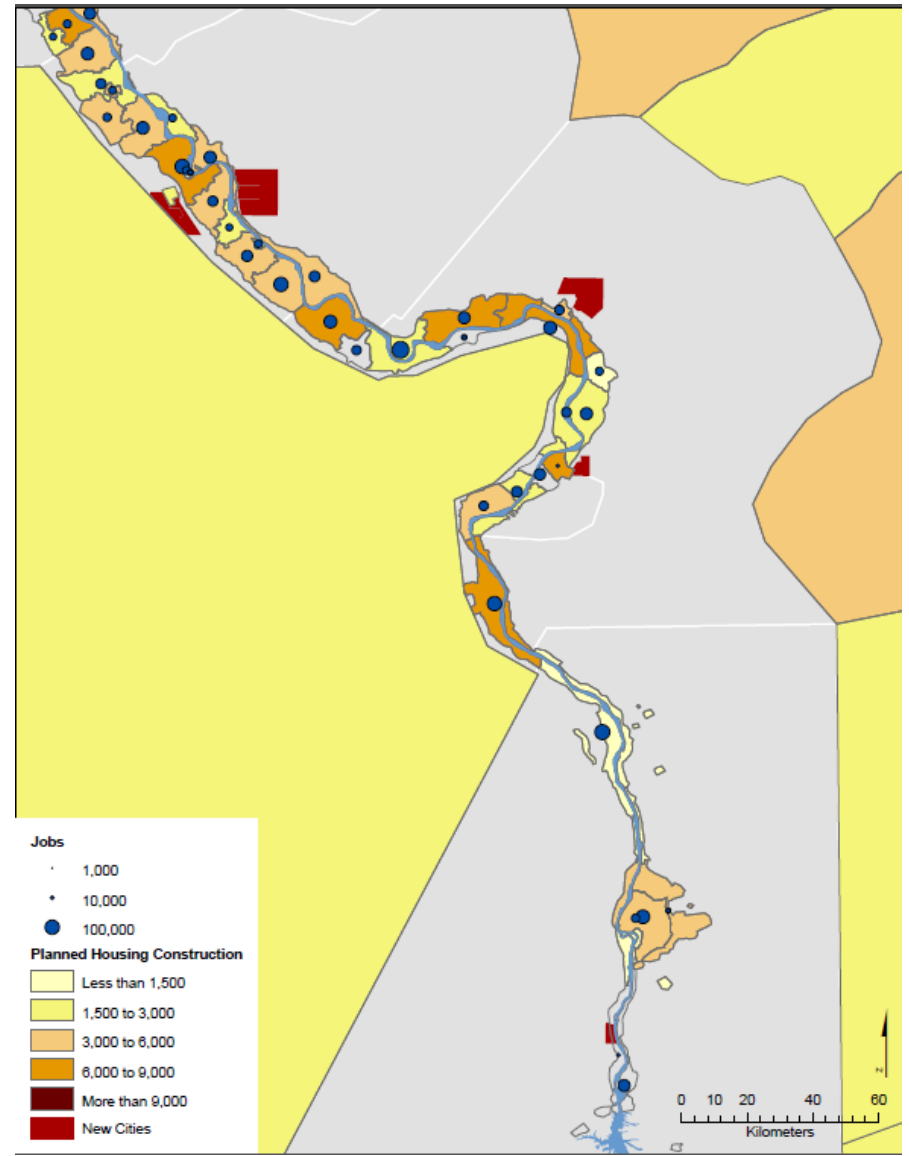


Figure 9: Map of Preliminary Distribution of Housing Units and Existing Jobs – Upper Egypt



IV. INSTITUTIONAL ARRANGEMENTS

A. Overview of Existing Housing Entities

127. The main government organization concerned with housing in Egypt is the Ministry, and most entities involved with the housing sector are associated with it. The Ministry is large, complex, and multi-faceted, overseeing a number of executive and planning/research organizations that operate semi-independently, a summary of the Existing Housing Entities Affiliated with the Ministry, prior to the establishment of the SHF are shown below in Table 4. These organizations report directly to the Minister and are not under the central management structure of the Ministry. Moreover, the structure and lines of authority in the Ministry periodically change. As part of this assessment, it was not possible to obtain an up-to-date organizational chart of the Ministry. In the following profiles, staffing levels have been noted for those departments and associated agencies when made available.

128. **Management of the Ministry.** The Ministry is steered by the Minister, who enjoys considerable direct powers over all administrations and associated agencies. For direct support he has the Minister's Office (*maktab al-wazir*), which is composed of three central authorities (*al-idarat al-markazia*), including: (i) the minister's office affairs (*shu'unmaktab al-wazir*); (ii) legal and parliamentary affairs; and (iii) planning and monitoring. There is a Vice-Minister (*wakilawillil-wazir*) directly under the Minister.

129. Below the Minister are two central bodies called general cabinets (*diwanaam*), one for housing (*diwanaamliliskan*) and one for development (*diwanaamliltaamir*). These general cabinets provide administrative and monitoring functions.

130. The Housing Cabinet is composed of three sectors (*qitaa*), including: (i) the Housing and Utilities Sector (composed of a number of units mainly concerned with housing information, monitoring, regulations and building permits, housing studies, building materials statistics, and utilities information); (ii) the Construction and External Affairs Sector; and (iii) the Administrative Development and Diwan Aam Affairs Sector. The housing cabinet has 455 staff. Top management (*mudiraam* and above) account for 53 (including two in the Housing Directorates of each governorate) and other professional specialists total 203.

131. The development cabinet oversees the Central Agency for Development and its executive units. It has two sectors (*qitaa*)—the Company and Authorities and Building Materials Affairs Sector and the Financial and Administrative Development Affairs Sector.

132. **Associated Authorities and Agencies.** Under the Minister are a number of agencies and authorities that operate semi-independently and which constitute the executive and planning arms of the Ministry. A short profile of the most important of these agencies is provided below and categorized based on their primary mandate as either: (i) policy, research, and monitoring; (ii) household support to access housing; or (iii) housing construction. The first two categories fall within the scope of the Program.

133. Policy, Research, and Monitoring includes:

- **General Organization for Physical Planning (GOPP).** GOPP is the main physical planning body in Egypt. It prepares land use, regional, and strategic plans for new development in the desert as well as for existing cities and towns. It contains a National Urban Observatory (NUO) with the mandate to provide all relevant data and urban indicators to decision and policy makers responsible for preparing and formulating national urban development policies. It also

drafts planning legislation and serves as the planning arm for NUCA. It is not an executive agency. Its functions have been partly decentralized into seven planning regions (Greater Cairo, Alexandria, Canal Zone and Sinai, North Upper Egypt, South Upper Egypt, and the Red Sea). GOPP has 455 staff, including the seven regional centers. Top management (*mudiraam* and above) account for 79, first degree specialists total 74, second degree specialists total 75, and third degree specialists total 116.

- ***Housing and Building Research Center (HBRC)***. The HBRC carries out research on building technologies and building materials development. It also has training programs and sponsors conferences and seminars. It has links to universities and other research organizations in Egypt and abroad. HBRC has 601 staff, of which 186 are research professionals (most of whom are also university professors), 67 are support professionals, and 43 are technicians.

134. Household Support to Access Housing (demand-side programs) includes:

- ***Guarantee and Subsidy Fund***. The GSF, a demand-side mortgage subsidy program, was established by Presidential Decree in 2003. GSF initiated a more efficient mortgage-linked subsidy in 2010. The GSF has 55 staff members. With the amendments of the Real Estate Finance Law 148 in July 2014, the GSF moved from the Ministry of Investment to the Ministry.

135. Housing Construction (supply-side programs) includes:

- ***New Urban Communities Authority***. NUCA is an economic authority with its own budget that manages the development of all new towns in Egypt (currently 22). It has extraordinary powers over lands designated for new towns as embodied in Law 59 of 1979. It builds housing and provides infrastructure and also manages land within the new towns. NUCA has 18,942 staff, including those in the 22 new town agencies. Top management (*mudiraam* and above) account for 203 and professional specialists total 4,893.

- ***Central Agency for Development (al gihaz al-markazilil-taamir)***. The Central Agency for Development has a long history of executing important infrastructure projects, either directly or through its regional affiliates. There are nine regional arms: Greater Cairo, Middle North Coast, West North Coast, the New Valley, the Red Sea, North and Middle Sinai, South Sinai, Canal Zone, and Fatamid Cairo. The Agency also constructs housing, usually associated with its major infrastructure projects. It has 5,337 staff, including the nine regional agencies. Top management (*mudiraam* and above) account for 385 and professional specialists total 884.

- ***Housing Directorates***. Each of the 27 Governorates has a Housing Directorate to execute social housing projects and other infrastructure. They perform a building control function and also issue building permits, other licenses, and fines. Administratively they have a unique dual nature, coming under the Governor (and the Ministry of Local Development) administratively, but with financial and personnel control through the Ministry. This dual line of reporting is the source of frequent confusion.

- ***Housing Companies***. There are five housing companies that have land concessions and manage specific urban areas. They also build housing estates. These are Shams, Nasr, Masr al-Gedida, al-Maadi, and al-Maamoura Companies.

- ***General Authority for Construction and Housing Cooperatives (GACH)***. Housing cooperatives in Egypt are governed under Law 14 of 1981. Formerly this authority was an important builder of low and middle income housing for cooperative members, operating much like other government housing providers, with access to state land and soft loans from the

government. Its production has diminished greatly in the last 10 years. It is said to have 300 employees in total.

Table 4: Summary of Existing Housing Entities Affiliated with the Ministry (pre-SHF)

Existing Entity Name	Summary of Functions	# of Staff
Policy, Research, and Monitoring		
Housing Cabinet	Housing information, monitoring, regulations and building permits, housing studies, building materials statistics, and utilities information	455
GOPP	Physical planning; NUO collects data and urban indicators	455
HBRC	Research on building technologies and building materials development; training and conferences	601
Household Support to Access Housing (demand-side programs)		
GSF	Mortgage-linked subsidies for low-income households	55
Housing Construction (supply-side programs)		
NUCA	Builds housing, provides infrastructure, and manages land within the new towns	4,893
Central Agency for Development	Executes large-scale infrastructure projects, including housing related to the projects	5,337
Housing Directorates	Develops social housing and infrastructure projects in the Governorates	NA
Housing Companies	Implement land concessions, manage specific urban, and build housing estates	NA
General Authority for Construction and Housing Cooperatives	Builder of low and middle income housing for cooperative members	300

B. Structure and Institutional Arrangements of the SHF

136. The organization structure and institutional arrangements for the SHF were developed with input from international housing experts.

137. **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:

- Developing social housing policies and supervise the implementation of the Social Housing Program and its various components;
- Ensuring that the competent authorities are involved in discussing and approving the estimated draft budget for the Fund, prior to initiating the process, and approving the closing accounts as per applicable rules;
- Accepting donations, grants, and assistance, and obtaining loans from local and external entities;
- Approving the internal regulations, and regulating decrees related to the Fund's financial and administrative affairs without being restricted by the Government's rules and regulations;
- Approving the organizational structure of the Fund, and the policies related to hiring of employees, and identifying their rights, and terminating their services;
- Approving the cooperation and expertise exchange agreements with similar local, regional and international agencies and organizations to collaborate in the area of social

housing and real estate and setting-up the rules for contracting with Egyptian and foreign advisors.

- Approving the annual Fund plan and reviewing the periodical reports submitted to report progress achieved and the financial status of the Fund.
- Reviewing all topics of interest that fall within the Fund scope, which are referred to the Fund by the Minister of Housing, Utilities and Urban Communities; and
- Developing the general policy for investing the Fund's money.

138. The Board may form a committee formed of its members, and delegate to the committee or to the President some of its competencies. The Chairman in turn, may delegate one of the members to perform a specific task based on the recommendation of the Fund Executive Manager.

139. 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 the SHF, and five members competent and experienced in areas related to the Fund's activities in economics and finance who are appointed by a Ministerial Decree. The Head of legal affairs of the SHF is also on the Board, but does not have voting rights. The Board meets at least once a year, and the agenda of Board meetings is drafted by the Executive Director and approved by the Chairman.²⁴

140. **Organizational Structure.** In its first year of operation, the SHF will have approximately 50 staff under the leadership of an Executive Director (Figure 10). By the end of the Program, it is anticipated that the total number of staff will reach 100. The Executive Director is appointed by the Prime Minister based on a nomination made by the Minister. The appointment is for a term of three years and can be renewed once. The Executive Director can be dismissed by the Minister upon the approval of the Prime Minister.

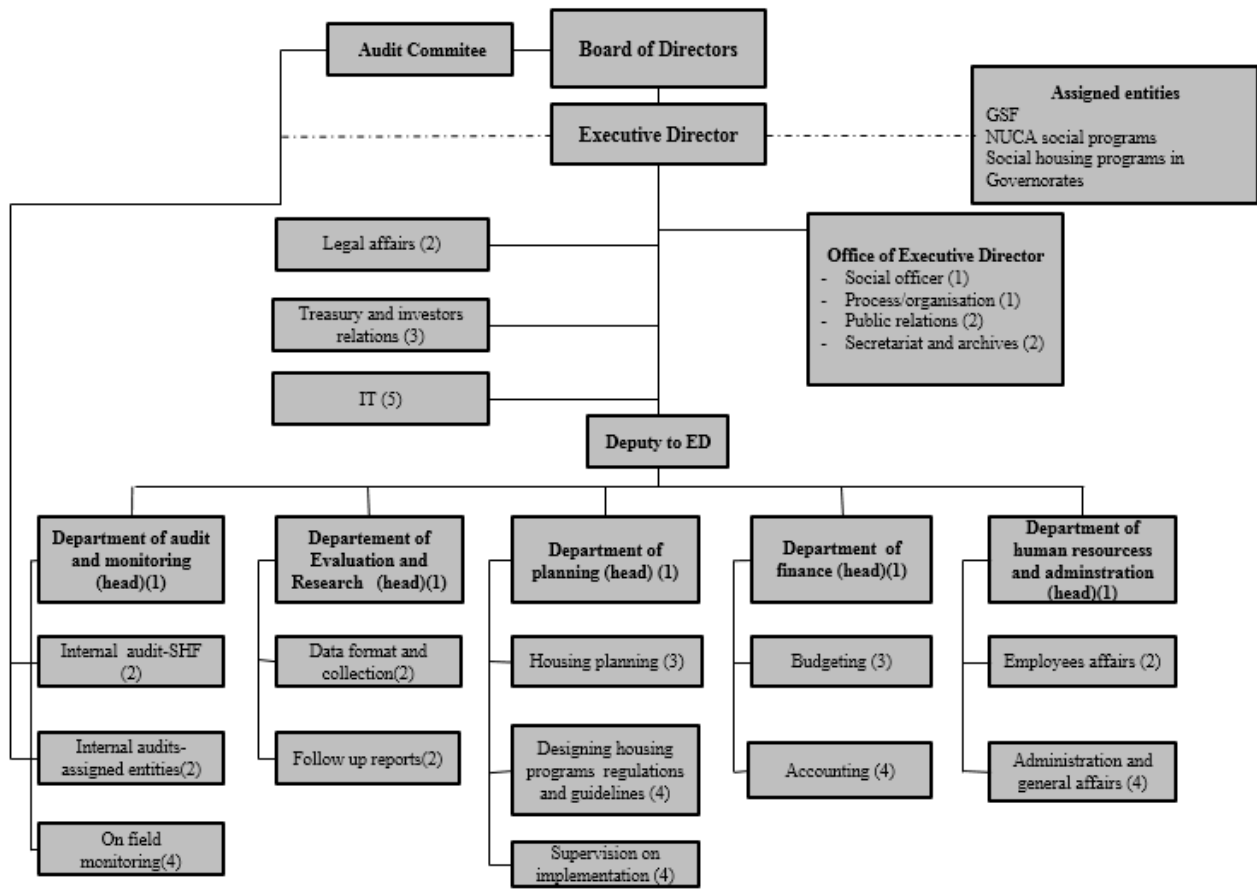
141. The Executive Director represents the SHF in dealings with all other institutions and ministries. His main tasks include:

- Developing the various aspects of the Social Housing Program, and submitting it to the authorities for approval;
- Developing the business plan and the Fund's annual plan and supervising its implementation;
- Preparing the Fund's annual budget and implementing it after getting it approved by the competent authority;
- Suggesting the policy and strategy for investing the Fund's money and implementing it after being approved by the competent authority;
- Developing the internal regulations for the Fund, and identify the competencies of the approved organizational structure;
- Managing the affairs and daily business of the Fund including the communication and awareness policy to introduce the Fund, and its objectives to the public, and to collaborate with all concerned entities;

²⁴ SHF's Board plans to meet every three months during the initial phase of the program.

- Preparing the periodical reports related to the Fund’s business, and evaluating its performance;
- Performing all the legal actions, including signing contracts required by the duties of the job, and representing the Fund in courts;
- Developing rules that regulate the delivery of the Fund services, and facilitating the Fund business. In this respect, he may hire the needed personnel, pay the amounts due for the required goods, services, and incentives from the total cost of these services, for which payment has to be bound by such rules; and
- Approving the formation of the necessary committees to facilitate the Fund’s business.

Figure 10: Organizational Structure of the SHF



Total staff estimate : 59 (excluding support)
(..) Staff needed

C. Consolidation of Entities

142. All units or departments in the Ministry with housing policy, planning, and programs as part of their mandate will be deactivated, and all staff will either join the SHF or be reassigned to related entities. The GSF will continue to be under the authority of the Ministry. In regard to the social housing programs of NUCA and the Governorates, a contract with the SHF will set the principles and objectives of such programs and define rules for monitoring and proper implementation.

143. A human resource review is currently underway to identify the specific Ministry staff members who will be brought to the SHF. It is anticipated that a significant number of staff will be reassigned to NUCA to help support their scale-up of activities. No civil servants will lose employment as part of this consolidation.

D. Assessment of the SHF's Organizational Structure and Institutional Arrangements

144. The World Bank provided technical advice to the Ministry for the design of the SHF organizational structure and institutional arrangements. The schema described above integrates international good practice, adapted to the realities of the Egyptian political, economic, and social context.

145. A somewhat comparable entity is Mexico's National Housing Commission, La Comisión Nacional de Vivienda (CONAVI). This federal institution was established 2001 as part of their Social Development Secretariat, Secretaría de Desarrollo Social (SEDESOL) to coordinate housing policy at the national level. Per the Housing Law of June 2006, it was made autonomous and placed above SEDESOL. The law provided a more comprehensive institutional setting for the sector, and expanded CONAVI's responsibilities to defining the housing policy, coordinating government efforts in the sector as well as monitoring and evaluating the implementation the NHP, among others. Starting in 2007, it also became responsible for resources for upfront housing subsidy programs.

146. Although CONAVI assumed these roles incrementally over the past decade, there are some lessons from their experience that could apply to the SHF. First, available and serviced land is the most significant bottleneck to the provision of affordable housing. In Mexico, the quality and degree of coordination between agencies in HUD has been a challenge. This can be seen in the impasse between CONAVI and SEDESOL concerning which agency provides housing assistance for the very poor and indigenous populations and which agency holds decision-making power on land management and development for low-income housing. As such, the SHF's coordination function should also take into consideration entities with urban development and land ownership roles.

147. Moreover, a World Bank review of housing policy in Mexico in 2009 found that CONAVI's effectiveness in coordinating and harmonizing housing policies and programs across agencies has been limited. Institutional and financial imbalances exist between CONAVI, which coordinates housing policy and has the lion's share of the resources for up front subsidies, and their Low-Income Housing Fund, Fondo Nacional de Habitaciones Populares (FONHAPO). The role of FONHAPO, which was originally focused on assisting the very poor in accessing the housing system, has been particularly unclear since CONAVI was granted autonomy from SEDESOL in 2006. The lesson for the Government is that it is necessary to consolidate/eliminate redundant housing entities in parallel with the introduction of the SHF in order to provide clarity to the sector and enhance impact.

V. PROGRAM EXPENDITURE FRAMEWORK

A. Evolution of Social Housing Expenditures in Egypt

148. Public sector entities in Egypt delivered 1.26 million public housing units during the period 1982-2005 (36 percent of all formal housing units built during this period in urban areas) at a total cost of LE 26 billion, excluding the cost of land and off-site infrastructure. The public sector did provide the bulk of affordable housing units built during the 1982-2005 period with 82 percent of all low-cost and economic housing units.

149. Various public sector agencies in Egypt have made considerable investments in housing over the years. Table 5 shows housing investment flows from 1993/94 to 2013/14 by agency. As can be seen, the Governorates have consistently made the largest investments. Second in level of investments is the General Organization for Cooperatives, although since 2005 their investment portfolio has shrunk considerably. Third in volume of investments is NUCA. Other public sector agencies have made modest housing investments. Note that while the large majority of these investments have gone for social housing (low-cost and economic units, between 85 percent and 95 percent of total units produced), the remainder have gone into middle, upper, and luxury housing.

Table 5: Historical Investments in Housing by Public Sector Agencies

Fiscal Year	Public Sector Investments								
	Governorates	Housing Companies	Joint Projects Agency	Coops	Housing Finance Fund	HDB	Taamir Agencies	NUCA	Total
1993	398,025	146,043		292,319	20,516	62,459	26,000	89,449	1,034,811
1994	456,829	142,953		225,148	35,450	112,095	55,922	109,931	1,138,328
1995	395,793	111,110		1,309,169	30,799	125,981	5,287	20,521	2,183,160
1996	366,568	99,233		967,567	18,033	96,623		298,927	1,846,951
1997	579,243	83,606		1,174,925	36,758	61,396		1,068,266	3,004,194
1998	407,521	119,913		261,421	27,229	141,061		1,156,442	2,113,587
1999	348,481	64,307	4,174	203,065	14,293	124,191	47,344	516,122	1,321,977
2000	268,637	63,144	-	43,496	12,361	109,180	41,505	277,644	815,967
2001	355,745	97,699	3,661	466,046	7,110	69,549	17,579	267,112	1,284,501
2002	274,141	33,595	2,640	590,580	6,311	38,051	4,700	21,914	971,932
2003	389,968	69,343	7,432	254,533	3,468	3,830	4,639	23,108	756,321
2004	291,355	97,922	10,408	200,739	-	16,790	321	59,449	676,984
2005	337,769	119,877	3,671	321,869	7804	19,968	6150	71,574	888,682
2006	549,831	112,422	7,995	73,612	8125	61,833	1021	258,897	1,073,736
2007	961,261	192,442	24,668	148,655	6225	66,135	3578	880,470	2,283,434
2008	1,624,144	350,824	84,470	43,711	9421	58,149	12461	844,209	3,027,389
2009	3,426,596	552,615	42,185	236,470	18013	99,171	21728	727,191	5,123,969
2010	3,348,724	311,251	1,128	53,256	13012	134,845	1450442	618,575	5,931,233
2011	2,298,606	276,712	-	25,172	6708	79,349	350754	227,462	3,264,763
2012	1,023,298	264,237	2,021	-	-	193,139	58641	211,500	1,752,836
2013	608,310	245,314	1,203	1,200,673	-	83,301	10960	19,100	2,168,861
Total	18,710,845	3,554,562	195,656	8,092,426	281,636	1,757,096	2,119,032	7,767,863	42,663,616

150. The sources of funding vary considerably by year and by agency with an average of LE 2 billion (US\$ 280 million) and a median of LE 1.8 billion (US\$ 250 million). Up until 2005 sources were mainly from the National Investment Bank in the form of soft loans (low interest rates) to the agencies, which were repaid from beneficiary contributions and, as was often the case, shortfalls were topped up from the central budget of the Ministry of Finance. At the local level, public housing programs in Governorates are, with few exceptions, part of the central

government domain. The insufficient transfers for affordable housing relative to needs and demand prompted Governorates to use local off-budget instruments to supplement their social housing programs, particularly through the Local Services and Development Fund (LSDF). After 2005 almost all housing investments were channeled through the NHP. The nominal subsidy element per beneficiary was directly allocated from the central government budget. Other investment costs (mainly serviced land) came from the housing agencies themselves.

151. The central government also provides extensive subsidies to make housing affordable to beneficiaries including land price write-down to developers and supply of long-term financing at below-market interest rates. The result is a significant fiscal burden and an inability to meet actual needs. Priority for these highly subsidized units is usually given to newly married couples and families that lost their shelter in slum clearance programs or as a result of their building's collapse.

152. **Cost of Low-Income Housing.** Construction costs increased significantly over the last decade, mainly due to a rapid rise in the price of building material such as steel reinforcement bars and cement. According to the Housing and Utilities Sector, the current average cost of 75m² for-sale low-income housing unit in Egypt is LE 150,000 (US\$ 21,000) including land and services. At 55 m², rental units are estimated to cost LE 120,000 (US\$ 16,800).

Table 6: Planned Versus Executed Public Sector-Built Housing Units

B. Historical Funding Predictability

153. The difference between planned and executed housing units can be used as a measure of historical funding predictability, if financing for the units is considered the binding constraint to delivery. As shown in Table 6, achievement of annual targets varies widely year to year.

Fiscal Year	Planned	Executed	Percentage of the Plan
1982–1987	238,750	197,647	82.8
1987–1992	600,000	386,879	64.5
1992–1997	802,431	331,417	41.3
1997–2002	229,708	287,957	125.4
2002–2003	50,000	21,788	43.6
2003–2004	50,000	14,945	29.9
2004–2005	50,000	17,440	34.9
2005–2006	50,000	14,136	28.3
2006–2007	50,000	16,567	33.1
2007–2008	50,000	25,774	51.5
2008–2009	50,000	33,904	67.8
2009–2010	50,000	53,561	107.1
2010–2011	50,000	70,293	140.6
2011–2012	50,000	78,529	157.1
2012–2013	50,000	30,573	61.1
2013–2014	50,000	19,329	38.7
Total	2,470,889	1,600,739	64.8

C. Projected Revenue of the SHF

154. In terms of sustainability, the SHF is being capitalized by the donation of the proceeds of sale of 50,000 units from the United Arab Emirates and the sales proceeds of 115,000 units currently under construction in the Governorates. Funding for the construction of the units by the Housing Directorates in the Governorates came from the State budget as part of the stimulus package. It is estimated that the sale of these 165,000 units will provide the SHF with US\$ 3.2 billion (LE 23.1 billion) in FY 14/15. In addition to this endowment, Law 33 of 2014 provides the SHF with other financial resources, including:

- a. Proceeds generated from rental, sale or lease of buildings established by the Fund;
- b. Budget surplus from NUCA.
- c. State budget allocations for specific projects.

- d. Amounts allocated for the Fund's purposes in agreements held with the State.
- e. Revenues generated from penalties collected in accordance with provisions of the law, and Construction Law 119 of 2008, and its executive regulations.
- f. Donations, grants, endowments, and amounts received from estates accepted by the Board of Directors.
- g. Loans approved by its Board of Directors²⁵
- h. Revenue generated from investing the Fund's money.
- i. One percent of the revenues generated from the auction of properties owned by the State, and public entities, and public sector companies.
- j. 25 percent of the revenues generated from the sale of lands owned by local entities.

155. These revenues represent a mix of earmarked funds (items b, e, i and j), annual budget allocations (c and d), irregular windfalls (f), debt (g), and self-generated funds (a and h). An assessment of the scale and predictability of the first two types—earmarked funds and annual budget allocations—was conducted for the past five years. Actual State budget allocation for social housing programs was used as a proxy for the amount that would have been channeled to the SHF had it existed in those years (Table 7).

Table 7: Historical Scale of SHF Funding Sources (US\$ millions)

Source of Funding	FY 05/06	FY 06/07	FY 08/09	FY 12/13	FY 13/14	Average
NUCA budget surplus*	101.6	110.9	139.8	5.2	202.8	112.1
State budget allocations for the Fund projects**				137.0	137.0	137.0
One percent of the revenues generated from the auctions of sale of properties owned by the State, and public entities, and public sector companies	1.6	3.0	2.6		9.9***	4.3
25 percent of the revenues generated from the sale of lands owned by the local units						

* Consists of current surplus for years FY05/06–FY 08/09 and sum of other provisions and retained earnings for years FY12/13–FY 13/14.

**State allocations to the Ministry used as proxy. FY10–14 is LE 1.25 billion per year for the NHP.

*** Revenue for NUCA auctions Jan–Sep 2014.

Table 8: Projected Revenue of the SHF (US\$ millions)

Source of Funding	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Returns generated by the Fund (sales)	-	1,118.9	1,118.9	1,118.9	1,118.9	1,118.9
Returns generated by the Fund (rental)	-	3.8	3.8	3.8	3.8	3.8
NUCA budget surplus	-	75.0	75.0	100.0	100.0	100.0
State budget allocations	250.0	139.9	139.9	139.9	139.9	139.9
Other amounts allocated by the State	2,573.4	-	-	-	-	-
Revenues generated from penalties	-	-	-	-	-	-
Donations, grants, and endowments	1,118.9	-	-	-	-	-
Loans	-	68.1	96.6	101.6	117.4	116.4

²⁵ The SHF is the sole recipient of foreign loans and grants for housing, housing finance and urban planning, and is responsible for setting the rules of use of such funds in agreement with the lender/donor.

Investment revenue	-	1.2	1.2	1.1	1.0	0.8
One percent of auctions of State properties	5.0	5.0	5.0	5.0	5.0	5.0
25 percent of auctions of Governorate land	-	1,118.9	1,118.9	1,118.9	1,118.9	1,118.9
Total	3,947.3	1,411.8	1,440.3	1,470.2	1,485.9	1,484.7

156. Based on this analysis, without external debt or revenues from operations, the SHF would have a budget of about US\$ 253.4 million per year on average. It is necessary to keep in mind that this sum must cover all demand- and supply-side activities. Based on the average cost of an economic unit (LE 150,000), this implies that current budget levels would facilitate the development of about 12,000 units per year.

157. This high-level review of past funding also shows that these sources of funding experience some fluctuation. Land sales are particularly unstable because real estate markets are highly cyclical. The demand for land, and the price of parcels, fluctuates violently, even in urban areas experiencing strong, long-term growth.²⁶

158. To project SHF revenues in the medium-term, conservative estimates of “earmarked” revenues have been used. Specifically, a NUCA surplus of US\$ 100 million, State budget allocation of US\$ 140 million, and US\$ five million from state land auctions. It is assumed that revenue for land auctions in the Governorates will be negligible (Table 8).

SHF Expenditures

159. In the short-term, the majority of resources in the SHF will be used for the construction of housing, both rental and ownership. For ownership units, the SHF is reimbursed upon sale of the unit to the beneficiary. However, a goal of the SHF is to gradually shift this balance in favor of household support (demand-side programs) as the Government moves away from being the primary producer of low-income housing and towards being an enabler of the whole housing market. Program expenditures are driven by the mix of housing type and source of production. To forecast the sustainability of the Fund, a conservative base scenario of housing supply was developed (Table 9) as well as a target number of demand-side subsidies per year (Table 10).

Table 9: Low-Income Housing Supply Assumptions

(Units)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	Total	Percent
Low-Income Ownership								
Governorates	50,000	50,000	50,000	50,000	50,000	50,000	300,000	38
NUCA	-	50,000	50,000	50,000	50,000	50,000	250,000	31
Private Sector	50,000	5,000	15,000	40,000	60,000	80,000	250,000	31
Sub-total	100,000	105,000	115,000	140,000	160,000	180,000	800,000	
Self-construction Program								
Governorates	-	-	-	20,000	25,000	30,000	75,000	100
Low-income Rental								
Governorates	-	15,000	15,000	15,000	15,000	15,000	75,000	60
Private Sector (employer, vacant, etc)	-	-	5,000	10,000	15,000	20,000	50,000	40

²⁶Peterson (2009), “Unlocking Land Values to Finance Urban Infrastructure”.

Sub-total	-	15,000	20,000	25,000	30,000	35,000	125,000	
Total Low-Income Housing								
Governorates	50,000	65,000	65,000	85,000	90,000	95,000	450,000	45
NUCA	-	50,000	50,000	50,000	50,000	50,000	250,000	25
Private Sector	50,000	5,000	20,000	50,000	75,000	100,000	300,000	30
Total	100,000	120,000	135,000	185,000	215,000	245,000	1,000,000	

Table 10: Cumulative No. of Household Beneficiaries under Inclusive Housing Finance Program (2016-2020)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Affordable Mortgage Program	-	50,000	125,000	300,000	500,000	725,000
Rental Programs	-	5,400	26,500	47,500	75,000	102,400
Total	-	55,400	151,500	347,500	575,000	827,400

160. Table 11 presents the projected expenditures for the SHF. Assumptions for these expenditures are provided in Annex 2.

Table 11: Projected SHF Expenditures

(US\$ millions)

Expenses	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Ownership						
Construction costs	-	1,049.0	1,049.0	1,049.0	1,049.0	1,049.0
Self-construction program	-	-	-	139.9	174.8	209.8
Upfront subsidies (new construction)	-	199.3	332.2	398.6	465.0	531.5
Upfront subsidies (existing units)	-	-	-	-	-	-
<i>Sub-total</i>	-	<i>1,248.3</i>	<i>1,381.1</i>	<i>1,587.4</i>	<i>1,688.8</i>	<i>1,790.2</i>
Rental						
Construction costs	-	251.7	251.7	251.7	251.7	251.7
Rental subsidy (public)	-	0.8	1.7	1.7	2.5	2.5
Rental subsidy (private)	-	-	0.8	1.7	2.5	3.4
<i>Sub-total</i>	-	<i>252.6</i>	<i>254.3</i>	<i>255.1</i>	<i>256.8</i>	<i>257.6</i>
Policy, Programming, M&E						
Overhead (salaries, offices, etc)	-	2.0	3.0	3.0	4.0	4.0
Studies, Plans, and M&E	-	2.0	2.0	2.0	2.0	2.0
Housing Data and Systems	-	3.0	3.0	2.0	2.0	2.0
<i>Sub-total</i>	-	<i>7.0</i>	<i>8.0</i>	<i>7.0</i>	<i>8.0</i>	<i>8.0</i>
Total Expenses	-	1,507.8	1,643.4	1,849.5	1,953.6	2,055.8

D. Sustainability of the SHF

161. In the scenario described above and supported by the Program, net income declines year on year starting in FY15/16, but overall the SHF's cash balance is quite buoyant due to its high level of initial capitalization. An analysis was conducted to test the sensitivity of the SHF cash balance in FY19/20 to a series of input variables including the: (i) number of public rental units;

(ii) size of the public rental subsidy; (iii) size of the upfront mortgage-linked subsidy; and (iv) number of upfront mortgage-linked subsidies provided. Each variable was tested independently. All four variables have negative slopes, meaning that as each increases, the FY19/20 SHF cash balance decreases. The SHF is sustainable in the medium run, through maintaining a positive cash balance due to its high capitalization. Similar to all subsidies funds, the SHF’s financial sustainability is dependent on its capacity to contain its expenditures through the different subsidies programs, which are managed by it. The base case scenario is shown in Table 12.

Table 12: Sustainability of the SHF in Base Case Scenario (US\$ millions)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Net Income	3,947.3	(96.1)	(203.1)	(379.4)	(467.7)	(571.1)
Cash Balance	3,947.3	3,851.3	3,648.1	3,268.8	2,801.1	2,230.0

162. *The sustainability of the SHF is highly sensitive to the number of public rental units.* Early plans for the SHF anticipated that 200,000 units would be produced as public rental. This would have a deleterious impact on the SHF. The Program’s final target of 102,400 rental units produced by the public and private sector is feasible. The public rental program will be eliminated in the medium term. In regard to the demand-side rental subsidy, the SHF is relatively insensitive to increases in the monthly rental subsidy. In fact, fully subsidized rents would have an impact of only four percent on the cash balance of the SHF in FY 19/20.

163. The sustainability of the SHF is more sensitive to the size of the upfront mortgage-linked subsidy than the number provided. Holding the number of upfront subsidies fixed at 725,000, its cash balance would be depleted in FY 19/20 if the upfront subsidy reached LE 33,262. This might occur when the CBE program is phased out and interest rates would increase by about three percent. That scenario assumes, however, that the same income group and number of households will be served and the same standard of housing unit will be provided. A more likely scenario will be that the parameters of the program will be adjusted and fewer subsidies will be issued. Under the CBE’s current interest rate conditions, the cash balance in FY 19/20 reaches zero when the cumulative number of upfront subsidies exceeds 1.36 million units which is highly unlikely.

E. Program Expenditures

164. The Program supported by the Program-for-Results Financing (PforR) operation only includes the policy, programming, and demand-side subsidy activities of the SHF. As such, within the scope of the Program, expenditures will include salaries, operating expenses, goods, and other overhead expenses related to policy, M&E, as well as the costs of the demand-side programs. Table 13 provides a breakdown of the anticipated expenses during the life of the operation. It is a subset of the expenditures shown in Table 10 (above). Total Program expenditures are expected to be approximately US\$ 2 billion (FY 15/16 – FY 19/20).

Table 13: Program Expenditures (US\$ millions)

	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Overhead (salaries, offices, etc)	2.0	3.0	3.0	4.0	4.0
Studies, Plans, and Capacity Building	2.0	2.0	2.0	2.0	2.0
Housing Data and Systems	3.0	3.0	2.0	2.0	2.0
Upfront subsidies	199.3	332.2	398.6	465.0	531.5

Rental subsidies	0.8	2.5	3.4	5.0	5.9
Total Expenses	207.1	342.7	409.0	478.1	545.3

VI. PROGRAM RESULTS FRAMEWORK AND M&E

A. Results Framework and Results Chain

165. The official mission of the SHF is to design housing laws and regulations, design social housing programs, provide oversight for their implementation in consultation with relevant housing entities, and to manage financial resources for social 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. The World Bank has been working with the Ministry to define the roadmap within the Bank-supported Program that will help the Government achieve this long-term goal.

166. To that end, the Program includes the five Results Areas described below. For each Results Area, the key obstacles or challenges that it addresses as well as the “results chain” or roadmap for working towards the ultimate outcomes are provided. Elements of the results chain that are included in the operation design as Disbursement Linked Indicators (DLIs), Program actions (Program Action Plan), or Program results (Results Framework) are indicated with color coding.

167. ***Results Area 1: Strengthening Governance and Institutional Set-up of the Housing Sector.*** The social housing sector in Egypt has suffered from poor governance, fragmented entities and programs that are weakly coordinated. SHF will consolidate critical expertise, functions, entities, and programs related to low-income housing in one entity, as well as design new ones with the objective of ensuring effective coordination, synergies, and sound governance. With the goal of establishing an accountable, competent and responsive bureaucracy, the SHF has appointed a competent and experienced Executive Director who is appointing a strong leadership team and assembling core staff from the Ministry, in addition to experts in social housing policies and program development. Corporate governance procedures for the functioning of the SHF Board and Audit Committee will be established. As the primary channel of funding for housing in the country, it is critical to ensure efficient use of public expenditures.

168. The Program includes a DLI to establish an internal audit function (DLI 1). The internal audit function will include the assessment of risks associated with improper benefit payments, use of analytical procedures, information system audit and assurance standards, and data mining tools, spot checks and field visits to validate continued relevance of internal controls, including the quality of the complaints mechanism, and follow-up on the timely implementation of audit recommendations. The internal audit unit will also play an important role to foster enforcement of the penalties for fraudulent practices established by law. The results chain for Results Area 1 is provided in Figure 11.

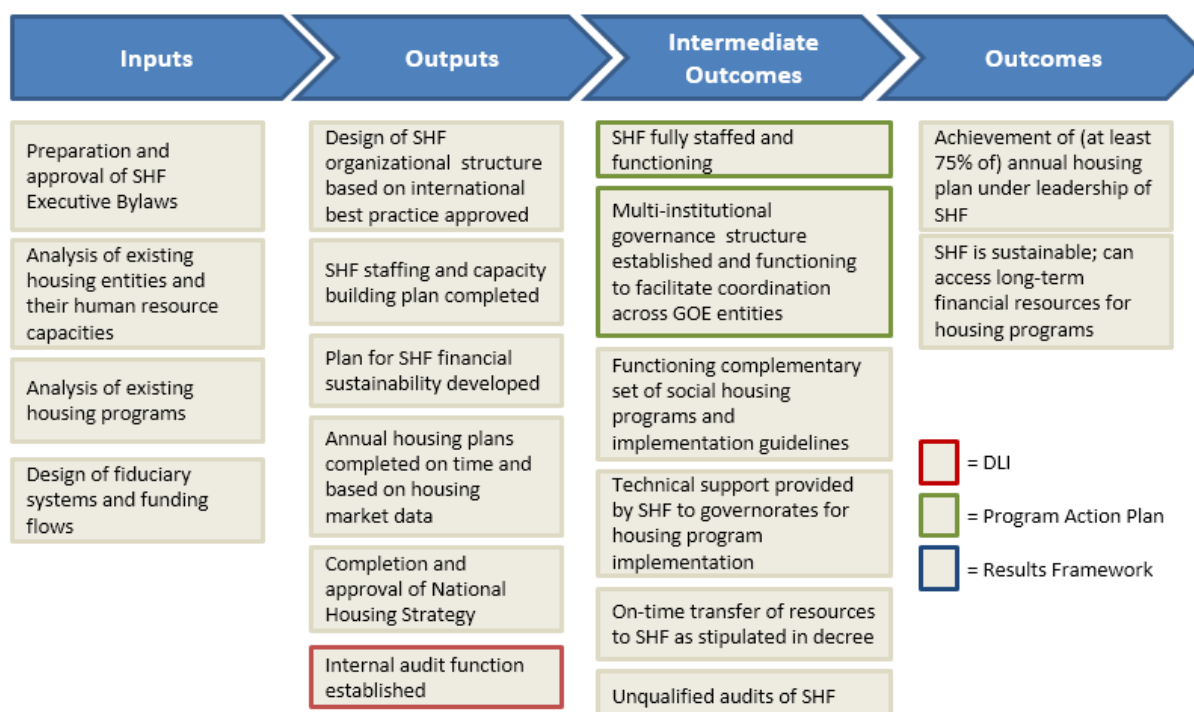
169. ***Results Area 2: Enhancing Transparency and Accountability of Social Housing Programs.*** Management of information systems (MIS) is critical for the sustainability and effectiveness of housing programs whether implemented through the public or the private sector. The ability to efficiently collect accurate data on housing demand and production is a key input for improving policy design, and the decision-making. Moreover, housing finance subsidy

programs need to be monitored regularly and adapted to changing social and economic conditions. The establishment of a robust Research and M&E unit within the SHF is a fundamental building block. Public dissemination of housing indicators, housing expenditures, and program selection criteria is essential for promoting transparency and accountability. The establishment of a robust integrated grievance redress mechanism will help address the local level complaints and concerns in an efficient manner that ensures that beneficiaries have a voice and are responded to in a timely manner.

170. In addition to the internal audit function described under Results Area 1, the Program includes three additional DLIs focused on enhancing transparency and accountability in the SHF. The first is the establishment of a housing M&E system that compiles a comprehensive set of housing sector indicators, collected on at least an annual basis from Governorates, housing agencies, ministries, and other relevant non-governmental organizations (DLI 2). This data is used for planning and is disseminated to the public. The second is the establishment of a functioning accountability and transparency mechanism, including, at a minimum: (i) a national public awareness campaign targeted at potential Program beneficiaries; (ii) standard processing times for subsidy applications; (iii) established procedures for rejected applicants to receive explanation of program requirements not complied with; (iv) monitoring of rejected applications; (v) establishment of a robust and integrated grievance redress mechanism; (vi) public dissemination of consolidated data on number and location of beneficiaries, the SHF subsidy expenditures, and pipeline housing developments; and (vii) publication of the program audited financial statements (DLI 3).

171. Finally, the Program includes a DLI that simultaneously addresses leakage issues and the significant housing vacancy problem. The SHF must establish a mechanism for monitoring the occupancy of housing units for which subsidy is provided as part of the Program (DLI 4). This system will include clear rules stipulating the limitations on the resale and occupancy of units, procedures for communicating these rules to Program beneficiaries, a post-occupancy survey on a representative sample of units, and procedures for dealing with non-complying beneficiaries. The results chain for Results Area 2 is provided in Figure 12.

Figure 11: Results Chain for Results Area 1– Strengthening Governance and Institutional Set-up of the Housing Sector



Source: World Bank (2014).

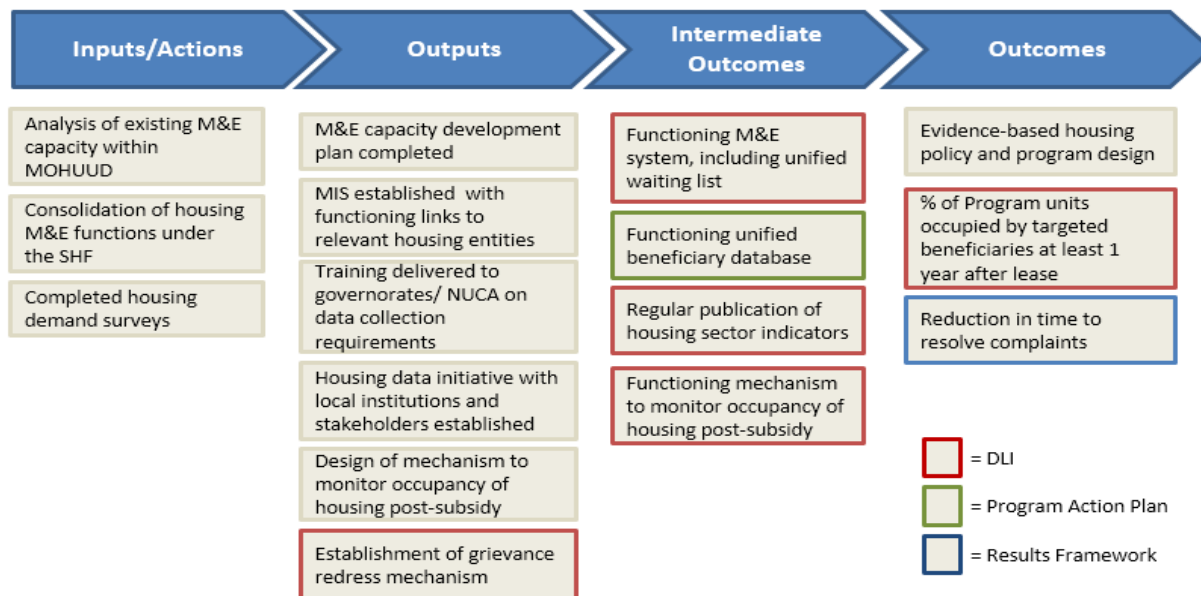
172. **Results Area 3: Improving Access to Affordable Housing.** The SHF will focus on designing and subsidizing housing programs for underserved households—youth, low-income, households in lagging regions—offering them a wider choice of tenure and house-types, including rental options. The AMP has been successful in providing access to the formal housing market with a financial package consisting of savings, subsidy, and mortgage, but it needs to be scaled-up to meet the current and future demand of this income segment. However, a very large segment of poor households cannot afford the monthly payment or qualify for a mortgage loan or do not qualify due to informal incomes. These households require subsidized rental housing, subsidies or guarantees to access mortgage loans or alternative forms of credit for housing in order to acquire a new or existing house.

173. Despite the new Rental Law of 1996, there are multiple obstacles to the expansion of the rental housing market in Egypt—a large proportion of the housing stock is frozen under the old rent control, unfavorable tax laws (i.e. treatment of rental income), and cumbersome eviction procedures.²⁷ A byproduct of the dysfunctional rental market is the high number of vacant units. The SHF will address these inefficiencies as mentioned above, in order to attract private rental investors and address the chronic vacancy issue. Moreover, the Ministry is formulating a strategic approach to incorporate vacant and unfinished housing units into the housing market. In addition to creating new housing for low-income households, the Ministry 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 the market.

²⁷ Units that are currently vacant or built after 1996, are not impacted by rental control.

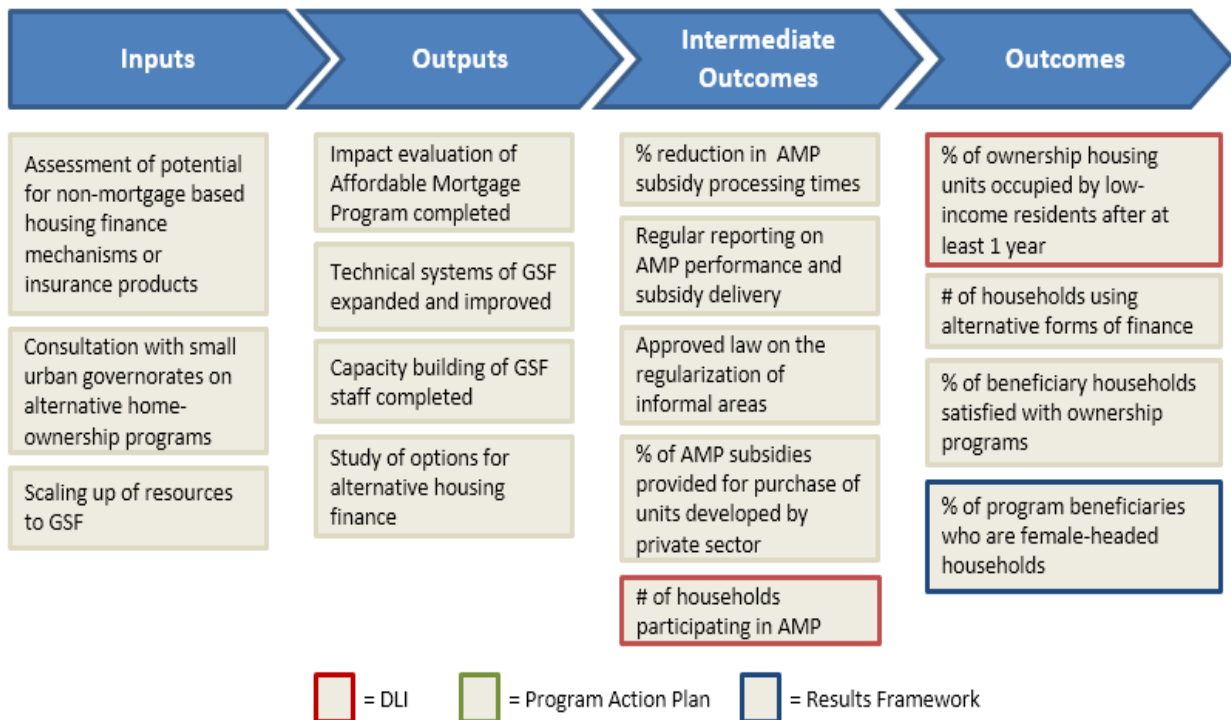
174. The Program design includes two DLIs focused on incentivizing the delivery of demand-side subsidies to low-income households (DLIs 5 and 6). The targets set for ownership subsidies represent a significant scaling-up of the AMP. To achieve the rental subsidy targets, the SHF will need to develop and launch the public and private rental subsidy programs. It is important to note that DLI 4, the mechanism for monitoring and enforcing housing occupancy by targeted beneficiaries will help to ensure that new programs do not add to the current stock of vacant units and that elite capture or leakage is minimized. The results chains for Results Area 3 are provided in Figures 13 to 15.

Figure 12: Results Chain for Results Area 2 – Enhancing Transparency and Accountability of Social Housing Programs



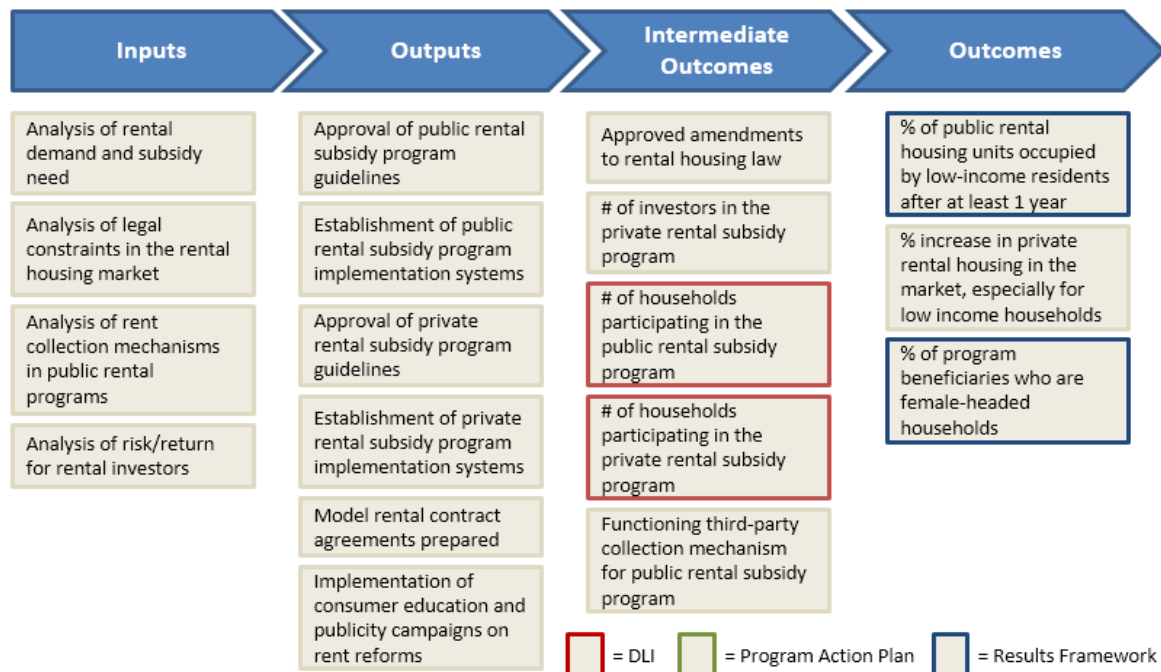
Source: World Bank (2014).

Figure 13: Results Chain for Results Area 3 – Improving Access to Affordable Housing (Homeownership)



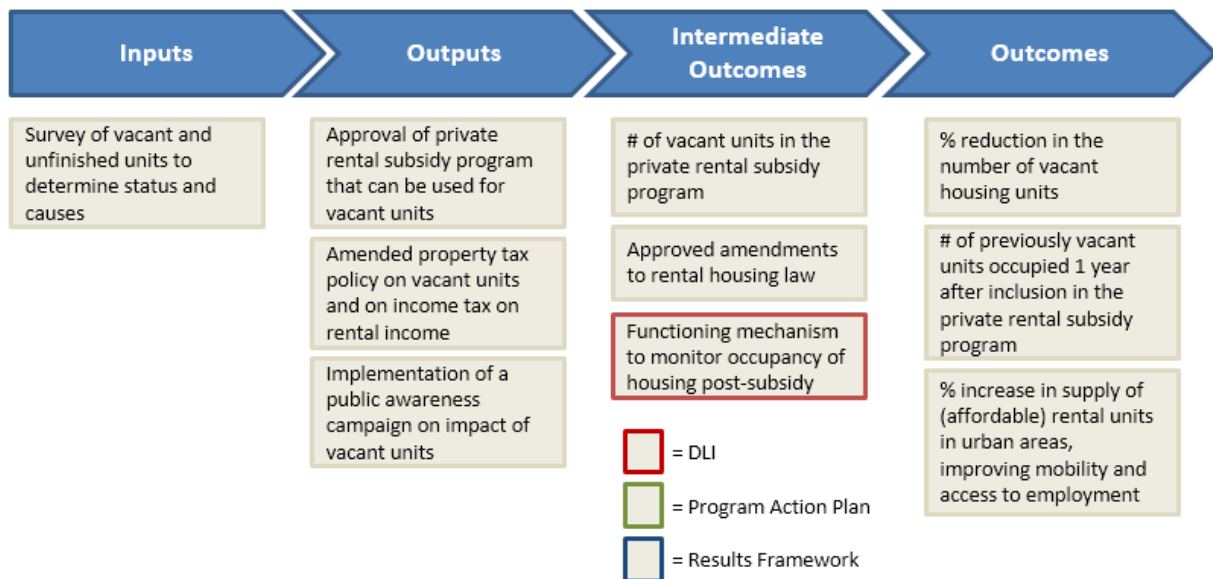
Source: World Bank (2014).

Figure 14: Results Chain for Results Area 3 –Improving Access to Affordable Housing (Rental)



Source: World Bank (2014).

Figure 15: Results Chain for Results Area 3 – Improving Access to Affordable Housing Utilizing Vacant and Unfinished Units



Source: World Bank (2014).

175. **Results Area 4: Promoting Well Located Social Housing.** Equitable access to services, connectivity and amenities is essential to foster well-functioning urban areas and to ensure long term sustainability of the housing sector, notably through lower vacancy rates. The Program will support the design and financing of demand-side social housing programs to increase affordability and access to housing. It is anticipated that most new housing developments will be built on publically owned, undeveloped land allocated, auctioned, or disposed of through PPP arrangements. To reduce the risk of increasing sprawl and spatial inequality, the Program will incorporate eligibility criteria to ensure that units have access to basic services and infrastructure and will include a DLI (DLI 7) to promote better linkages between housing and employment.

176. Specifically, Program eligibility criteria mandate that sites should be: (i) designated for social housing by urban planning authorities²⁸; (ii) connected to basic utilities; (iii) connected to the transport network; and (iv) accessible to basic services, such as schools and health clinics. DLI 7 will incentivize that units acquired with demand-side subsidies supported under the Program are located near employment opportunities. This will be measured as the percentage of Program units located within a 60 minute travel time from an employment center.²⁹ Given current data limitations, DLI 7 will measure the expected travel time between the site/unit and the closest village with at least the mean number of jobs for the Governorate in which it is located. For Greater Cairo the expected travel time between the unit and the closest homogeneous sector (as defined by GOPP) will be used. It is important to note that DLI 7 will be calculated using a GIS system and under standard assumptions and it will not measure the actual commute time for each Program beneficiary, but only the expected (or “theoretical”) time to an employment center as a proxy for “good” location. During Program implementation, GOPP will receive TA to develop more robust accessibility models. These models will serve not only to measure the match

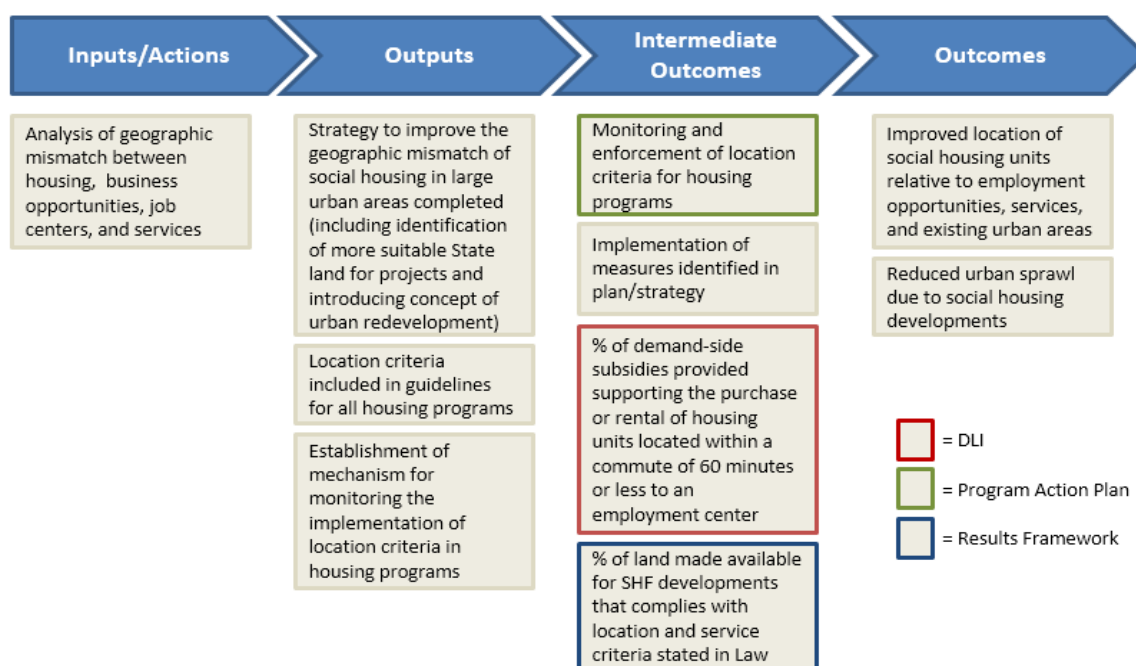
²⁸ Master plans are developed by the GOPP within the Ministry, and approved at the Prime Ministerial level.

²⁹ The 60 minute benchmark was selected upon the basis of existing travel data, taking into account that most of the Program beneficiaries are expected to use public transportation.

between housing and employment more accurately, but also to guide housing policy towards the design of policies and programs that promote well-functioning urban areas, increase urban sustainability and reduce physical exclusion of the lower income segments. Finally, the results framework includes a list of more granulated indicators (for example units located within 45 or 30 minutes) in order to provide the Program with sufficient information to fine-tune the guidelines and better understand the land and city dynamics. The results chain for Results Area 4 is provided in Figure 16.

177. Combined, these measures are expected to promote not only better siting of social housing in relation to jobs and services under the Program, but also more efficient use of serviced land and more compact urban growth. In addition, these locational criteria will assure that the beneficiaries of the AMP program receive valuable assets which will contribute to long-term wealth redistribution.

Figure 16: Results Chain for Results Area 4 – Promoting Well Located Social Housing

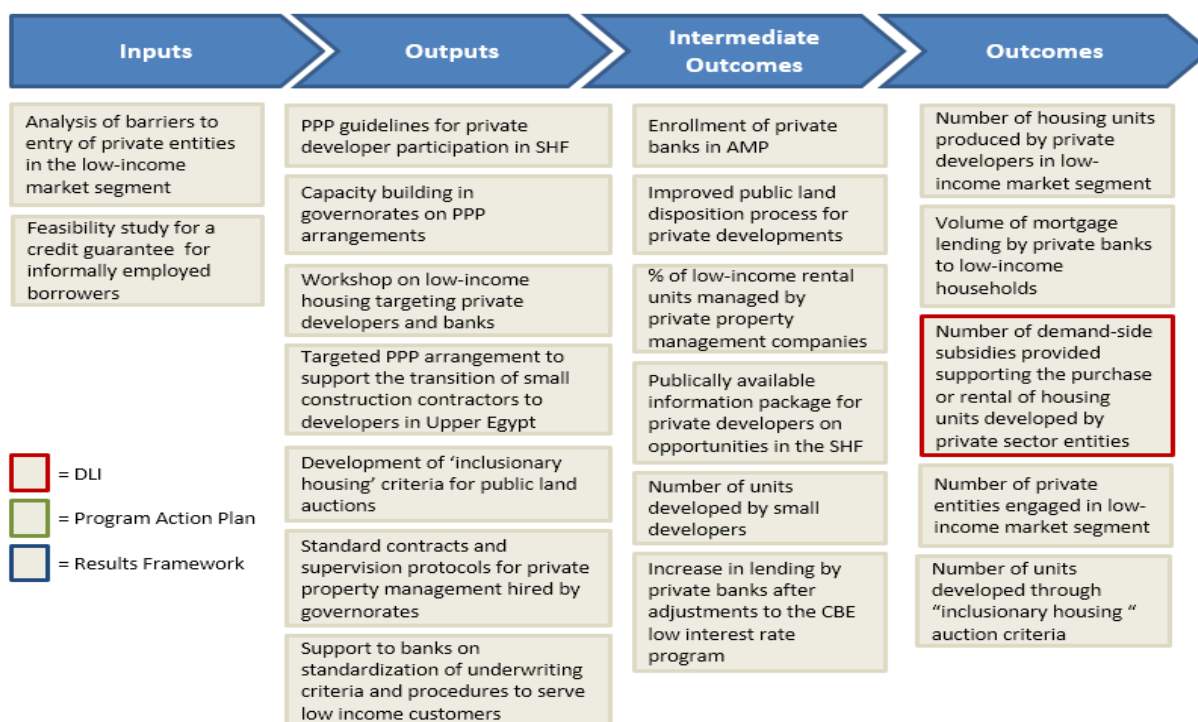


Source: World Bank (2014).

178. **Results Area 5: Promoting Private Sector Participation in Low-Income Housing.** Egypt cannot address its housing deficit without the strong participation of the private sector, including banks, mortgage companies, construction companies, and developers, in the low-income housing market. To rebuild the momentum that was developing in this nascent market segment prior to the Revolution, the SHF must define itself as a credible and effective partner and ensure a level playing field for all private sector entities. Achieving this will require a multi-pronged approach, including public dissemination of PPP guidelines for its programs, a targeted program to help small-scale contractors in Upper Egypt—currently building housing units based on a fixed profit margin—transform into development companies. It is also important to design and implement ‘Inclusionary Housing’ requirements into public land auctions. Continuing the consultations with private sector entities would be critical. This will need to be accompanied by refinements to the CBE low interest rate program to attract more private banks and developers to the low-income market segment. The Program includes a DLI focused on the outcome of this set

of actions—an increase in the number of demand-side subsidies supporting the purchase or rental of housing units developed by the private sector (DLI 8). The results chain for Results Area 5 is provided in Figure 17.

Figure 17: Results Chain for Results Area 5 – Promoting Private Sector Participation in Low-Income Housing



Source: World Bank (2014).

B. Disbursement-Linked Indicators

179. The Program DLIs represent key milestones in the achievement of Program outcomes. Indicators that help to address multiple Results Areas were given priority. In order to keep the number of DLIs to a manageable number, some indicators were consolidated into one DLI. Some of the DLIs are related. For example, a demand-side subsidy provided to a household to help purchase a housing unit produced by the private sector and located within a 60 minute travel time to an employment center would support the achievement of three DLIs—DLIs 5, 7, and 8.

Table 14: Summary of Disbursement-Linked Indicators

Disbursement-Linked Indicator	Definition	Amount (US\$ millions)
Results Area 1: Strengthening Governance and Institutional Set-up of the Housing Sector		
DLI 1: Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with SHF	The internal audit function should be established in the SHF, reporting to the Board through an Audit Committee. The internal audit function should cover, at a minimum: (i) assessment of the risks associated with improper benefit payments; (ii) use of analytical procedures, information system audit and assurance standards, and data mining tools; (iii) undertaking of spot checks and field visits to validate continued relevance of internal controls, including the quality of the complaints mechanism; and (iv) procedures for following up on the timely implementation of audit	25

recommendations have been established.

Results Area 2: Enhancing Transparency and Accountability of Social Housing Programs		125
DLI 2: Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within the SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system	A functioning M&E system is defined as, at a minimum: (i) a fully staffed M&E unit; (ii) an agreed set of comprehensive housing sector indicators, including social housing programs, that are collected on at least an annual basis from Governorates, housing agencies, ministries, and other relevant non-Governmental organizations; (iii) public dissemination of a minimum set of housing data on an annual basis. Multi-Year Plan and Annual Targets approved by the SHF must explicitly refer to and reflect this data.	25
DLI 3: The establishment and functioning of an accountability and transparency mechanism within SHF for implementing the Program	A functioning accountability and transparency mechanism includes, at a minimum: (i) a national public awareness campaign targeted at potential Program beneficiaries; (ii) standard processing times for subsidy applications; (iii) established procedures for rejected applicants to receive explanation of program requirements not complied with; (iv) monitoring of rejected applications; (v) establishment of a grievance redress mechanism; (vi) public dissemination of consolidated data on number and location of beneficiaries, the SHF subsidy expenditures, and pipeline housing developments; and (vi) publication of the program audited financial statements.	50
DLI 4: The establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy and percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP	The SHF must establish a mechanism for monitoring the occupancy of housing units for which subsidy is provided as part of the Program. This system must include, at a minimum: (i) rules stipulating the limitations on the resale and occupancy of units; (ii) procedures for communicating these rules to Program beneficiaries; (iii) operational manual for conducting a post-occupancy survey on a representative sample of units; and (iv) procedures for dealing with non-complying beneficiaries. In Years 2-5, DLI measures the percentage of total housing in the Program portfolio that is in compliance with occupancy rules at least one year after the subsidy is provided to the beneficiary. The SHF conducts post-occupancy survey of AMP subsidy recipients based on approved mechanism to monitor occupancy of housing post-subsidy.	50
Results Area 3: Improving Access to Affordable Housing		275
DLI 5: Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP	DLI measures new AMP subsidies provided to targeted beneficiaries to purchase housing units produced by the public and private sectors Report on demand-side homeownership subsidies is to be produced by the SHF (or related entity) on a quarterly basis.	225
DLI 6: Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation	DLI measures number of new rental subsidies provided to Program beneficiaries to rent housing units produced by public and private sectors. Report on rental subsidies to be produced by the SHF (or related entity) on a quarterly basis.	50
Results Area 4: Promoting Well Located Social Housing		25

DLI 7: Percentage of demand-side subsidies provided under the Program supporting the purchase or rental of housing units located within a commute of 60 minutes or less to an employment center	DLI measures new units added to the Program during the year. Location analysis will measure in the GIS system used for physical planning (GOPP) expected travel time between the unit and the closest village with at least the mean number of jobs for the Governorate in which it is located. For the Greater Cairo area the expected travel time between the unit and the closest homogeneous sector (as defined by GOPP) will be used. The M&E unit of the SHF will compile the information on the location of units and the GOPP will conduct the location analysis as described for homeownership and rental units. The indicator will be reported through the quarterly monitoring reports.	25
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Results Area 5: Promoting Private Sector Participation in Low-Income	50
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DLI 8: Number of demand-side subsidies provided under the Program supporting the purchase or rental of housing units developed by private sector entities in each Fiscal Year during Program implementation.	DLI measures the percentage of total Program beneficiaries who receive a subsidy to own or rent a unit that was produced by a private developer. Private sector is defined as a company or organization that is majority owned (at least 51 percent) by private individuals or is listed on the stock exchange.	50
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TOTAL	500
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C. Program Results Framework

180. In addition to the DLIs, there are multiple results and performance indicators that will be monitored by the Program.

Table 15: Program Results Framework and Monitoring

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

PDO Level Results Indicators	Core	DLI	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsible for Data Collection
					2016	2017	2018	2019	2020			
Number of targeted households accessing ownership and rental housing units with support from the Program (number), of which female-headed households (percent)	<input type="checkbox"/>	<input type="checkbox"/>	Number Percent	0 24	55,400 24	151,500 24	347,500 24	575,000 24	827,400 24	Annual	SHF	SHF
Percentage of Program beneficiaries in bottom 20 percent of the income distribution	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	50	50	50	50	50	Annual	SHF	SHF
Percentage of income spent on housing costs by Program beneficiaries	<input type="checkbox"/>	<input type="checkbox"/>	Percent	N/A.	30	30	30	30	30	Annual	SHF	SHF
Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Y/N	No	Yes	Yes	Yes	Yes	Yes	Annual	SHF	SHF
Intermediate Results Area 1: Strengthening Governance and Institutional Set-up of the Housing Sector												
Completed executive by-laws, organizational structure, financing model, fiduciary arrangements, operating systems for the SHF	<input type="checkbox"/>	<input type="checkbox"/>	Y/N	No	Yes	Yes	Yes	Yes	Yes	Annual	SHF	SHF
SHF fully staffed as per organizational plan	<input type="checkbox"/>	<input type="checkbox"/>	Y/N	No	No	Yes	Yes	Yes	Yes	Annual	SHF	SHF
Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with the SHF	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Y/N	No	No	Yes	Yes	Yes	Yes	Annual	SHF	SHF
Adequate staffing of social officers as per organizational plan	<input type="checkbox"/>	<input type="checkbox"/>	Y/N	No	No	Yes	Yes	Yes	Yes	Annual	SHF	SHF
Number of capacity building and training workshops conducted for the hired social workers at the Central and Governorate level.	<input type="checkbox"/>	<input type="checkbox"/>	Number	0	10	17	21	24	27	Annual	SHF	SHF
Intermediate Results Area 2: Enhancing Transparency and Accountability of Social Housing Programs												
Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Y/N	No	Yes	Yes	Yes	Yes	-	Annual	SHF	SHF
Percentage of rental housing units occupied by targeted beneficiaries at least 1 year after lease	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	-	-	75	75	75	Annual	SHF	SHF
Percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Percent	0	-	65	75	85	85	Annual	SHF	SHF
Unified social programs and beneficiary databases	<input type="checkbox"/>	<input type="checkbox"/>	Y/N	No	No	Yes	Yes	Yes	Yes	Annual	SHF	SHF
Establishment and functioning of an accountability and transparency mechanism within SHF for implementing the Program.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Y/N	No	Yes	Yes	Yes	Yes	Yes	Annual	SHF	SHF
Average time required to resolve complaints in AMP (days)	<input type="checkbox"/>	<input type="checkbox"/>	Number	60	50	40	30	20	20	Annual	SHF	SHF
Percentage of resolved complaints received by SHF and Governorate housing offices	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	75	90	90	90	90	Annual	SHF	SHF
Annual published reports on complaints and how issues were resolved, including resolution rates	<input type="checkbox"/>	<input type="checkbox"/>	Y/N	No	No	Yes	Yes	Yes	Yes	Annual	SHF	SHF

Intermediate Results Area 3: Improving Access to Affordable Housing												
Number of households receiving demand-side homeownership subsidies for new housing units during Program implementation under the AMP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Number	0	50,000	125,000	300,000	500,000	725,000	Annual	SHF	SHF
Number of new households participating in rental subsidy programs during Program implementation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Number	0	5,400	26,500	47,500	75,000	102,400	Annual	SHF	SHF
Number of previously vacant units occupied 1 year after inclusion into the Program	<input type="checkbox"/>	<input type="checkbox"/>	Number	0	0	5,000	10,000	20,000	30,000	Annual	SHF	SHF
Intermediate Results Area 4: Promoting Well Located Social Housing												
Percentage of demand-side subsidies provided supporting the purchase or rental of housing units located within a commute of 60 minutes or less to an employment center	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Percent	0	50	50	50	50	50	Annual	SHF	SHF
Percent of demand-side subsidies supporting the purchase or rental of housing units within a 45 minute travel time to an employment center	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	30	30	30	30	50	Annual	SHF	SHF
Percent of demand-side subsidies supporting the purchase or rental of housing units within a 30 minute travel time to an employment center	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	15	15	15	15	15	Annual	SHF	SHF
Percentage of land made available for SHF developments that complies with location and service criteria stated in Law	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	80	100	100	100	100	Annual	SHF	SHF
Intermediate Results Area 5: Promoting Private Sector Participation in Low-Income Housing												
Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities during Program implementation ³⁰	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Number	0	5,000	25,000	75,000	150,000	250,000	Annual	SHF	SHF
Percent of demand-side subsidies supporting the purchase or rental of housing units developed by the private sector	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	6	14	29	37	43	Annual	SHF	SHF
PPP guidelines publically disseminated	<input type="checkbox"/>	<input type="checkbox"/>	Y/N	0	Yes	Yes	Yes	Yes	Yes	Annual	SHF	SHF

³⁰ Private sector entities are those that are owned at least 51 percent by private individuals or are listed on the stock exchange

D. Assessment of Housing M&E Capacity in Egypt

181. The SHF is expected to play an important role in monitoring and evaluating social housing in the country with the objective of using this data to improve housing policy and programs. Given 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.

182. 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. Moreover, no evaluation of the effectiveness of beneficiary targeting has been conducted. A general conclusion is that the focus of existing M&E activities in the Ministry and the Governorates has been on the production of units (i.e., number of units started, under construction, completed, and handed over by agency) and the financial flows during this development process.³¹ The following describes how the tracking of this process is carried out.

183. The Housing and Utilities Sector of the Ministry's central *Diwan Aamlil-Iskan* is the main agency involved with tracking the implementation of social housing programs. It is also responsible for tracking private sector housing activities by gathering statistics on building permits issued. The Housing and Utilities Sector sends forms to a number of government agencies to be filled out and returned. These are sent out every quarter. In addition, a set of annual summary forms for the FY (both "initial" and "final") are distributed. The agencies that receive these forms are as follows:

- 27 Housing Directorates in each governorate (seven forms, of which two track social housing production achievements and five track permits of new construction and vacancies in housing built by the formal private sector).
- NUCA (seven forms).
- Joint Projects Agency (two forms).
- Central Agency for Development/Taamir (two forms).
- HDB (two forms).
- General Authority for Cooperative Housing (two forms).
- Maamoura Housing Company (two forms).
- Shams Housing Company (two forms).
- Nasr Housing Company (two forms).
- Maadi Housing Company (two forms).
- Misr al-Gedida Company (two forms).
- Housing Finance Fund (two forms).

184. The heaviest data demand for housing data rests upon the Housing Directorates of each of the Governorates. Data from these Housing Directorates include information on building and occupancy permits issued (for example; number of permits, number of units, estimated investment amount, and fines). These appear to be the only sources of information on private sector housing activities in the country.³² Although the forms request building permit data broken

³¹ Tracking the installment payments on housing loans made by beneficiaries after unit delivery is the responsibility of designated public banks; the Ministry does not participate in this.

³² NUCA is said to track housing projects built by private developers in the new towns.

down by city, city district, and rural district within each governorate, such detailed information is not included in the tables produced by the Housing and Utilities Sector.

185. Most agencies respond relatively promptly to these data requests from the Housing and Utilities Sector. The exception is NUCA, which is generally slow to respond and has not submitted data since 2011. This could be related to resource control. NUCA has a separate budget from the Ministry and independent sources of income. By contrast, the Housing Directorates in the Governorates rely upon the Ministry for the majority of their resources.

186. The Housing and Utilities Sector receives the data from the agencies, performs a quality control function (including requesting clarification or additional information), and then compiles the data into several standard tables in Excel, including:

- Number of units implemented;
- Number of units implemented by category;
- Comparison of units planned and executed;
- Number of vacant units;
- Value of housing investments; and
- Value of associated housing loans.

187. These data tables are made available to senior management in the Ministry and other ministries, but are not available to other government entities without permission. The tables are not available to the public, although some summaries have been presented in press conferences.

188. The data gathering and processing exercise is done in hard copy (forms are frequently sent by fax.) Maps of housing project locations and plans of housing estate layouts or housing units are not currently included in the M&E process.

189. Among agencies affiliated with the Ministry, NUCA is said to carry out ad hoc research on housing demand based on analysis of housing applications. This information is used to plan for future social housing projects in the new towns. It also has an Information Center that is said to generate statistics on housing, utilities connections, and vacancies. However, NUCA does not typically release this information.

190. GOPP established the NUO in 1990 with the key mandate to provide all relevant data and urban indicators to decision and policy makers responsible for preparing and formulating national urban development policies. From 2005 to 2008, the Canadian International Development Agency (CIDA) provided support to the NUO to monitor housing conditions.

191. There is a small unit loosely associated with the Minister's Office in the Ministry called the Central Agency for Development and Housing (al-gehad al-markazilil-taamirwa al-iskan) that was set up in the 1980s and still has a certain monitoring function. It is said to collect data from NUCA among other sources.

192. The Affordable Housing Program has a modern and sophisticated loan automation system that tracks household level information (location, gender, and income), loan and subsidy level information (size, down payment, interest rate, tenure, product, type and amount of subsidy) and lender information (type of institution, escrow amount) over time. It also measures a limited number of indicators on the efficiency of the system such as the number of staff relative to the number of loans processed, turnaround time of applications, etc. This system can generate regular monitoring reports to keep track of product and household trends.

193. The HDB and the Ministry are in the process of developing a house price index (HPI) for urban areas. Egypt presently lacks any form of HPI to inform policy makers and housing market participants regarding trends in housing values/prices. A timely and accurate HPI will improve the transparency and efficiency of the housing finance system, and will support the design and implementation of housing subsidies. It was decided that the HPI will be established in the Information Center of NUCA. The GOPP will contribute data on urban indicators, including housing stock data needed for statistical weighting of HPIs. A local property developer, Madinet Nasr Housing & Development, has also agreed to provide data, and Coldwell-Banker Egypt has tentatively agreed to contribute as well.

194. CAPMAS conducts a national census every 10 years (next is 2016), and includes the collection of useful data on households and buildings at the district level. For example, the census includes information on the following at the district level;

- Number of residential units (unit type, occupancy, under construction);
- Number of buildings (use, ownership, utility connection); and
- Household size.

E. SHF M&E Systems and Capacity

195. As a fundamental input to policy making and program design, providing the M&E of the housing sector is one of the key functions of the SHF. Leveraging existing data collection processes in the Ministry entities, the SHF will need to significantly ramp-up its M&E capacity to successfully assume this function. A strong M&E system within the SHF and in specific housing programs will also be necessary to ensure the credibility of Program DLIs.

196. A Central Department for M&E will be established within the 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 analysis based on policy making and program design needs. An in-depth review of housing data availability will be necessary to avoid duplication of effort. Moreover, past donor-funded studies and TA programs will be reviewed for their relevance to the M&E function in the SHF.

197. The SHF's M&E unit will primarily rely on reporting from housing program entities like the GSF, NUCA, and the Housing Directorates in the governorate for data on social housing units and beneficiaries. Mechanisms to automate or achieve other efficiencies in that collection process will be 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 curation, analysis, and dissemination role. This is well aligned with international best practice, including the US Department of HUD (see Box 2).

F. Use of M&E in SHF Resource Allocation Decisions

198. As described earlier, the SHF is required in its Executive Bylaws to create multi-year plans and annual targets for social housing programs. Data collected from the Governorates and other sources, such as demand surveys, will be a key input into the planning process by helping to define the allocation of types of units and programs (public rental programs, private rental programs, affordable ownership housing), geographical location of units, initial allocation of units among housing entities, and indicators for performance reporting.

Box 2: The U.S. Housing Information System

National housing information systems are typically composed of data collected through a national housing survey and data collected from multiple private sources. In the USA, for example, the Department of Housing and Urban Development (HUD) serves as the main compiler of housing statistics, issuing a quarterly compendium of housing data and an annual report.

HUD's Office of Policy Development and Research (PD&R) is responsible for maintaining current information on housing needs, market conditions, and existing programs, as well as conducting research on priority housing and community development issues. PD&R also maintains extensive data on the characteristics of subsidized housing units and tenants, which is collected from local HUD offices. The role of PD&R is to provide reliable and objective data and analysis to help inform policy decisions. The main information sources for HUD's quarterly and annual publications come from six public and private sources.

Housing Stock

American Housing Survey (AHS). The National Census Bureau conducts the survey for HUD. The AHS collects data on the Nation's housing, including apartments, single-family homes, mobile homes, vacant housing units, household characteristics, income, housing and neighborhood quality, housing costs, equipment and fuels, size of housing unit, and recent movers. National data are collected biannually, and data for each of 47 selected Metropolitan Areas are collected about every six years. The national sample covers an average 55,000 housing units. Each metropolitan area sample covers 4,100 or more housing units. The AHS returns to the same housing units year after year to gather data; therefore, this survey is ideal for analyzing the flow of households through housing.

Housing Production

National Association of Home Builders (NAHB). NAHB is a trade association for companies involved in the construction or renovation of housing. The association surveys its members and collects city and county level building permit data to prepare reports on new housing starts, new housing characteristics, and new housing prices. Additionally, NAHB conducts a month survey of home builders to produce an index of their confidence in the business outlook.

Used Housing Market

National Association of Realtors (NAR). The NAR is an association of real estate brokers and agents. NAR conducts monthly national surveys of its members to collect current data on existing home sales, as well as profiles of home buyers and sellers. The NAR is the main source for housing price data.

Rental Market

Survey of Market Absorption (SOMA). Each month, the National Census Bureau (on behalf of HUD) selects a sample of residential buildings containing five or more units for the SOMA. The initial 3-month interview collects information on amenities, rent or sales price levels, number of units, type of building, and the number of units taken off the market (absorbed). Field representatives conduct subsequent interviews, if necessary, at 6, 9, and 12 months after completion.

Housing Finance

Mortgage Bankers Association (MBA). MBA is the national association representing the real estate finance industry. The association surveys members and provides weekly data regarding average mortgage commitment rates by mortgage product and volume measures of mortgage applications.

Federal Housing Finance Board (FHFB). The FHFB regulates the 12 Federal Home Loan Banks that were created in 1932 to improve the supply of funds to local lenders that, in turn, finance loans for home mortgages. The Board is an independent regulatory agency of the executive branch of the U.S. Government. Each month, the FHFB conducts a survey of rates and terms on conventional mortgage loans.

VII. PROGRAM ECONOMIC EVALUATION

199. *Improving Living Standards for the Poor*. The accumulation of decent housing matters both because of the difference it makes to living standards and because of its centrality to

economic development (shared prosperity). The consequences for living standards are significant. In addition to directly providing shelter, decent housing improves health and facilitates educational achievement.³³ More subtly, a home and its environs affect identity and self-respect. Egypt has made strides in improving access to basic services, one of the most important components of living standards related to housing. The differences between the regions of Egypt in access to water are minimal, however, access to sanitation across regions and by income group shows that in metropolitan areas 28 percent of the poorest households have no toilet facilities or share with other households.

200. The fact that a large and growing proportion of urban households lives in informal housing and slum areas in peri-urban areas (estimated to house at least 66 percent of the Greater Cairo’s population), which are growing at alarming rates of three to seven percent, makes a program that focuses on expanding the formal housing system for the poorest households a high priority for World Bank support from a poverty alleviation and inclusive growth perspective.

201. *Housing and Gender in Egypt.* Women are disproportionately affected by poor and uncertain housing conditions since they are the care-givers to the children and elderly parents. Access to services like shops and schools, and reliable access to water, sanitation and electricity in the home affects the efficiency of performing household chores and other tasks for which women are mostly responsible. Children need a safe house with electricity to read and do homework. Poor location of housing relative to employment affects women disproportionately.

202. The World Bank 2012 Job Report for Egypt shows that labor force participation by females is low and it decreased between 2006 and 2012 from 27 percent to 23 percent, in particularly for younger women, despite dramatic improvements in educational achievements. Women, also, suffer from an extremely high unemployment rate. This negative outcome appears to be affected by constraints rather than preferences. One of the core constraints is that women find it more difficult to commute long distances—fear of sexual harassment, domestic responsibilities that require them to be closer to home - and indeed women’s commutes to work are on average 25 percent shorter than those of men. This excludes women from high quality private sector jobs (Table 16). The Job Report analysis concludes that “spatial mobility is a very large constraint on women’s access to employment” in Egypt.

203. It is therefore critical to build new labor force housing closer to employment opportunities, create greater options for housing mobility by increasing rental housing and access to housing finance for existing units, and include well-located vacant stock into the housing market.

204. *Economic Justification.* A major economic rationale for investing public funds in the housing sector is its proven stimulus for economic growth. The economic multiplier according to Egypt’s input-output tables is 2.1. Based on that figure, the Program will increase GDP by 0.6 percent in year one and close to two percent in subsequent years. Another

Table 16: Average Time to Work, Minutes One Way

Sector	Men	Women
Formal private	41.5	30.5
Public	36.3	23.8
Informal private	28.2	19.4
Farm	19.0	19.5
Overall	31.5	23.1

Source: ELMPS, (2010).

economic benefit for the provision of formal housing is that it will decrease the expansion of informal housing on agricultural land and the related impact on agricultural output. The entire

³³ World Bank (March 2012).

housing stimulus program of the SHF will positively contribute to generating job opportunities for skilled and unskilled labor. Based on an elasticity of employment in the construction sector of 1.5, it is estimated that the total number of jobs generated through the SHF over a six year period is 1.5 million job-years. This diverse job creation happens across different geographical areas, and, therefore, the economic benefits can be felt in regions irrespective of the location of the housing itself. Using the current stimulus programs to help the Government establish sustainable public and private housing investment programs will make sure that the sector can continue to play a powerful role as a generator of economic growth and employment in the future. Job creation is the most important factor in poverty alleviation and shared.

World Bank Added Value

205. The Ministry is facing significant pressure to deliver on the political commitment to providing one million social housing units over the next six years. The establishment of the SHF presents an opportunity to not only facilitate the development of one million units, but also to improve the housing sector management overall. The World Bank is working closely with the Ministry on all aspects of establishing and implementing the SHF. The Bank's input, drawing upon international experience, is focused on improving Program design, performance, processes, and capacity of the SHF. The Bank will assist in developing the fiduciary arrangements for the SHF, so as to ensure efficient implementation of the executive regulation when adopted.

VIII. INPUTS TO THE PROGRAM ACTION PLAN

206. Table 17 summarizes the main technical issues and recommended actions in the Inclusive Housing Finance Program. It draws from the Results Chains illustrated in the main text.

Table 17: Summary of Technical Issues and Recommended Actions

Action Description	DLI*	Covenant*	Due Date	Responsible Party	Completion Measurement**
Technical Design Measures					
Multi-institutional governance structure established and functioning to facilitate coordination across Government entities (Advisory Committee)	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2015	SHF/the Ministry	
Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system	<input checked="" type="checkbox"/>	<input type="checkbox"/>	December 31, 2016	SHF	The SHF prepares an annual report describing M&E unit staffing, data collection processes and procedures, indicators and their analysis, and means of public dissemination of housing data.
The establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy under the Program	<input checked="" type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF	A report describing the mechanism as outlined in the definition of the DLI is submitted to the World Bank along with documentation demonstrating that the mechanism has been endorsed by the SHF Board of Directors.
Full staffing of the SHF based on agreed organizational structure and staff skills	<input type="checkbox"/>	<input type="checkbox"/>	January 31, 2016	SHF	
Integrate housing location criteria and requirement to collect physical coordinates into housing program guidelines	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2017	SHF	
Monitoring and enforcement of location criteria for housing programs	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF	
Establishment of unified beneficiary database	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF	

IX. TECHNICAL RISK RATING

207. The main risks identified through the Technical Assessment relate to the (a) participation of private sector housing developers; (b) rental housing program design; (c) targeting of subsidies; (d) financial sustainability of the SHF; and (e) land and property registration systems.

208. A significant technical risk to the achievement of the Program's objective is limited private sector participation in the low-income housing sector. The demand-side subsidy programs are designed to stimulate the market while also providing beneficiaries with housing choice. If all the affordable housing units for which the SHF beneficiaries could qualify are developed by the public sector, either through public construction companies or private contractors, the financial sustainability of the SHF would be negatively impacted and beneficiaries' housing choice significantly diminished. The Program will address this risk by supporting the SHF to develop policies and PPP arrangements that facilitate private sector engagement.

209. Demand-side subsidy programs are designed to stimulate the market while also providing beneficiaries with housing choices. Although ownership demand side subsidies linked to credit reduce the total amount of subsidy required for the target group, a major risk is that inflation/interest rates will increase and effective cost of subsidies will be higher than anticipated. For example, the impact of a one percentage point variation in interest rate on the median subsidy (NPV of the total subsidy) is between LE 4,000 to LE 5,000. This risk is particularly pronounced when the CBE stimulus program will be phased out. Another risk is economic stagnation, when unemployment might increase even further and real incomes might decrease

210. The quality of the rental program design could undermine the technical and financial soundness of the SHF. The decision to create a supply-side public rental housing program with insufficient rent levels and allocations for operations and maintenance could drain resources from the Fund and compromise the quality of the housing units. To address this risk, a financial model for the SHF has been prepared to enable policy makers to evaluate the impact of program design on the Fund's cash flow and reserves. In addition, new rental programs are being launched on a small scale to enable early assessment and recalibration of program parameters.

211. Accurate and effective targeting of subsidies is a risk for both the rental housing and homeownership demand-side programs. To address this risk, the operation will support the strengthening of housing M&E systems, including unification with other household subsidy programs, and incentivize accurate targeting through DLIs that incorporate post-occupancy review of household profiles.

212. A well-functioning land and property registration system is fundamental for developing an active mortgage finance system, attracting investments, and creating an enabling investment climate. To include informal housing units in a demand-side rental program, and thereby alleviate the housing and employment centre mismatch in metropolitan areas, would also require enhancements to the land and property registration system. However, this is controlled by the Ministry of Justice, and therefore outside the direct control of the Ministry. As part of implementation support, the Bank will advise the SHF on these issues. Another land risk is related to the possible resettlement of informal squatters on public land. The majority of low-income housing will be built on public land either by public or private developers. There is a risk that informal squatters could be removed from the land without compensation. This risk is low given that public land that will be used for social housing is primarily in uninhabited desert

areas. Moreover, the first two phases of housing development under the SHF (of about 100,000 units) has required no resettlement. This risk could increase, however, as the SHF seeks to find better located land closer in to the urban core. Both of these risks will be monitored during Program implementation.

X. INPUTS TO THE IMPLEMENTATION SUPPORT PLAN

213. During Program preparation, the Bank's support has focused primarily on assisting the Ministry establish the regulatory and organizational framework for the implementation of the SHF based on lessons learned from international experience. Specifically, the Bank team has provided input and guidance on the Executive Regulations for the SHF, as well as its organizational structure, and projected staffing needs (number of staff and qualifications).

214. Key Bank support initiated during Program preparation will be sustained during Program implementation, including support for institutional capacity building and the design and roll-out of specific demand-side housing subsidy programs. The Bank's input, drawing upon international experience, is focused on improving Program design, performance, processes, and capacity of the SHF. The Bank will assist in developing the fiduciary arrangements for the SHF, so as to ensure efficient implementation of the executive regulation when adopted. Some of the specific areas for which the Bank will provide technical support include:

A. SHF Policy, Programming, Research and M&E

- *Strengthening the fund's capacity to update the existing housing strategy to reflect the latest market developments and change in priorities.* The Bank will advise the SHF on the National Housing Strategy, reflecting recent developments and changes in priority areas, focusing policy tools to improve the efficiency of the housing system in Egypt, including: (i) address supply-side and legal constraints in the rental housing market, the mortgage market, and the land market; (ii) addressing the vacant and unfinished housing problem; (iii) improving the coordination of housing, infrastructure and employment policies, including by providing advice on contractual arrangements with the relevant housing entities; and (iv) the design of PPP arrangements and policies to increase private sector participation in the low-income housing market.

- *Preparing a coherent and transparent housing subsidy system.* Technical support will be provided to the SHF in order to establish efficient and equitable targeting and allocation systems as well as to maximize the links between housing programs, social and economic poverty alleviation, and labor markets (increased housing mobility, improved location of social housing).

- *Research and M&E.* Technical support will be provided for establishing an on-site audit function by the SHF and defining the format and content of information to be provided by housing agencies on the implementation of the social housing programs, including information on construction number, cost, and occupancy (including vacancy rates). Advice will be provided on the design of a data collecting system, including format and content of data to be collected from each housing agency, technical means, single identification tracking number for beneficiaries and applicants, and contractual arrangement between the SHF and the housing agencies.

B. Affordable Homeownership

- *Expanding low-income mortgage lending.* The Program will support the SHF in incorporating new banks and geographically dispersed bank branches into its subsidy approval and allocation system for the AMP. The GSF needs enhanced IT systems to deal with the larger

number of applicants and beneficiaries it must serve. Additional support will be provided to support the expansion of mortgage lending in general and for down-market lending specifically. Support will be provided for the standardization of administrative systems (origination, servicing, and loan management) in general and for low-income mortgage lending specifically across banks and MFCs, and the integration of these systems with the AMP administrative requirements.

- ***Developing alternative housing finance guarantee programs.*** A large proportion of the population is either self-employed or work in the informal sector and cannot produce proof of income. Yet, such households may be able to repay a loan for housing and often already use consumer credit to pay for their housing improvements. Special guarantee programs may induce lenders to extend credit to informally employed households. The Bank will support the development of such special mortgage insurance or guarantee programs.

- ***Developing alternative housing finance products.*** Another segment of the population may qualify for a mortgage loan to buy an existing house or finish an unfinished unit, but cannot obtain a registered title to the property and lack therefore the collateral needed for a mortgage loan. Yet, the resale market is an important housing sub-market to unlock. It provides more affordable and often better located housing units and provides the key to greater mobility in the housing market that allows households to improve their housing quality over time. Also, in smaller urban areas, households may acquire a small plot to build their house incrementally. Such processes are facilitated if small loans or a line of credit is available to buy building materials. The Program will help the SHF to develop housing finance products appropriate for these different housing situations.

- ***Developing consumer education products.*** Mortgage lending is new in Egypt and potential low- and middle-income home-buyers are unfamiliar with the mortgage product, rights and obligations. Developer provided installment finance on the other hand is deceptively easy to understand, while it is often not transparent at all and risky for the consumer. The Program will support the SHF/GSF to develop consumer education materials focused on low-income households.

C. Rental Housing Sector

- ***Public Rental Housing Program (Support to Governorates)*** The SHF will support Governorates in implementing the Government public rental housing program. Assistance will be provided to the SHF in order to establish efficient and equitable targeting and allocation systems, as well as maximize the links between housing programs and social and economic poverty alleviation, and labor markets (increased housing mobility, improved location of social housing).

- ***Guidelines for Employer Housing Program.*** Developing employer housing is important to coordinate the development of housing and economic activities and reduce commuting time. The World Bank will assist the SHF in designing guidelines for agreements between employers or employer investor associations and the Government.

ANNEX 1: EVOLUTION OF HOUSING POLICIES IN EGYPT AND THEIR IMPACT ON THE HOUSING MARKET

<i>Housing Policy, date applied</i>	<i>Issuing & implementing entity</i>	<i>Policy Objectives</i>	<i>Long term effects</i>
Rent Control laws, 1952-1958- 1961- 1962	Central government	Freezing housing rent increase and reducing rent by 35 percent of 1944 value to ensure affordability (construction had come to a halt in the 1940s and rents greatly increased)	<ul style="list-style-type: none"> • Private sector withdrawal from an unprofitable rental housing market, resulting in the long-run in a deficit in housing stock mainly for lower-income groups. • Reluctance of private owners to maintain existing housing stock as a result of insufficient rent revenues, deterioration of stock.
Provision of subsidized public housing projects since 1954	Central Government. Public housing development companies assumed lead role from 1954 to 1961 then local authorities since 1962	Providing subsidized housing to low-income groups in cities; Lowering housing supply cost through using prototypical units without services/facilities	<ul style="list-style-type: none"> • Encouraging rural/ urban migration • Unclear maintenance responsibility led to deterioration of stock • Inflexible cookie-cutter design not adapted to family size or evolving needs led to significant transformation of housing blocks, increased densification and poorer living conditions.
Nationalization of private construction and housing development companies (e.g. Maadi, Heliopolis)	Central Government. Companies affiliated with central government or Cairo Governorate	In line with government policy to nationalize privately-owned companies	<ul style="list-style-type: none"> • Significant expansion of housing construction in Cairo (new suburbs of Maadi and Medinet Nasr) • Increased inefficiencies in nationalized companies and larger fiscal burden to the State budget.
Limiting annual investment in housing to LE 30 million in 1956; imposing ceiling for annual contract work to any private company at LE30,000	Central Government	Lowering capital investment in housing and shifting towards industrial development.	<ul style="list-style-type: none"> • Major reduction in housing construction, coupled with rapidly growing population in cities, resulted in the emergence of informal settlements
Major reduction in public investment in housing and infrastructure after 1967	Central Government	Focusing limited financial resources to rebuild the military forces after the 1967 war	<ul style="list-style-type: none"> • Additional reduction in housing and infrastructure investment, further increasing informal development
New rent control laws in 1965, 69, 70reducing rent for newly built units	Central Government	Further attempt to appeal to low-income groups faced with	<ul style="list-style-type: none"> • Continued general private sector withdrawal from rental market; increase circumvention of restrictive rent control through furnished flats; emergence of key money

<i>Housing Policy, date applied</i>	<i>Issuing & implementing entity</i>	<i>Policy Objectives</i>	<i>Long term effects</i>
(furnished flats exempted)		limited housing options	(upfront lump-sum payment) to make up the difference between low rent and market rents.
Public housing supply in existing (old) cities stopped	Central government through MHUUD	Focusing government resources on new urban communities; poor people encouraged to settle there	<ul style="list-style-type: none"> Increasing the gap between supply and demand of affordable housing in existing cities, and further encouraging informal development.
Encouraging private sector return to housing market by raising ceiling of annual investment for contracting companies to LE 100,000, then to LE 500,000	Central Government	Encouraging private sector to return to the HUD sector; allowing foreign-owned companies to bid without maximum ceiling; and allowing private sector to enter into trading and production of some building materials along with public sector.	<ul style="list-style-type: none"> Move in the right direction but continued rent control meant focus on housing supply for sale without investment in rental, a burden on low/middle-income groups who could not afford market units. Government set a ceiling of 33 percent of units in any building for sale and the rest for rent, yet investors circumvented rule. Phenomenon of vacant units started as owners preferred to leave their units unoccupied rather than renting under rent control regime. Increased building material supply in the market (after scarcity)
New rent laws to encourage private sector return to housing market (1977- 1981)	Central Government issued the law; local government was mandated to monitor implementation	Rents kept low (7 percent of cost) also for new units built just before law, but above-middle/luxury units exempt from control. Newly built units can rent at higher rates but rate is frozen after agreement is reached. Setting up condominium owner association for O&M of apartment buildings	<ul style="list-style-type: none"> Directing private housing investment to upper income groups to avoid rent restrictions. Universal key money phenomenon to overcome rent control restriction resulting in major distortion in the housing market Low and middle income groups without affordable housing alternative except in informal settlements. Poor maintenance of housing stock estimated not to exceed 0.7 percent of asset value.
Establishing new cities and communities around existing cities	Central government through Ministry of Housing and Construction's General Organization for New Urban Communities	Directing population growth to the desert outside Nile valley and protecting agricultural land from informal encroachment. Incentives to expand economic activities and create new jobs in	<ul style="list-style-type: none"> Concentrating public investments in new cities with little left for housing supply in existing cities. Unbalanced development in new cities with housing construction without adequate infrastructure services in initial phases resulting in vacant units and deserted new towns Increased direct public involvement in implementation increased cost of housing and services in new cities and

<i>Housing Policy, date applied</i>	<i>Issuing & implementing entity</i>	<i>Policy Objectives</i>	<i>Long term effects</i>
		these new locations. Direct public supply of formal, affordable housing to low-income groups and new formed families to settle in these new cities	<ul style="list-style-type: none"> increased fiscal burden to make them affordable. New communities attracted industrial development and created jobs (especially after Cairo's closure to new industry) but could not attract people to live there
Reactivating Housing Cooperatives through presidential decree	Ministry of Housing and Construction. Centrally managed and monitored by General Organization for Housing and Building Cooperatives	Encouraging individual/cooperative investment in low/middle income housing via subsidized building materials, serviced land and below-market housing finance	<ul style="list-style-type: none"> Construction of more than 275,000 units in the last two decades by more than 1,900 cooperatives, although with significant leakage to non-deserving groups. Providing subsidized loans exceeding LE 14.6 billion between 1982 and 2004 to construct the housing units.
Law 4 of 1996 concerning rent of vacant housing units not subject to rent control laws.	Central Government through the Ministry	Encouraging private owners of vacant units and investors to return to rental market on a free market basis without any government restriction on rent levels or duration	<ul style="list-style-type: none"> Allowing in the long-run large number of vacant units to rent on free market basis, thus providing a solution to a large number of newly formed families and middle/upper-middle income groups. Slow start as owners of vacant units are still wary of whether courts will enforce tenant eviction
New public housing schemes in new urban communities (Mubarak Youth Housing)	Central Government through the Ministry	Offering affordable quality housing to new formed families with heavy subsidies to encourage settling in new cities	<ul style="list-style-type: none"> Imposing heavy financial burden on State budget in the long run, which threatens the ability to sustain this program (which could only offer about 70,000 units in 10 years).
Real Estate Finance Law 148 of 2001		Establishing the legal and regulatory framework, and allowing the formation of non-bank MFCs that would have a greater interest in serving lower income households	<ul style="list-style-type: none"> Set the rules for the types of loan products banks and MFCs could offer to borrowers (including the tripartite mortgage agreement), the rules of enforcement, and established the institutions that would regulate the mortgage sector – the MFA and the GSF. The functions of the MFA were incorporated in EFSA in July 2009. Along with other building blocks, spurred the growth of the mortgage sector in Egypt, both in terms of outstanding loan amounts and in its geographical distribution.

<i>Housing Policy, date applied</i>	<i>Issuing & implementing entity</i>	<i>Policy Objectives</i>	<i>Long term effects</i>
Guarantee and Subsidy Fund established 2003	Central Government through the Ministry of Investment	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 the borrowers	<ul style="list-style-type: none"> • The mortgage linked-subsidies launched in 2010 through GSF have made subsidized formal ownership available for households with monthly incomes between LE 2,500–LE 1,500 (75th to <20th percentile of the income distribution, i.e. the middle and low income groups). • During the political transition time, the overall economic uncertainty and increases in mortgage interest rates prevented the GSF program from going to scale. • The guarantee component of the GSF provided a three-month nonpayment insurance for which it charged a 1 percent fee (on the loan amount) to lenders. The program was never capitalized separately and was considered as an additional cost by lenders without providing much credit risk protection. • In 2008 it was decided by the Ministry to create an integrated transparent household subsidy that would be scaled according to income and linked to a market-rate mortgage loan and would be adjusted according to a measure of house-prices and interest rates. An agreement was reached between the Ministry and the Ministry of Investment to make GSF the administrator of the new subsidy program.
National Housing Program (2005)	Central Government through the Ministry	Delivering 500,000 low-income housing units over a 6 year period	<ul style="list-style-type: none"> • The NHP represented a departure from past large scale housing programs. Of specific note was the inclusion of 7 different housing programs under the umbrella of the NHP, including, among others, a sites and services program and private developers program. • As of 2013, the NHP had exceeded its 500,000 unit goal.
Egyptian Mortgage Refinance Company established in 2006	Majority privately owned by the users of its financial services, mainly participating mortgage lenders—active banks and real estate lending companies. The CBE was the strategic investor with an approximate 20 percent	Providing mortgage lenders access to longer-term re-financing of their housing finance loans	<ul style="list-style-type: none"> • EMRC began its refinancing operation in August 2008. Its outstanding refinancing portfolio reached LE525 million at the end of 2013 up from LE 277 at the end of 2010 and a cumulative portfolio size of LE 710 million. • Participating lenders are mostly made up of MFCs who do not have access to deposit funding. The total mortgage market size was LE 4,800 million at the end of 2013; split 50-50 between banks and MFCs. • The global financial crisis and the macro-economic

<i>Housing Policy, date applied</i>	<i>Issuing & implementing entity</i>	<i>Policy Objectives</i>	<i>Long term effects</i>
	ownership share		volatility following the 2011 revolution created an unfavorable climate for EMRC to go to the capital market. At the same time, mortgage lending stagnated since 2012.
Law 137 of 2006 – amended Law 4 of 1996	Central Government		<ul style="list-style-type: none"> • 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 • The rental laws of 1996 and 2006 improved the climate for rental investment considerably. 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 rental income), limitations of rental contract conditions and cumbersome eviction procedures.
Real Estate Transactions Registration in New Communities Law (2013)	Ministry of Justice	Improving real estate transaction and property registration systems	<ul style="list-style-type: none"> • The law allows: (i) NUCA authorities to issue a certificate for the property or the unit that is financed via mortgage finance; (ii) the chairmen of the authority’s administrative apparatuses to sign tripartite mortgage finance contracts to streamline the registration process; and (iii) part registration of large projects. These measures will make mortgage lending in NUCA territories, where most of the new units exist, possible and easier. • The related Decree 10 of 2014 was issued by the Ministry on February 3, 2014.
Social Housing Program - Presidential Decree No. 19 of 2013	Central Government through the Ministry	Providing a million homes for low-income households over a six year period	<ul style="list-style-type: none"> • The program received LE 10 billion in initial funds from the Government of the United Arab Emirates, sufficient to deliver 50,000-60,000 units.
Presidential Decree No. 105 of 2013	Central Government	Stimulating the Egyptian economy	<ul style="list-style-type: none"> • Allocated LE 29.7 billion for investments and social programs that would stimulate the Egyptian economy, raise standards of living, and realize social justice, of which about 80 percent included construction and service delivery, including social housing production

<i>Housing Policy, date applied</i>	<i>Issuing & implementing entity</i>	<i>Policy Objectives</i>	<i>Long term effects</i>
Central Bank of Egypt Stimulus Package (2014)	Central Bank of Egypt	Stimulating the housing sector	<ul style="list-style-type: none"> • Introduced a stimulus package for the housing sector by offering below-market rate funds (an initial LE10 billion later extended to LE 20 billion) to the banking sector to be used for mortgage lending to low- and middle-income households (up to a house-price of LE 300,000). • The low-income component of the stimulus (at seven percent interest rates) targets the same income level as the AMP. This stimulus will allow the AMP 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 AMP. The program has been able to respond well to the growing demand (it received 155,000 applicants).
2014 amendment to the Real Estate Finance Law 148 of 2001	Egyptian Financial Supervisory Authority	Allowing greater flexibility to the housing finance sector	<ul style="list-style-type: none"> • Allowed 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. • EFSA immediately increased the maximum allowable payment-to-income ratio and, therefore, eligibility of lower-income households to access mortgage finance improved. This allowed the AMP to offer mortgage-linked subsidies to lower income households. • During the political transition time, the overall economic uncertainty and increases in mortgage interest rates prevented the AMP from going to scale, but recent economic and political developments have 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
Social Housing Law 33 of	Central Government through	Creating an implementing entity	<ul style="list-style-type: none"> • Ratified by a Presidential Decree, created the SHF as a

<i>Housing Policy, date applied</i>	<i>Issuing & implementing entity</i>	<i>Policy Objectives</i>	<i>Long term effects</i>
2014	the Ministry	for the Social Housing Program	<p>sustainable entity for the provision of low-income housing.</p> <ul style="list-style-type: none"> • The SHF is responsible for coordinating social housing policy, as well as, implementing and developing a sustainable and comprehensive set of support programs for the poor.
Law on the regularization of informal areas was approved by the Cabinet in July 2014	Expected to be passed by State Council soon	Regularizing of informal residential buildings.	<ul style="list-style-type: none"> • The Law allows informal residential buildings, built without a licence on private land, to be regularized upon payment of a penalty. • This law will incentivise the formalization and regularization of houses, by making it possible to extend services, utilities, and infrastructure to informal areas. This facilitates property registration and borrowing for improvements.

Source: Compiled by Madbouly (2005), and amended for the Technical Assessment (2014).

ANNEX 2: THE SHF'S CASH FLOW MODEL

SOCIAL HOUSING FUND

Assumptions

EGP/USD 7.15

Ownership Housing Production

Construction cost per unit (EGP) 150,000
 Construction cost per unit (USD) 20,979
 Sales price per unit (EGP) 160,000
 Sales price per unit (USD) 22,378

Rental Housing Production

Construction cost per unit (EGP) 120,000
 Construction cost per unit (USD) 16,783

Housing Subsidies

Up-front mortgage subsidy (EGP) 19,000
 Up-front mortgage subsidy (USD) 2,657

Public rental key money (EGP) 1,800
 Public rental key money (USD) 252
 Subsidized rental key money (EGP) 1,000
 Subsidized rental key money (USD) 140
 Monthly public rental subsidy (EGP) 100
 Annual public rental subsidy (EGP) 1,200
 Annual public rental subsidy (USD) 168
 % of public rental receiving subsidy 80%

Monthly private rental subsidy (EGP) 100
 Annual private rental subsidy (EGP) 1,200
 Annual private rental subsidy (USD) 168
 % of private rental receiving subsidy 50%

Self-construction (EGP) 50,000
 Self-construction (USD) 6,993

Capitalization

UAE donated units 50,000
 Governorate units 115,000

Interest on cash balance 0.03%

Construction (affordable ownership)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	Total	%
Governorates	25,000	50,000	50,000	50,000	50,000	50,000	275,000	35%
NUCA	25,000	50,000	50,000	50,000	50,000	50,000	275,000	35%
Private Sector	-	25,000	50,000	50,000	50,000	50,000	225,000	29%
Sub-total	50,000	125,000	150,000	150,000	150,000	150,000	775,000	

Construction (low-income self-construction)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	Total	%
Governorates	-	-	-	20,000	25,000	30,000	75,000	100%
NUCA	-	-	-	-	-	-	-	0%
Private Sector	-	-	-	-	-	-	-	0%
Sub-total	-	-	-	20,000	25,000	30,000	75,000	

Construction (low-income rental)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	Total	%
Governorates	-	10,000	20,000	20,000	25,000	25,000	100,000	67%
NUCA	-	-	-	-	-	-	-	0%
Private Sector (employer, vacant, etc)	-	-	5,000	10,000	15,000	20,000	50,000	33%
Sub-total	-	10,000	25,000	30,000	40,000	45,000	150,000	

Total Affordable Housing Construction

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	Total	%
Governorates	25,000	60,000	70,000	90,000	100,000	105,000	450,000	45%
NUCA	25,000	50,000	50,000	50,000	50,000	50,000	275,000	28%
Private Sector	-	25,000	55,000	60,000	65,000	70,000	275,000	28%
Total	50,000	135,000	175,000	200,000	215,000	225,000	1,000,000	

Subsidies Allocated

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	Total	%
Up-front mortgage subsidies (new construction)	50,000	125,000	150,000	150,000	150,000	150,000	775,000	100%
Up-front mortgage subsidies (existing units)	-	-	-	-	-	-	-	0%
Cumulative public rental stock with subsidy	-	8,000	24,000	40,000	60,000	80,000	80,000	
Cumulative private rental stock with subsidy	-	-	2,500	7,500	15,000	25,000	25,000	

SOCIAL HOUSING FUND

Rental Housing Analysis

Rental Housing Production

Construction cost per unit (EGP)	120,000
Construction cost per unit (USD)	16,783

Rental Revenue

Monthly rent per unit (EGP)	225
Annual rent per unit (EGP)	2,700
Upfront tenant payment (EGP)	1,800
Lease term (years)	7
Amortized upfront tenant payment (EGP)	257
Total Annual Rental Income	2,957

Operations & Maintenance

As % of construction cost	2.00%
Annual O&M per unit (EGP)	2,400

Vacancy and Credit Loss

As % of annual rent collection	20%
Annual vacancy and credit loss per unit (EGP)	540

Net Rental Income

Annual net rental income (EGP)	17.14
Annual net rental income (USD)	2.40
Monthly net rental income (EGP)	1.43
Monthly net rental income (USD)	0.20
As % of Rental Revenue	1%

Affordability

Maximum rent/income ratio	25%
Minimum monthly salary required <i>Implied income decile</i>	900
Monthly subsidy	100
Houshold contribution	125
Minimum monthly salary required	500

SOCIAL HOUSING FUND

Projected Cash Flow (USD millions)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Returns generated by the Fund (unit sales)	-	1,118.9	1,118.9	1,118.9	1,118.9	1,118.9
Returns generated by the Fund (rental net income)	-	1.6	3.2	3.2	4.1	4.1
NUCA budget surplus	-	75.0	75.0	100.0	100.0	100.0
State budget allocations for the Fund projects	250.0	139.9	139.9	139.9	139.9	139.9
Other amounts allocated by the State	2,573.4	-	-	-	-	-
Revenues generated from penalties	-	-	-	-	-	-
Donations, grants, and endowments	1,118.9	-	-	-	-	-
Loans	-	88.5	106.0	97.9	102.8	104.8
Investment revenue	-	1.1	1.1	1.0	0.9	0.7
1% of auctions of State properties	5.0	5.0	5.0	5.0	5.0	5.0
25% of auctions of Governorate land	-	-	-	-	-	-
TOTAL REVENUE	3,947.3	1,430.0	1,449.1	1,465.9	1,471.5	1,473.2
Ownership						
Construction costs	-	1,049.0	1,049.0	1,049.0	1,049.0	1,049.0
Self-construction program	-	-	-	139.9	174.8	209.8
Up-front subsidies (new construction)	132.9	332.2	398.6	398.6	398.6	398.6
Up-front subsidies (existing units)	-	-	-	-	-	-
Sub-total	132.9	1,381.1	1,447.6	1,587.4	1,622.4	1,657.3
Rental						
Construction costs	-	167.8	335.7	335.7	419.6	419.6
Rental subsidy (public)	-	1.3	4.0	6.7	10.1	13.4
Rental subsidy (private)	-	-	0.4	1.3	2.5	4.2
Sub-total	-	169.2	340.1	343.6	432.2	437.2
Policy, Programming, M&E						
Overhead (salaries, offices, etc)	0.5	2.0	3.0	3.0	4.0	4.0
Studies, Plans, and Capacity Building	0.3	2.0	2.0	2.0	2.0	2.0
Housing Data and Systems	0.3	3.0	3.0	2.0	2.0	2.0
Sub-total	1.0	7.0	8.0	7.0	8.0	8.0
TOTAL EXPENSES	133.9	1,557.3	1,795.7	1,938.0	2,062.5	2,102.5
NET INCOME	3,813.4	(127.3)	(346.6)	(472.2)	(591.0)	(629.3)
CASH BALANCE	3,813.4	3,686.2	3,339.6	2,867.4	2,276.4	1,647.1