Document of
THE WORLD BANK

Report No. 45113-EG

ARAB REPUBLIC OF EGYPT

NEXT STEP RECOMMENDATIONS FOR AFFORDABLE HOUSING POLICY AND THE NATIONAL HOUSING PROGRAM:

Mortgaged-Linked Subsidies and Housing Supply Considerations

June 30, 2008

The World Bank

Sustainable Development Department
Middle East and North Africa

Currency Equivalents
(Exchange Rate Effective June 2, 2008)

Currency Unit = LE (Egyptian Pound)
LE 1 = US$ 0.187
US$ 1 = LE 5.339

Abbreviations and Acronyms

EFS	Egypt Financial Services
GOE	Government of Egypt
GOPP	General Organization for Physical Planning
GSF	Guarantee and Subsidy Fund
HDB	Housing Development Bank
HIS	Housing Information System
LE	Livres Egyptiennes / Egyptian Pounds
M&E	Monitoring and Evaluation
MFA	Mortgage Finance Authority
MFC	Mortgage Finance Company
MHUUD	Ministry of Housing, Utilities, and Urban Development
MOF	Ministry of Finance
MOI	Ministry of Investment
MOJ	Ministry of Justice
MOLD	Ministry of Local Development
MOSS	Ministry of Social Solidarity
NBE	National Bank of Egypt
NCPSLU	National Center for Planning State Land Uses
NHP	National Housing Program
NIB	National Investment Bank
NUCA	New Urban Communities Authority
PTI	Payment to Income (ratio)
REPD	Real Estate Publicity Department
TAPRII	Technical Assistance for Policy Reform
USAID	United States Agency for International Development

Arabic Terms

Al-Awla Bel Reaaya	Priority households for safety net/social protection programs
Awqaf	Religious endowments
Ibni Beitak	Build your own house
Simsar	Broker
Takhssiss	Conditional transfer of ownership, a prevalent form of public land disposition
Urfi	Standard informal contract
Wasl Amana	Guarantee

Regional Vice President	Daniela Gressani
Country Director	Emmanuel Mbi
Sector Director	Laszlo Lovei
Acting Sector Manager	Jonathan Walters
Task Team Leader	Sameh Wahba

ACKNOWLEDGEMENTS

This note was prepared by a team comprised of Sameh Wahba (Senior Urban Development Specialist and Task Team Leader, MNSSD), Marja Hoek-Smit (Housing Finance and Subsidy Consultant, MNSSD), Catherine Lynch (Urban Development Consultant, MNSSD), and David Sims (Housing Policy Consultant, MNSSD). The note benefited from overall guidance from Loic Chiquier (Team Manager of the Housing Finance Group, FPDVP). The note was prepared in coordination with Sahar Nasr (Senior Financial Economist, MNSED, Task Team Leader of the Egypt Mortgage Market Development Project) and with the USAID-financed Technical Assistance from Policy Reform II (TAPRII) and Egyptian Financial Services (EFS) projects.

The development of this policy note involved close collaboration between the Government of Egypt's Ministry of Housing, Utilities and Urban Development (MHUUD) and Ministry of Investment (MOI) and builds on the outcome of several high-level Ministerial policy workshops undertaken in April, May and September 2007, as well as technical meetings with the key technical counterparts at both Ministries. The note also builds upon several recent policy notes including: Analysis of Housing Supply Mechanisms (The World Bank, February 2007); Analysis of Subsidized Housing Programs (USAID TAPRII, May 2007); Housing Demand Study in Greater Cairo (USAID TAPRII, June 2007); and Moving from a Program-Based to a Policy-Based Approach to Housing in Egypt (The World Bank, August 2007). This note follows up on the priorities identified by the GOE's MHUUD and MOI, which emerged from the joint World Bank and USAID TAPRII policy note, entitled Framework for Housing Sector Reform in Urban Areas in Egypt (June 2008), an earlier draft of which was endorsed by H.E. Eng. Ahmed Al-Maghrabi, Minister of Housing, Utilities, and Urban Development, and H.E. Dr. Mahmoud Mohieldin, Minister of Investment, in September 2007.

The team would like to recognize the significant leadership role of H.E. Eng. Ahmed Al-Maghrabi, Minister of Housing, Utilities, and Urban Development, and H.E. Dr. Mahmoud Mohieldin, Minister of Investment, who shared their vision and provided critical guidance for the formulation of the framework for housing sector reform. The team would also like to express its gratitude to the senior government officials who served as the key counterparts to the study team and who graciously provided their time, documentation, data, expert feedback and guidance in the process of preparing this note, namely Dr. Ossama Saleh, Chairman of the Mortgage Finance Authority (MFA); Dr. Sahar Al-Tohamy, Economic Advisor to the Minister, MHUUD; Dr. Sherif Oteifa Arafat, Advisor to the Minister, MOI; Dr. Mostafa Madbouly, Chairman of the General Organization for Physical Planning (GOPP), MHUUD; Mr. Mostafa Al-Hayawan, Director, the Guarantee and Subsidy Fund (GSF), MOI; Ms. May Abdel-Hamid, Advisor to the Chairman, MFA; and Ms. Mona Al-Shibiny, Financial Advisor to the Minister, MHUUD.

Peer Reviewers at the World Bank, including Maria Emilia Freire (Sr. Advisor, FEU), Abhas Jha (Country Sector Coordinator, ECSSD) and Lawrence Hannah (Consultant and former Lead Economist, FEU), provided valuable feedback to strengthen this note. The note benefited from important guidance and insights from Emmanuel Mbi (Country Director, MNCO3), Mustapha Rouis (Country Manager, MNCYE) and Xavier Devictor (Country Program Coordinator, MNCO3). The Policy Note was prepared under the guidance of MNSSD Management, including Hedi Larbi (Country Director, MNCO2, and former Sector Manager, Urban, Solid Waste and Transport), Jonathan Walters (Acting Sector Manager, Urban, Solid Waste and Transport), Inger Andersen (Sector Director, AFTSN and former Sector Director, MNSSD) and Laszlo Lovei (Sector Director, MNSSD).

TABLE OF CONTENTS

TABLE OF FIGURES

TABLE OF TABLES

EXECUTIVE SUMMARY

At the request of the Government of Egypt (GOE), the objective of this brief note is to provide concise recommendations on next steps for the National Housing Program (NHP). These recommendations and policy analysis are an elaboration of the *Framework for Housing Policy Reform in Urban Areas in Egypt*, a draft of which was endorsed by the Ministry of Housing, Utilities and Urban Development (MHUUD) and the Ministry of Investment (MOI) in the high-level policy workshop held in September 2007. The *Framework*, an evolving strategy building blocks document, proposed a set of comprehensive housing sector reforms and improvements to the NHP consisting of five action channels – unlocking the vacant housing stock, creating a fluid rental market, enhancing affordability through improved access to housing finance and reduction of formal housing supply cost, improved targeting of subsidies, and transforming the government's role into an enabler of the housing market. During the Ministerial workshop in September 2007, it was agreed that the four priority actions were (i) the design and implementation of a housing information system; (ii) mainstreaming the use of demand-based mortgage-linked subsidy instruments; (iii) set up of a high-level housing policymaking body to coordinate and rationalize the interventions of the different concerned stakeholders; and (iv) expansion of the Housing Demand Study to other areas of Egypt. USAID TAPRII has completed the design of the housing information system and has made significant progress in the expansion of the housing demand survey. The World Bank's technical assistance to the GOE, reflected in this Note and follow up work, focused on strengthening the housing policymaking process and subsidy policy and expanding the mortgage linked subsidy program.

Since the NHP was launched in 2005, the GOE has introduced numerous innovations and improvements to address the different needs of a segmented beneficiary population, including: the introduction of rental options, expanding the role private sector developers in the supply of affordable housing, expanding the role of the Governorates, increased use of the better located lands controlled by the Ministry of Religious Endowments (*Awqaf*), introduction of self-build options, and use of mortgage-linked subsidies. However, there are significant concerns about NHP delivery, costs and targeting. Recent price increases in building materials have driven up the prices of new housing, affecting the fiscal cost of government-supplied units and the sales price of units provided by the private sector. Moreover, as credit conditions are expected to tighten along with inflationary expectations, these developments add pressure on lenders to increase down payment required from households, and on the NHP to provide additional subsidies. Finally, there is also a need to improve the mortgage-linked subsidy system to avoid a situation like that reported by Al-Ahram newspaper in May 2008 in which units in Sohag had been built, the subsidies had been processed but the corresponding mortgages had not yet materialized.[1] In light of these concerns, the next phase of the NHP and subsequent housing subsidy programs should focus on:

(i) Enhancing affordability by strengthening the mortgage linked subsidy program, to be gradually introduced with a progressive phasing out of supply-side subsidies over the medium term;
(ii) Promoting an improved system for private sector development of affordable housing, including strengthening the land disposition, regulatory, and monitoring procedures for private sector development of subsidized housing and putting in place the right incentives to attract private developers and structuring balanced public-private-partnerships with effective risk sharing between both parties;
(iii) Gradually shifting attention from the production of new units to mobilizing transactions in the existing stock of housing; and
(iv) Establishing a high-level housing policy making body.

[1] Al-Ahram Newspaper.

While planning for the next phase of NHP is important, there are impending concerns regarding cost escalation and dwindling affordability that need to be addressed in the short-term to ensure that the first phase is a success. There are immediate actions that could be taken to reduce the growing subsidy burden in the NHP. First, private developers already involved in NHP could voluntarily participate in a pilot "Innovation Program" aimed at introducing higher density housing typologies, mix of uses for cross-subsidization, and a graduated system of subsidies tied to different ceilings in terms of housing unit size and/or sales price. Second, the use of higher density typologies and cross-subsidization through the sale or lease of ground floor commercial space could be used by the Governorates and the *Ibni Beitak* program to hedge against escalating construction costs.

I. SUMMARY OF THE FRAMEWORK FOR HOUSING POLICY REFORM IN URBAN AREAS

The *Framework for Housing Policy Reform in Urban Areas in Egypt*, endorsed by key Government stakeholders in September 2007, provides recommendations for moving from a program-based to a policy-based approach and introducing comprehensive housing sector reform in Egypt, including specifically subsidy policy, as well as for improving the delivery of housing subsidies under the National Housing Program (NHP). It builds on a body of recent research and analysis related to affordable housing in Egypt, and focuses on housing policy and subsidy reform simultaneously along two priority axis: (a) ***comprehensive housing sector reforms*** designed to put in place over the medium and long-term the foundations of an efficient and well-functioning urban housing market, with the aim of making access to housing more affordable to all; and (b) ***improvements to the NHP***, which can be initiated immediately in the aim of strengthening its impact and ability to reach a larger number of beneficiaries, and which can be used to leverage longer-term reforms in the housing delivery system.

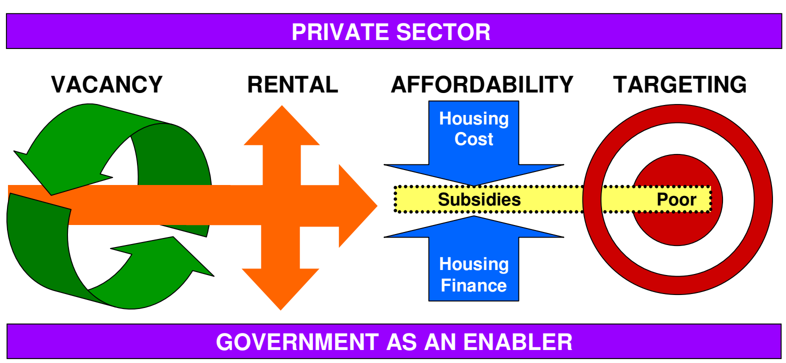
The framework for a well-functioning housing system in Egypt consists of five action channels. It is not a substitute for a complete housing policy, but rather a framework that focuses on specific policy issues that need to be addressed. The framework provides recommendations for addressing existing distortions to the current *stock* of housing (vacant and rent controlled units), improving the *flow* or production of housing (decreasing the cost of formal housing supply by addressing the constraints that force the poor to seek informal housing solutions) and enabling better household access to housing (improving affordability to all and better targeting of subsidies to qualifying households, and reforming Government role as an enabler of housing markets) as a way for moving forward. The five channels are as follows:

- **Vacant Units.** Unlock the stock of vacant housing through (1) tax reforms and innovative subsidy instruments that provide incentives to owners of vacant units to release them to the market and (2) developing a liquid rental market.
- **Rental Market**. Create a fluid rental market by (1) strengthening rental market regulations and (2) putting in place an action plan to gradually address the distortions to the overall housing market resulting from the rent control regime, while implementing a safety net system to mitigate any socio-economic impact affecting vulnerable households.
- **Affordability.** Enhance affordability of new housing options by (1) increasing access to housing finance through incentives for lenders to further expand down-market to be able to reach more limited-income groups and (2) decreasing the supply cost of housing and transaction costs of accessing it to make access to housing more affordable to all and thus address the constraints that force the poor into informality. This dual approach to improving affordability will minimize the size of public subsidy needed per household (and the need to use subsidies to compensate for market inefficiencies) and thus expand the Government's ability to reach a much larger number of beneficiary households with the same budgetary envelope.

- **Targeting.** Improve the targeting of public subsidies to ensure that they are provided to the lowest income households who require them to obtain adequate shelter through the introduction of market segmentation to assist in clearing well-defined market blockages. Successful targeting along those lines and in a segmented way to address the different needs and issues facing different household groups will significantly improve the impact of the subsidies used and will enable the Government to reach a much larger number of qualifying beneficiaries, while reducing the leakage effect to non-deserving households.
- **Government.** Transform the government into an enabler of the housing market that can (1) better understand housing markets and react to changes, (2) effectively engage the private sector in the delivery of housing, (3) provide an effective regulatory framework, and (4) formulate policies to have in place a well-functioning housing market/system and assist low-income households to afford housing solutions.

The housing market alone cannot meet all of Egypt's housing needs – the government must play a role in enabling and regulating the system.[2] On the demand side, the government has three key roles: (i) developing and maintaining a property rights system to ensure that rights to own and freely exchange housing are established by law and enforced; (ii) developing an environment conducive to mortgage lenders to provide greater access to housing finance and further go down-market; and (iii) ensuring that subsidy programs are of an appropriate size and well-targeted. The government also has three main roles related to the supply of housing: (i) providing trunk infrastructure for residential land development; (ii) designing and enforcing zoning and building codes to ensure housing quality and safety; and (iii) creating greater competition in the building industry by removing constraints to the development and use of local building materials and reducing trade barriers that apply to housing inputs. Market failures that emerge from the absence of one or more of these enabling factors are usually at the expense of the poor, and addressing these market failures to ensure that the housing sector functions well is the legitimate role of the government. Better governance revolves on strengthening the roles of the public sector (as a regulator and enabler) and the private sector (as the deliverer of housing units and mortgage loans) to facilitate enlarged and equitable access to affordable housing for all people.

Figure 1: Framework for Housing Sector Reform in Urban Areas in Egypt



While the Framework sets forth medium- to long-term goals, ***an explicit aim of the Government is that recommended improvements to the NHP, which could be implemented in the short-term, would be used to catalyze improvements to the overall housing market***. The current political momentum behind the NHP to deliver the 500,000 affordable housing units as promised by the President provides an opportune moment to improve and streamline the institutional context with the aim of creating a more efficient housing system and addressing the distortions hindering the functioning of the housing market and its ability to provide housing solutions that are affordable.

---

[2] "Housing: Enabling Markets to Work," The World Bank (1993).

A ministerial workshop was held in September 2007 to present the draft *Framework for Housing Policy Reform in Urban Areas in Egypt* and to discuss with the Ministers of Housing and Investment—the key government counterparts—key policy issues and an action plan for the next period. Four priority action areas emerged as follows: (i) the conceptualization of an effective housing policymaking structure; (ii) the design and implementation of a housing information system, to better inform the policymaking process; (iii) the strengthening and mainstreaming of demand-side mortgage-linked subsidy instruments to enhance housing affordability for urban households; and (iv) the expansion of the Housing Demand Study to other urban areas of Egypt. Currently, the United States Agency for International Development (USAID)'s Technical Assistance for Policy Reform II (TAPRII) project has made significant progress on the design of the housing information system and the expansion of the housing demand survey. Work is currently underway at the Mortgage Finance Authority (MFA) and the MHUUD, with the support of the World Bank, to strengthen and expand the mortgage linked subsidy program, including technical design options, procedures for implementation, and ways to increase the capacity of the Guarantee and Subsidy Fund (GSF), and the coordination with NHP, to process large numbers of finance-linked subsidy applicants in the aim of expanding access to affordable housing.

II. PERFORMANCE OF THE NATIONAL HOUSING PROGRAM

The President's 2005 electoral program called for a new housing program that targets building 500,000 affordable housing units by 2011. Since the NHP was launched in 2005, the GOE's implementing agency—the MHUUD—has introduced numerous improvements to help meet demand and innovations to address the different needs of a segmented beneficiary population. In the two years since its launch, the NHP has gradually shifted to a more attainable and demand-responsive goal of creating 500,000 housing "solutions," as opposed to building 500,000 new housing units. Towards this aim, the MHUUD introduced rental and self-build housing options at a substantial scale in response to existing demand, and reached agreement to use NHP subsidies for rental units to be developed on the better located *Awqaf* land. The GOE has also explicitly budgeted for housing subsidies under the NHP, relied on transparent upfront subsidies (although subsidized land and some interest-rate subsidies still persist), and actively promoted private sector production of housing.[3] The NHP has also expanded its target volume of potential housing solutions, and by May 2008 it had secured land and signed memoranda of understanding with various public and private development partners related to an overall pipeline of almost 800,000 housing units of various types. Of these, 79,159 units have been or were in the process of being delivered to beneficiaries and 211,024 were under implementation as of May 4, 2008. Clearly, some of the total 800,000 units will inevitably roll over to the post 2011 period.

Enhancements to the NHP

When the program was launched, the basic housing unit envisaged under the program was a 63 m2 unit in multistory walk-ups with a construction cost of LE 50,000 and an upfront subsidy of LE 15,000 paid directly to developers upon unit completion. The beneficiary would make a down payment of LE 5,000 and finance the outstanding LE 30,000 through a 20-year mortgage credit corresponding to monthly

[3] MHUUD has also made some remarkable improvements in moving towards market-based solutions and expanding private sector participation. It has initiated a system of transparent disposition of public land including auctions, competitive allocation to developers through sealed bids, and a lottery system to qualifying moderate-income individuals seeking access to individual plots for owner construction. The MHUUD is currently discussing arrangements for a private insurance for timely delivery of residential construction to further enhance the protection of consumers (issues including pricing, voluntary versus mandatory provision, etc). Further consumer protection has been provided through Central Bank requirement to banks providing finance to developers to ensure that consumer advance and installment payments to developers are deposited in an "escrow-like" account. Such payments are moreover considered as debt, rather than capital from the developers' perspective.

installment payments starting as low as LE 160, and set to rise by 7.5% per year. Units were to be delivered equally between new towns and Governorates. However, the basic design did not find many takers in the first year. Multiple newspaper advertisements of the basic model only resulted in 110,000 applications by interested beneficiaries. The low level of response prompted MHUUD to examine and introduce the following options:

- *Diversification of Tenure Options*. The most significant new product introduced under NHP is a public rental program, which currently is estimated to amount to a total of 211,500 units, or 26% of the expanded NHP target. The product was introduced at the request of Governorates, which identified a great need for small rental units at affordable terms without any down payment. There are two rental products: The first is a 35m2 unit comprised of one bedroom, a living room, a bathroom and a kitchen, and is targeted at the poorest segments of society (called *Al-Awla Bel Reaaya*). A LE 15,000 subsidy per unit would be extended to the Governorates, which would also access a LE 10,000 soft loan per unit at the below-market interest rate of 6% per annum (made available by the MHUUD from the National Investment Bank allocation to the General Organization for Housing and Building Cooperatives). The remaining gap in development cost would be financed from the Governorates' Economic Housing Funds. The rent level would be set at LE 160 per month, and would be reduced to 25% of household income for those unable to afford the rent through the intervention of the Ministry of Social Solidarity. The other rental product is a 63m2 two-bedroom unit to be built either by governorates, the New Urban Communities Authority (NUCA), or the Ministry of Religious Affairs (*Awqaf*) on its own land parcels. A total of 135,500 units of this type have been programmed, and the LE 15,000 subsidy per unit will also apply. (Financing and rent structures will vary by implementing agency.) Against the history of Egyptian public housing programs, this move can be seen as a major programmatic shift away from finished housing units for ownership towards a housing solution that is likely to better match low-income household demand and affordability, without resorting to a significant increase of the per unit subsidy amount.

- *Expanding Role of the Private Sector*. The role of the private sector to enhance the efficiency of unit delivery and improve quality has been integrated into the NHP. As of May 2008, a total of 288,500 housing units have been programmed under this private sector channel, comprising of approximately 248,000 units of 63 m2 or less in size (the basic NHP product) and the remainder ranging between 100-120 m2 (a middle/upper-income product). The Program provides serviced land or land provided only with off-site infrastructure at a reduced cost in the new towns (LE70 per m2 in the first case and LE12.5-48 per m2 in the second case). For developers to benefit from such concessional public land prices, they would have to build units that meet the standards of the NHP (unit size of 63m2 or less). By May 2008 a total of 105 companies had registered for the program, and 22 companies were issued the Minister of Housing Decree granting them control over the public land. A total of 5,600 Feddans (2,350 hectares) of NUCA-controlled land in new urban communities have been earmarked for this NHP track. Upon completion of the NHP units within a maximum permitted period of three years, the developer would market these units to families that meet the low-income criteria (a monthly household income of LE 1,500 or LE 1,000 for a single person, as set by Law 148-2001). Upon unit completion and identification of the beneficiaries, the per-unit subsidy of LE 10,000 (versus LE 15,000 for public developers) would be contributed by the NHP to reduce the purchase price for the qualifying household. By May 2008, a total of 13,324 units were under construction by ten private developer groups in five new towns. Of these, Orascom Group, the largest developer enrolled in the NHP with a land allocation of 2,500 Feddans, was responsible for 10,500 units or 79% of all units under construction (50% have been completed and their allocation was underway, and the remainder is expected to be completed by August 2008).

- *Expanding Role of Governorates*. The role of the Governorates in the production of housing under the NHP is quite large. Their focus is on both ownership units of 63m2 and also the two types of rental units (35m2 and 63m2) as a response to local demand. Relative to central government, Governorates have the advantage of being able to tailor their products to local preferences and demand due to their proximity to beneficiaries. Also, they can avail themselves of local funds (economic housing fund and local services and development fund) to partially finance the units.

- _Use of Awqaf Land_. The MHUUD reached an agreement with the Ministry of Religious Endowments to develop rental housing on *Awqaf* land. Because *Awqaf* lands are more centrally located than most public land holdings designated for affordable housing, this will enhance the locational mix of housing options for the poor. There is a possibility of developing up to 100,000 NHP rental units on *Awqaf* land. As of May 2008 a total of 12,076 units had been planned and permitted under this *Awqaf* channel in 11 Governorates. In two Governorates, the tender process for a total of 3,420 units was completed or nearing completion in May 2008.

- _Self-Build Options_. The sites-and-services model, *Ibni Beitak*, was announced in November 2006. MHUUD advertised the delivery of 20,000 small land parcels (of 150 m2 each) in 18 new towns. Households are allowed to build a maximum of a ground plus two floors on 50% of the land (MHUUD provides, free of charge, building plans and designs as well as pre-issued building permits to interested beneficiaries). The ground floor needs to be built in the first year. The serviced land price asked of households is LE 70 per m2 (compared to an average of LE 140-150 per m2 as indicated by MHUUD for infrastructure cost recovery). The land price is payable over 10 years, with a 10% down payment, a 3-year grace period, and the balance in annual installments over 7 years without interest. This implies a net present value of LE 49 per m2. The LE 15,000 upfront subsidy is disbursed in three stages, tied to construction progress (three months after the following milestones: initiation of foundation work, completion of ground floor structure, and completion of finishing of ground floor). As many as 110,000 applications were received, a much stronger than expected demand for this product. The President instructed MHUUD to increase the supply of this type of product; and there are currently 90,800 lots in the pipeline. As of May 2008, a total of 1,437 lots had been planned and serviced.

- _Mortgage-linked Subsidies_. A major concern of the GOE is the expansion of the mortgage market to lower- and middle-income groups who need affordable long-term mortgage finance to acquire their own home. To reach that objective, the GOE has put in place a specific instrument—the GSF—and has put in place a program of extending mortgages to qualifying households under the NHP from public banks and private banks/mortgage finance companies (MFCs). The GSF was established under the authority of the Ministry of Investment with the mandate to develop innovative products to stimulate housing lenders to further expand down-market. The GSF offers an upfront subsidy for low-income households (i.e. with LE 1,500 maximum monthly household income). The upfront subsidy of up to 15% of the value of the housing unit was initially capped at a maximum of LE 10,000, and the value of the qualifying unit was not to exceed LE 75,000. However, a recent GSF Board of Directors decision increased the subsidy amount to LE 15,000 to match those offered under NHP. Households are required to make a minimum down-payment of 10%. With the maximum monthly payment for low-income households set at 25% of income, the maximum monthly payment for the program is LE 375 per month. Public and private banks as well as Mortgage Finance Companies (MFCs) can originate mortgages linked to the GSF subsidy. To date, the GSF has enabled some 4,100 households to access affordable housing units. Most of these units are in NUCA and publicly built housing stock, which the GSF was given control over, but a few cases (about 10) of households shopping for their desired units were also enabled by the GSF through a mix of the upfront subsidy and support to access a mortgage loan. Aside from the GSF, and within the scope of the NHP, four public lenders (three banks: Housing and Development Bank—HDB, National Bank of Egypt—NBE, and Bank Misr, and one public MFC Taamir) committed through a partnership with the MHUUD to extend NHP-related mortgage loans of up to LE 2.3 billion at concessionary rates of 10.5%. Such commitment to a below-market interest rate represents a significant challenge to these lenders, which may explain why such loans have not yet materialized (this will be discussed at a later stage). Only the HDB is reported to be in the course of processing some loans. The last NHP-related avenue of mortgage-linked subsidies is through the private developer channel. Even though there are no clear contractual terms between the MHUUD and private developers on the issue of facilitation of access to mortgage loans by qualifying households, it is assumed that developers' role encompasses availing the units to qualifying beneficiaries who in addition to the subsidy would need housing finance. In the case of the largest developer, Orascom Group, a MFC Tamweal, owned by the same holding company, has been created and is actively working on processing loans to qualifying beneficiaries. In other developers' case, it is unclear what the plan would be, but the GSF is expected to play an important role in facilitating partnerships between developers and MFCs.

As a result of the introduction of these new housing options, there is now ***enhanced "market" diversification and segmentation*** *within the NHP.* In some cases this segmentation was an explicit aim, and in others it was the implicit result of construction cost escalation as described below. The smaller 35m2 rental units are targeted at the lowest income groups who do not have savings for a down payment on a homeownership unit and are very income-constrained. The larger 63m2 rental units are expected to attract moderate income groups with a preference for a starter home with a 5-10 year lease duration (a strong preference expressed in the Greater Cairo demand survey) and/or who do not have sufficient funds for a down-payment. Moderate-income groups with preference for homeownership and with the ability to provide a down-payment have options in the NUCA and Governorate 63m2 ownership units. In addition, moderate-income households can seek a subsidy from the GSF coupled with a mortgage (that the GSF facilitates) to purchase a new or used unit, so long as the purchase price is less than LE 75,000 (the GSF uses a price ceiling as an alternative to the 63m2 size restriction that the MHUUD relies on). Finally, middle-income segments with the ability to raise higher down-payments and secure larger loans would be catered to under the *Ibni Beitak* track if they desire building their own unit or could acquire existing units developed by the private sector. Those willing to build a second unit for a qualifying household could access a second NHP subsidy. Higher income households also have the ability to purchase private sector-developed units on the open market using mortgages not linked to a government subsidy program.

NHP Cost Concerns

The NHP is proving to be very expensive. The total direct subsidy for the original target of 500,000 units is estimated at LE 16.2 billion, which amounts to an average direct subsidy of about LE 32,500 per unit.[4] Including indirect subsidies, such as the opportunity cost of unserviced/greenfield land and below-market rate financing, the cost likely reaches above LE 26 billion, or an average direct and indirect subsidy of LE 52,000 per unit.

In regard to the indirect costs of the NHP, the opportunity cost of unserviced land may represent a quarter of the total government burden. This is estimated as the difference between an average market price of serviced land per square meter and the cost of delivering services to the land. In short, it represents an estimation of the amount of money for which the owning agency could have sold the unserviced land in the market. The other two indirect subsidy line items consist of below-market interest rates. The most significant one is the NIB's extension of construction loans to the Governorates to build units. The other financing subsidy is the LE 2.3 billion pledge by HDB, NBE, Banque Misr and Tameer to offer below-market loans at an interest rate of 10.5% when the prevailing market rate is approximately

[4] The cost estimates are based on assumptions about likely costs to complete the 500,000 units pledged under the NHP, and would need to be updated in line with real/interim costs. As agreed with the MHUUD, the 500,000 unit pledge (distinct from the actual 800,000 unit pipeline) is assumed to include 70,000 NUCA units for ownership; 100,000 Governorate units for ownership; 92,000 units in Ibni Beitak parcels (on the basis of one unit per parcel); 20,000 ownership units by private developer Degla; 60,000 ownership units by private developer Orascom; another 30,000 ownership units by private developers on NUCA land; 40,000 35m2 rental units by NUCA; 26,000 35m2 rental units by Governorates; 27,000 63m2 rental units by Governorates; and 35,000 rental units on *Awqaf* land.

13-14%, and which would further increase as interest rates are expected to rise soon to take account of inflation pressure. Under these conditions it is unlikely that the financial institutions will meet their pledge, which may explain why according to MFA no NHP-related mortgage loans have been booked (at least as of yet).

Not all NHP housing products are subsidized equally. Estimates of the total subsidy costs per unit range from LE 30,000 for private sector homeownership to over LE 70,000 for the 63m2 rental product. The problem, however, is that within the NHP portfolio of products, there is no proportional relationship between household affordability and the per-unit subsidy amount for all products. This would contradict with a progressive subsidy policy approach in which governments would provide a higher subsidy share of unit cost for lower-income households, in line with their affordability (up to a certain predefined limit to enable adequate beneficiary coverage and prevent potential abuses), versus a lower subsidy share for products targeted at households with relatively higher incomes. The GOE's decision to extend an equal LE15,000 upfront grant for all NHP qualifying households suggests such an approach to subsidy policy, since the grant would represent a larger share of the per unit cost for poorer households. Yet, the reality after accounting for other subsidies extended under NHP (including to the cost of serviced land) is that a product such as *Ibni Beitak*, requiring an ability to finance unit construction that implies a targeting of middle/upper middle-income households, receives the largest direct subsidy amount per unit from the Government (estimated at LE 50,606).

Rising construction costs have become a global concern. Indeed, rising fuel costs are driving up the cost of cement and steel in Egypt.[5] The forecasted increase in construction costs will likely pose a great budgetary challenge for the NHP in the coming years given that most subsidy programs within it are tied to specific income levels and unit price targets. An increase in cement and steel prices will also cause an increase in the cost to service land. As construction costs rise and since it is likely that private developers under the NHP would pass on the difference to the beneficiaries, pressure is likely to build on the GOE to fill the gap with additional subsidies.

NHP Affordability Concerns

Some products in the NHP require a beneficiary contribution that is beyond the means of low- and moderate-income households. Of specific concern is the escalating beneficiary contribution required to be able to afford the privately developed ownership units. Mortgage loan amounts are constrained by a stipulation in the Mortgage Law that restricts monthly repayment to 25% of household income. Plus, the initial plan under the NHP was for the first monthly installment to be equal to LE160 only (it is unclear whether this stipulation could still be implemented since it would either yield very small loan amount or a significant negative amortization with risk to lenders). Although some mortgage providers have created loan structures that expand the mortgage amount including through reliance on annual bullet payments, the maximum loan amount still ranges from LE 30,000 to LE 45,000. In an environment of increasing construction costs, private developers have raised the sales price of units. These two elements combined translate into beneficiary down payments of between LE 29,000 to LE 40,000, significantly above the LE 5,000 envisioned in the NHP. The *Ibni Beitak* program has also proved to be an expensive endeavor for beneficiaries. While the down payment of LE 1,050 is quite low, completing the unit has an estimated cost to the beneficiary of about LE 53,000 which needs to be completed within one year.

Unless the affordability constraint is released, it is likely that there will be leakage of units to higher income households. In the case of *Ibni Beitak*, there is anecdotal evidence that this is already occurring by means of selling the serviced lots to higher income buyers even before starting construction of the unit. In regard to the privately constructed ownership units, it is likely that beneficiaries may have significant undocumented earnings that allow them to make the substantial down payments and enter into mortgage

[5] The price of steel increased by 50% in the span of one year from about LE 3,500 to LE 5,100 per ton in the first half of 2008. The price of cement rose by about 30% in the first half of 2008. Even the price of bricks has faced a recent surge with the reduction in the diesel subsidy in May 2008.

loans with large early-term obligatory bullet payments. Otherwise, developers may seek to allocate the units to households above the qualifying income cut-off, whether or not with a declared income that makes them eligible.

As credit conditions are expected to tighten (likely rise of mortgage rates from the current 12%-14% range) along with steep inflationary trends in 2007 and 2008, especially in building materials, there is pressure on lenders to increase the down-payment required from households, and on the NHP to provide additional subsidies. Unlike public developers, private developers capture subsidies without sale price limits, so their margins are less affected than those of public providers. The analysis of both the direct and indirect subsidy levels of the existing NHP program and the potential implications of building material price hikes reveals high fiscal costs (in terms of accrued subsidies per unit), particularly for the public sector delivered component financed by public lenders (even before taking into account any additional credit loss).

There is a growing pressure to increase subsidies to keep the units affordable to the target group of the NHP. Another consequence is that targeting is already shifting to those households who can gather a larger upfront down-payment, which deteriorates the overall allocation of the NHP, with the exception of the low-income rental scheme which is less desirable for take-over by middle income groups by way of self-targeting.

Mortgage System Concerns

Mortgage loans from the MFCs at market interest rates have repayments that are limited to 25% of household income for households defined by Law as low-income (maximum monthly household income of LE 1,500 and LE 1,000 for an individual), and therefore the maximum loan amount under an amortizing loan (as specified under the NHP) is around LE 30,000 assuming an interest rate of 13% per annum. Because of inflation pressures, interest rates are likely to increase soon to at least 14%, thus reducing the maximum affordable housing loan amount that a household could qualify for under the 25% maximum Payment-To-Income (PTI) ratio. To expand homebuyers' purchasing power, the MFCs have developed creative loan structures. Structures currently in the market include introductory teaser rates that increase during the term of the loan (such as 12% in year 1, 13.5% in years 2-6, and 14.5% in years 7-20, in the case of the largest MFC Tamweel) and obligatory early term bullet payments. In the case of one MFC, these bullet payments consist of annual payments equivalent to 10 monthly payments for the first 10 years, over and above the monthly payments on the amortizing loan that has a 7.5% escalation per annum. Using this structure, the MFC is able to increase the mortgage loan by about 50% to about LE 45,000. Yet, as things currently stand, all such creative and risky instruments can do is offset the recent increase in unit prices due to construction cost increases, leaving the households to come up with very large down-payments, averaging around LE40,000 and large yearly payments for private sector-built units.

Given that the mortgage market in Egypt is still new, and therefore mortgage consumers are likely not sophisticated in their knowledge of the financing tool, these creative structures may mislead consumers and put them in danger of default. Households who have stretched their financial capacity due to the high down payment (perhaps by borrowing the down payment money through informal channels) are especially at risk. At the same time, these instruments increase the credit risk for lenders, a risk that does not appear to be priced into the interest rate. There is no mortgage insurance against this risk, nor does there seem to be systematic oversight over the type of amortization schedules financial institutions apply (MFA currently reviews new mortgage instruments proposed by MFCs, but it is unclear if this oversight could be effectively sustained as business expands, and it is unclear whether similar oversight exists for public and private banks' mortgage loan products).[6] The danger is that if current pressures on making

[6] GSF simply levies a charge for its guarantee program for tripartite mortgages that comply with the parameters of the mortgage law and executive orders, irrespective of the amortization schedules of these mortgages.

mortgages work for specific "low income" levels were to result in increased defaults, the development of the mortgage sector could be set back.

There is increased pressure on the four public lenders (HDB, NBE, Bank Misr, Taamir) that committed to extend affordable mortgage loans up to LE 2.3 billion under the NHP at concessionary rates of 10.5%. Even with such concessionary rates, these loans work in terms of targeted installments only if a system of gradual payment increases is applied of 7.5% per year and negative amortization is allowed in the early years of the loan to minimize the initial monthly installment down to the required LE160 or to the 25% PTI. Such loans are riskier than conventional fixed rate or adjustable rate mortgages. The credit rate hardly covers for all costs, let alone risks and capital returns. So far, only HDB is reported to be processing loans, even if according to the MFA, no NHP-related loans have yet been booked. Given such lending is not sustainable in the long term and at a large scale, these public lenders are now seeking ways to decrease their exposure, or to charge additional fees, or to convince a certain proportion of their eligible borrowers to switch to more conventional, less affordable but also less risky fixed rate loans, or to increase credit rates to a higher level (which means extending the contractual maturity of the loans, which will not be popular). If these banks have to fulfill their commitments to the NHP, the resulting weakening of their balance sheets may require support from the Central Bank of Egypt (CBE), at least in the case of the specialized HDB which faces higher costs of funds than NBE or Bank Misr.

If the initial NHP target for the level of credit repayment is not adjusted to market realities, lenders would have to introduce riskier amortization schedules (negative amortization in the early years, very long terms, or large yearly bullet payments) that increase credit risk. Both increased riskiness of mortgage lending and implicit funding subsidies to banks would be undesirable consequences that could set back efforts to normalize the mortgage market. Addressing this issue appropriately at this juncture is critical for mortgage market development, as well as for the success of the current phase of the NHP (where the private developer products are all intended to encompass housing credits linked to the subsidies) and the future of the NHP, whose next stage will focus only on mortgage-linked subsidies for homeownership solutions.

Consequences of Current Market Conditions

The main consequence of increased construction costs, increased interest rates, and related escalating down payment requirements, and higher risk mortgage structures is that the targeting of housing units would be pressured to shift to higher income households. This is already reported to be taking place and is largely inevitable in the case of the private developer housing products. Such an outcome would deteriorate the overall goal of the NHP and would put extreme pressure on the Government to increase public subsidies.

III. NEXT STEPS FOR THE NATIONAL HOUSING PROGRAM

In addition to supporting the development of the ***Housing Information System*** and the establishment of a strong ***Monitoring and Evaluation Unit*** within the MHUUD to provide timely feedback on policy decisions, the next few years of the NHP and the next subsidized housing program phase presents the opportunity to: (i) enhance affordability by strengthening the mortgage-linked subsidy program, to be gradually introduced with a progressive phasing out of supply-side subsidies over the medium term; (ii) move away from the public supply of housing while strengthening the land disposition, regulatory, and monitoring procedures for private sector development of affordable housing, and putting in place the right incentives and subsidies for private developer participation and structuring balanced public-private-partnerships with effective risk sharing between both parties; (iii) shift attention from the production of new units to methods and instruments for mobilizing transactions in the existing stock of housing; and (iv) establish a high-level housing policy making body.

(i) Strengthening the Mortgage Linked Finance Program

Recognizing the magnitude of the problems arising from tougher market conditions, and the problems of targeting of the NHP subsidies for finished housing through developers, the Government of Egypt has expressed strong interest in developing a new scheme of upfront household subsidies that would be part of a comprehensive package to finance the unit including a mortgage credit and household down-payment. This demand-side program, recommended in the Framework for Housing Policy Reform in Urban Areas (under the "Affordability" channel), was endorsed by both the Ministers of MHUUD and MOI, with a target to have such a system operational and channeling the bulk of subsidies for the target group by mid-2009. Specifically, greater access to housing finance will augment the ability of lower-middle and middle-income households to purchase housing (whether new or existing on the market) and thus allow the GOE, specifically the MHUUD, to focus on implementing housing programs for the low-income. Mortgage-linked subsidies are critical because there is potential for the private mortgage market to serve a large portion of the middle and lower-middle income households with much less subsidy (and with the ability for segmentation among beneficiary groups) than in the traditional, supply-side government housing programs. This allows the government to potentially reach a much larger number of beneficiaries and to concentrate its limited resources through supply-side subsidy instruments (e.g. sites-and-services, rental products, etc) on those who need them most.

The advantages of such a program are that: (i) the subsidy benefits the consumer directly, rather than indirectly through a subsidy to developers, which generally improves the efficiency and transparency of household subsidies; (ii) it allows a broader range of options of houses to be included in the overall package of subsidies (e.g., unfinished houses and existing houses); (iii) it increases the ability of middle and lower-middle income groups to access credit and enables the ability for product segmentation, thus increasing the number of potential beneficiaries or lowering the amount of needed subsidy, all else being equal; and (vi) it allows expanding the mortgage market to play a pivotal role in increasing the production and affordability of housing.

Mortgage-linked transparent upfront subsidies and/or buy-down subsidies allow lenders to make loans at market conditions and allow for better targeting through lenders' underwriting systems and through implementing a subsidy system that is progressive with loan size and house value/size. The MHUUD intends to adjust the program to market realities and does not intend to impose any pre-determined credit product to the lenders, who will freely determine their own credit policy.

However, mortgage linked subsidies are only feasible for households who are creditworthy and for properties trusted as collateral by lenders. In the Egyptian housing market, this means that a large proportion of households deserving of a subsidy cannot be served through such a program, even if over time the program is adjusted gradually to reach lower income groups. A mortgage-linked subsidy is therefore always only one part of an entire subsidy package. It needs to be complemented by alternative subsidy programs that cater to those households excluded from mortgage lending. These include, for example, sites-and-services projects that combine a serviced land parcel (with or without a core house that is expandable over time) with a subsidy, self-help construction with access to micro-loans, subsidized rental housing, as well as such instruments as guarantees and contractual savings schemes to enable access to mortgage finance by qualifying households with undocumented/irregular income.

It is recommended that the program of credit-related subsidies would be implemented and operated by the GSF, on behalf of the MHUUD and MOI. The GSF already has experience in administering a similar program, albeit at a lesser scale, and established credibility working with mortgage lenders. This will require technical and financial assistance to ensure that the GSF has the capacity and resources needed to administer a larger scale program. The establishment of the main features of the program—including targeting criteria but also a regulatory and budgetary framework, as well as any later related adjustment—would not be decided by the GSF itself (which will only play the role of program implementation unit), but by a higher-level policy making authority within the context of the broader housing policy.

Shifting from a supply-side dominated subsidy system to a demand driven mortgage-linked subsidy system would need to occur in a gradual fashion. Private developers who are accustomed to receiving heavily subsidized land upfront would need to adjust to a system in which all the subsidy amount comes in upon the sale of each individual housing unit, which will entail significant upfront capital outlays. The current pipeline of NHP allocations will facilitate this transition. Moreover, the transition period will allow the MHUUD and the GSF sufficient time to fortify their monitoring and evaluation capabilities.

The introduction of the new subsidy program would have consequences for the governance structure of the GSF. The first requirement is the separation of the subsidy and guarantee functions (both of which are currently under the GSF mandate). This should be reflected by a legislative amendment to the Decree establishing the GSF. The separation should be complete, including products, corporate governance, operations, and financial management (beyond the current administrative and accounting separation). Managing a guarantee program requires an independent decision-making process based on prudent risk management principles prior to the consideration of subsidies, even if the guarantee is used to promote a social agenda and if insurance premiums are reduced for that purpose. The second requirement is the reconfiguration of the Board of Directors of the (to be renamed) Housing Subsidy Fund to reflect the role of the MHUUD as the lead entity responsible for housing subsidy policy development. This would also be achieved through a legislative amendment of the establishment decree.

A GOE Taskforce, co-chaired by the MHUUD and MFA, has been established to prepare the main parameters of a mortgage-linked subsidy program and identify the reforms to Law 148 and related regulations necessary to launch the program. The main Task Force functions are to: (i) clarify the problems a household subsidy program is to address and its specific objectives; (ii) develop a transparent, direct household subsidy program that complements market rate mortgage credit; (iii) identify the legal and regulatory changes needed to implement the program; (iv) create a blueprint for the Housing Subsidy Fund or subsidy implementation unit; (v) prepare the operational system and procedure manuals; and (vi) estimate the scale and fiscal outlays needed. In the short term, the MHUUD and the GSF will collect needed information on the mortgage and housing sectors (prices, production volumes, etc) and population demographic and economic statistics to help the taskforce ground their deliberations and design work in appropriate facts.

(ii) Promoting an Improved System for Private Sector Development of Subsidized Housing
Under the first phase of the NHP, the GOE took a substantial step toward engaging the private sector in the business of developing and managing affordable housing (as opposed to a contractor role in previous programs). Based on lessons learned in the first phase, especially the ambiguities surrounding the entities that will absorb the increase in building materials' cost, the second phase of the NHP should have a stronger focus on introducing pre-determined unit sales price targets, sharing commercial risk with private developers, improving land and subsidy disposition, and improving the monitoring of project outcomes.

<u>(a) Predetermined unit sales price targets</u>: As construction material prices increased over the last year, developers participating in the NHP have raised the average price of subsidized units from the initial target of LE 50,000–60,000 to over LE 85,000. This defeats the intent of the NHP to provide housing options to households who could only afford a unit at the initial price level, and puts an extreme financial burden on the beneficiaries to find additional down-payment funds or to enter into mortgages with a riskier structure (e.g. with large mandatory bullet payments in the early years of the loan). Actual contractual agreements with private developers do not stipulate predetermined unit sales prices, nor do they list conditions for price adjustment. At the same time, agreements do not stipulate that the government would increase the subsidy amount to cover increased production cost in order to preserve affordability for the target groups. Therefore, private developers must pass on the increase in construction costs to the consumer if they are to maintain the same margin. This is a significant hole in the system that needs to be addressed immediately and adequately avoided in the next generation of the NHP. One method for dealing with the issue is to contractually agree with private developers to a

maximum unit sales price, to be identified through developer competition and to be coupled with predetermination of specific conditions for unit price adjustment. This implies that the developers would assume some of the commercial risk related to development and marketing. Such predetermined unit sales prices, once set through a competitive developer selection process, would need to be enforced.

The risk for private developers associated with locking in a unit sales price limit will clearly be factored into the packaging of their financial proposals and project bids. Since private developers will need to be compensated for taking on such additional risk, the difference can be made up through several channels. These include Government allowing additional development rights (higher density and mixed-use development including retail/commercial), a reduced land purchase price, or a higher subsidy package (depending on what is the factor on which developers compete).

Clearly, introducing such predetermined price targets or caps is not without challenges. The first is the likely resistance from private developers to a measure that will pass on more risk to them, even if they can a priori factor it into their proposals. This is simply because developers today face no such constraint. Moreover, enforcing a predetermined limit of sales prices would not be an easy task, and it is quite possible that there will be some leakage through additional payments "under-the-table" by beneficiaries for the units, especially if they are of desirable quality). But, this is also a concern in the existing NHP private developer track in which household income is limited to LE 1,500. However, it is hoped that if the risk associated with the unit price limit is properly accounted for in the project proposal (through higher mixed-income/use development allowance or a lower financial bid for public land acquisition), private developers would have less incentive to try to circumvent the system. Arguably, the most effective measure to ensure that private developers are stimulated to complete new unit construction on time and at competitive prices is to introduce more competition into the market. This would mainly be achieved by broadening the scope of NHP subsidies to include existing units on the market, thereby increasing the ready supply of units in this band of the housing market and putting downward pressure on the prices that private developers are able to commandeer. This issue is discussed later in detail.

<u>(b) Risk Sharing</u>: Currently, private developers participating in the NHP face little commercial risk. Land is provided at a subsidized price and paid over time, thus requiring only limited upfront capital outlay. Consumers purchase the unit before construction, reducing the amount of developer capital needed to build the unit. If construction costs increase, it is added to the sales price and passed on to the consumer. Under these conditions, it is not surprising to find that most developers who applied to participate in the NHP opted for the 100% subsidized housing track, when the other available option was 50% subsidized housing and 50% market rate (for which a higher public land price was set at LE333 per m2, but which was still estimated to be about 50% of the market price). It could be argued that the main risk private developers are currently assuming is the risk that the government does not follow through with its promise to provide the unit subsidy, and they would be left with undesirable housing products to find buyers for. The other risk that private developers are reported to assume under the NHP (even if it is not clearly coded in the contractual agreement) is the marketing risk. According to the MHUUD, one of the obligations of private developers under the NHP is to market the units and identify qualifying households. The penalty associated with non-compliance with NHP regulations would be that NUCA would revoke the public land subsidy and impose an ex post price adjustment as a condition to transfer control over public land to the developer (NUCA retains control over the land, which is allocated under a conditional transfer of ownership system called *Takhssiss*, until all installments have been paid). It is unclear however whether there is capacity within the NHP and NUCA to monitor the income/eligibility of beneficiaries or whether the monitoring would be restricted to ensuring that the produced units meet the 63m2 size constraint of the NHP.

If private developers are to operate with subsidized unit sales price limits, there must be sufficient compensation or upside to make the transaction financially feasible and commercially attractive. In short, they must see additional reward for assuming the additional risk. One way of accomplishing this is to allow for a greater mix of incomes (subsidized and non-subsidized units within the same development, which is useful to reduce the risk of "ghettoization" of poverty and limit the neighborhood risk to lenders) and/or a greater mix of land uses in large scale projects as a means of providing the developer more upside and reducing the amount of subsidy needed to make the development economically feasible.

Another means of compensation is to give private developers more flexibility to respond to changing market conditions other than by simply raising the sale price. If land is purchased at market rate from the government, perhaps there could be flexibility in the number of subsidized units to be sold or the type of subsidized unit. For example, a developer could apply to the program agreeing to build 50% of the project as subsidized units, with a provision that should construction costs increase by more than, say, 25%, then the required proportion of subsidized units would be reduced by a certain agreed percentage (e.g. 30%). If the next phase of NHP includes a segmentation of demand subsidies by unit size and household income (e.g. a subsidies equivalent to: 40% of price for 50m2 units for households with the lowest eligible monthly income band of, say, LE1,000; 30% of price for 63m2 units for an intermediate income band and; 20% of price for 80m2 units for a higher income band), then the development contract could allow for band shifting within the subsidized products.

To spur innovation, large-scale project developers could be granted flexibility in land use standards (plot size and configuration, mix of uses, etc) to allow them to use innovative designs as a means of reducing cost while retaining the quantitative target of the program in terms of number of subsidized units. Like the Planned Unit Development approach used in the United States, block-based project design could be considered for permitting rather than strict parcel-based adherence to the zoning code.

<u>(c) Land and Subsidy Disposition</u>: Transparent project financing and design innovation could both be fostered through setting up a competitive proposal process for developers, with a point system for criteria identified by the Government in line with specific housing policy aspects. For example, interested developers seeking land and subsidy would submit proposals with the requested subsidy level, depth of guaranteed affordability, financial proposal, conceptual design, and amenities to be provided. In the interest of promoting infill development, developers would be encouraged to provide their own land, with points included to assess site location. As a first step, the MHUUD could consider a simplified competition process in the form of a ***Pilot Innovation Program*****,** narrowing to one variable the areas in which private developers compete. This would simplify the evaluation process and ensure transparency. The table below outlines the pros and cons of four scenarios:

Table 1: Scenarios for Developer Competition

Competitive factor	Predetermined Variables	Pros	Cons
Maximum land price to be paid to the Government by the developer	• Location of public land • Size of land parcel • Number of units • Target income levels • Subsidy per unit • Neighborhood amenities • Completion timeframe	• Administrative simplicity • Transparency	• Distorts land pricing • Offers might be extremely low to compensate for the perceived risk related to inferred price caps • Government may not get the development "program" right in line with demand
Minimum total subsidy requested from Government	• Location • Size of land parcel • Land price • Number of units • Target income levels • Subsidy per unit • Neighborhood amenities • Completion timeframe	• 100% direct subsidy accounting	• Projects may have differing per unit subsidies • Need to determine the timing and form of payment of the subsidy (land write-down vs. household voucher)
Income Mix: The largest number of subsidized	• Location • Size of land parcel • Land price	• Gives developer more flexibility to design a marketable mix of	• Complex evaluation of proposals (unless income depth of targeting is the only

units to be provided	• Number of units • Subsidy per unit • Neighborhood amenities • Completion timeframe	incomes	parameter)
Development Mix: The largest percentage of the land to be used for subsidized housing	• Location • Size of land parcel • Land price • Target income levels • Subsidy per unit • Completion timeframe	• Project innovation that could be adapted to new programs • Market driven • Should reduce government subsidy contribution	• Complex evaluation of proposals

Timing the flow of funds (e.g. land payment from developer and subsidy payment from the government) is a primary element of risk sharing in a public-private partnership. Asking developers to move from the status quo of heavily subsidized land prices to market (or at least cost recovery) levels will likely require extra guarantees to assure the private developers that the Government will live up to its side of the bargain. In the worst-case scenario, developers might fear that, should the Government not provide the promised household subsidies, they would be left with a housing product (50m2 units) that the market will not absorb. To allay this concern, the Government could deposit the subsidies in an escrow account upon signing of the development agreement. The funds would then only be drawn down upon signing of a mortgage for the unit.

The Pilot Innovation Program could have two tracks – (i) new projects and (ii) existing projects that have not yet commenced construction. Many of the private development project included in the NHP have not started the construction phase. These developers could be invited on a voluntary basis to participate in the pilot program. Given that they already have a land contract, they would participate based on proposed income mix or development mix. The goal would be to redesign the existing development plans to ensure that units can be produced for the target NHP market in a creative way under a densification scenario that would allow for a development mix and/or income mix that makes it possible to retain an affordable unit price in the face of price increases. Restricting the sales price of those units will likely mean that the developers propose reducing the number of subsidized units, increasing density, changing the mix of land uses, or a combination of all three. As highlighted in the table above, these two types of proposals entail a relatively complex evaluation process, and it is likely that the MHUUD would need technical support.

<u>(d) Monitoring & Evaluation</u>: Introducing predetermined sales price targets and new structures of public-private partnerships would require a significantly more sophisticated system of monitoring and evaluation (M&E). Specifically, an M&E Unit would need to have the capability to review project documents to ensure that submitted designs adhere to the development contract, perform site visits to monitor construction process, review buyer documentation, conduct sample surveys of buyers, and maintain databases on housing turnover. The M&E Unit would also need staff with the capacity to evaluate how the resulting developments align with the overall housing policy goals so that the lessons learned could be used to strengthen project design and contract negotiations of future developments.

It is important to keep in mind that even with substantial subsidies it is unlikely that the private sector will reach the lowest income groups. To address the supply of housing for the lowest income groups, without being directly involved in housing production (other than, perhaps, a small number of rental units), the MHUUD should focus on urban upgrading and sites-and-services projects. Building on the success of the *Ibni Beitak* program, the GOE could reduce lot sizes and building requirements to reach a lower income population segment. The GOE could also greatly improve living conditions for the poor by investing in infrastructure improvements where they currently reside –i.e. through urban upgrading of unserviced and under-serviced informal/squatter settlements and slums, thus achieving a much better identification of poor people through geographic targeting and allowing for a multiplier effect via home improvements (e.g. completion of unfinished units, extra floor addition of rental units, etc).

(iii) Addressing the Existing Stock of Housing

It is conservatively estimated that 50% - 75% of the urban housing stock in Egypt suffers from the market constraints of vacancy, rent control, and informality. More focus is needed on addressing the constraints facing the vast private housing market, including informal development, if housing policy is to have wider coverage and lead to more affordable housing solutions.

Within the informal sector there are thousands of existing units on the market, productions continues to be strong, and there is a considerable number of semi-finished and vacant units. It is estimated that 500,000 such units may be available out of a total of one million vacant units in Greater Cairo. The largest potential stream of affordable housing supply lies through the existing stock. Tapping into the existing (vacant and unused) housing stock to provide accommodation for low-income families is the most cost effective way of providing shelter for the poor. Moreover, allowing the use of mortgage-linked subsidies for existing units would drastically increase the number of units on the market within the income band targeted under the NHP, and introduce a product that could compete with the new construction of private sector units (and thus would serve as an efficient way of ensuring timely delivery and competitive unit pricing by developers). Specific programs within the next phase of the NHP could focus on the purchase of secondhand homes, existing rental market, and urban upgrading.

<u>Facilitating Secondhand Market Transactions.</u> In the private housing market in Egypt, cash purchase is the norm. Presently, only the GSF extends mortgage assistance to those seeking to purchase an existing unit on the private market, but this instrument has not yet been adequately tested (only 10 cases). The earlier section on mortgage-linked subsidies addressed methods for increasing transactions in registered secondhand units. However, stipulations limiting mortgage finances to housing units that are registered or “registerable” a priori excludes all informal housing units. The following avenues could expand the scope of affordable housing solutions:

- *Demand Subsidies: Upfront Grant to Purchase an Unregistered Unit*. Many of those seeking home ownership have low incomes but are able to raise a significant sum of money through savings, help from relatives, personal loans, and sale of belongings. In fact, assembling LE 15,000-20,000 through these multiple means is not uncommon. A LE 15,000 subsidy (equal to other homeownership programs under the NHP) provided to eligible low-income beneficiaries and coupled with household savings and accumulated funds, could allow them to purchase an informal unit without additional housing finance. Understandably, since the NHP would not want to be viewed as subsidizing households’ access to “slum” housing, the MHUUD is likely to need to set some minimum parameters for “qualifying” informal units (e.g. those meeting reasonable building code requirements and minimally acceptable health and safety considerations despite having been built without permit, structural soundness, etc).

- *Supply Subsidies: Grant to Offset Transaction Costs including Registration*. The use of the GSF by low- to moderate-income households to purchase secondhand units has been extremely limited (less than 10 cases as of February 2008). A possible reason for the lack of such transactions is the low percentage of existing secondhand units that are readily registered, and therefore eligible for the GSF subsidy and accompanying mortgage loan. For units deemed “registrable” and thus also eligible for GSF support, the constraint is likely to be the cost and time of processing registration. The transaction cost in particular is likely to be high, including appraisal of each unit individually as well as structural inspection, and registration, as opposed to the economies of scale associated with new buildings with multiple units, all up for the NHP program. As such, a subsidy could be provided to sellers of units valued at LE 75,000 or less to induce them to register their unit. This would include the provision, for free, of an expedited property registration for the unit, in return for it to be offered to a qualified GSF subsidy holder.

Tapping into the Existing Rental Market**.** As the TAPR II Greater Cairo Housing Demand Study showed, private rental housing markets are strong, diverse, and growing.[7] Over 80% of units acquired in Greater Cairo in the 2001-2006 period were through the New Rental Law. An extremely important feature of the Egyptian rental market is that it encompasses both formal and informal housing, and the law does not distinguish between them. The affordability of rental units is relatively favorable in the general housing market, at least in Greater Cairo. According to the Study, which is based on a survey of 9,082 randomly selected households in Greater Cairo, the median housing unit rent contracted in the 2001-2006 period was only LE 170 per month. However, this does not include key money, or upfront payments which still persist to some extent. Preliminary analysis suggests that landlords of units put on the market do not ask for rents that cover the full amortized market value of the units, presumably because they perceive that they will retain ownership after the rental period and accrue substantial capital gains upon sale of the unit.

A prospective low-income renter is faced with a market that offers a wide range of choice, well articulated through word of mouth and informal brokers (*simsars*). Most rental units are owned by families and, with few exceptions, rental housing is not commercialized. Therefore, the rental market in urban Egypt has an additional advantage, beyond being relatively affordable, of providing a source of steady income to landlord families, many of who are of low/moderate income. On the demand side, Key Money and Eviction Guarantee Subsidies could be used for the very poor. On the supply side, a program could be established to use subsidies to assist in the completion of unfinished units for placement in the rental market. See Annex 1 for a detailed explanation of each proposed program.

- *Demand Subsidies: Upfront Grant for Key Money and Escrowed Grant for Eviction Guarantee for the Very Poor*. Providing support to very poor families seeking medium- to long-term rental tenure for small units would present an opportunity to rationalize subsidies, extend their coverage, and target the lowest income segment. In addition, supporting rental demand would be an effective way to attract units out of vacancy, especially if it is combined with improved guarantees to the landlord to ensure the vacation of rental units at the end of the established period. Such an eviction guarantee escrowed grant would be made available to the beneficiary renter household as an incentive for swift release of the unit, thus complementing their capital for an upfront down-payment to access a unit for homeownership.

- *Supply Subsidies: Completion of Unfinished Units for Rental*. There are vast amounts of small housing units, primarily in informal areas, that are half-built, roofless, or require only basic finishing (e.g. windows and doors, internal plastering, and sanitary fixtures) to be habitable. Owners of these units could be encouraged, through small subsidies, to complete these units and agree to put them on the rental market for a predetermined period (e.g. 5-7 years) to a qualifying beneficiary under the Government program. This would, at minimal economic cost, greatly increase the supply of affordable units in the housing market.

Urban Upgrading. It is estimated that some 45% of the housing stock in urban Egypt is produced by the informal sector. Constrained by high building and zoning standards, as well as a bureaucratic and costly permitting process, many families and small developers operate within the informal sector to meet the growing housing demand of lower income households. While the majority of these units are of relatively good quality, a large number do not have access to adequate public infrastructure. Since informal settlements are the de facto housing choice of poor people, settlement upgrading offers an opportunity for much better targeting through location selection. It also would result in a smaller subsidy amount per household and per unit of newly availed housing in settlements with room for densification and/or vacant units to be released to the market, which would enable more coverage of beneficiaries. This would enable more coverage of beneficiaries. In the next phase of the NHP, the GOE should consider incorporating

[7] The TAPR II 2007 Housing Demand Survey was conducted from December 2006 to January 2007 using the same representative sample that was employed by CAPMAS in its 2004–05 HIECS survey for Greater Cairo and covers 9,082 households.

informal settlement upgrading into the range of subsidy products for housing solutions to low-income households. Specifically, interventions in low-density areas would permit densification (the construction of additional affordable units) and land sharing schemes for cross-subsidization. Moreover, the upgrading process could avail units for rental or ownership (whether currently vacant or not completed) through the instruments described above.

(iv) Establishing a High-level Housing Policy Body

It is recommended that a *National Council for Housing Policy (NCHP)* or a *National Housing Commission* be established as the entity responsible for formulating and endorsing the Government's housing policy including housing subsidy policy, and housing and land market regulation. The Council would comprise the following entities in accordance with their relevant functions listed below:

- The Ministry of Housing, Utilities and Urban Development, as Chair. The MHUUD will be represented by the Housing Sector, the planned Housing Information Center (both may eventually be consolidated in a future National Housing Authority to regulate the sector), in collaboration with the New Urban Communities Authority (NUCA) and General Organization for Physical Planning (GOPP). The MHUUD mandate includes: (a) formulating the national housing policies including addressing the distortions facing the urban housing sector as a whole and defining a national affordable housing strategy; (b) implementing directly or jointly with other stakeholders and/or overseeing implementation by other entities of sector policies including housing subsidy management, monitoring and evaluation, etc, and feedback into policy readjustment; (c) monitoring housing and land market trends; (d) administering supply-side (public land and infrastructure) ownership subsidies for the interim period until the gradual switch to demand-side subsidies is complete; (e) administering/overseeing rental subsidy programs; and (f) administering/overseeing urban upgrading programs.
- The Ministry of Finance (MOF) as the entity that: (a) determines the overall annual and multi-year budgetary transfer for housing subsidies; (b) authorizes, as may be needed, non-budgetary supplemental subsidy resources and developer incentives (e.g. special taxes, surcharges, levies, tax exemptions, etc).
- The Ministry of Investment's Mortgage Finance Authority as the entity that: (a) regulates and oversees the functioning of the housing mortgage market; (b) formulates strategies and oversees implementation of incentives for housing lenders to further expand down-market; (c) monitors housing finance market trends.
- The Ministry of Social Solidarity (MOSS) as the entity that: (a) coordinates, advises on and monitors the administration of overall government subsidy policy including targeting instruments, beneficiary identification and information, efficiency improvements, etc; and (b) administers safety net measures to the poorest and most vulnerable groups.
- The Ministry of Local Development (MOLD) as the entity that: (a) oversees and coordinates Governorate strategies and plans including in affordable housing; and (b) develops and oversees implementation of strategies for increased fiscal and administrative decentralization.
- *Optionally*, the Ministry of Justice (MOJ) as the entity that: (a) administers land and property registration.
- The Housing Subsidy Fund (HSF)**—**reconstituted from the actual GSF after the separation of the Guarantee mandate and reconstitution of its Board of Directors to reflect the role of MHUUD as the lead entity in housing subsidy policy—as the entity that: (a) administers the Government's demand-side mortgage-linked ownership subsidy program; and (b) plans for the introduction and subsequently administers demand-side rental subsidies (e.g. vouchers).

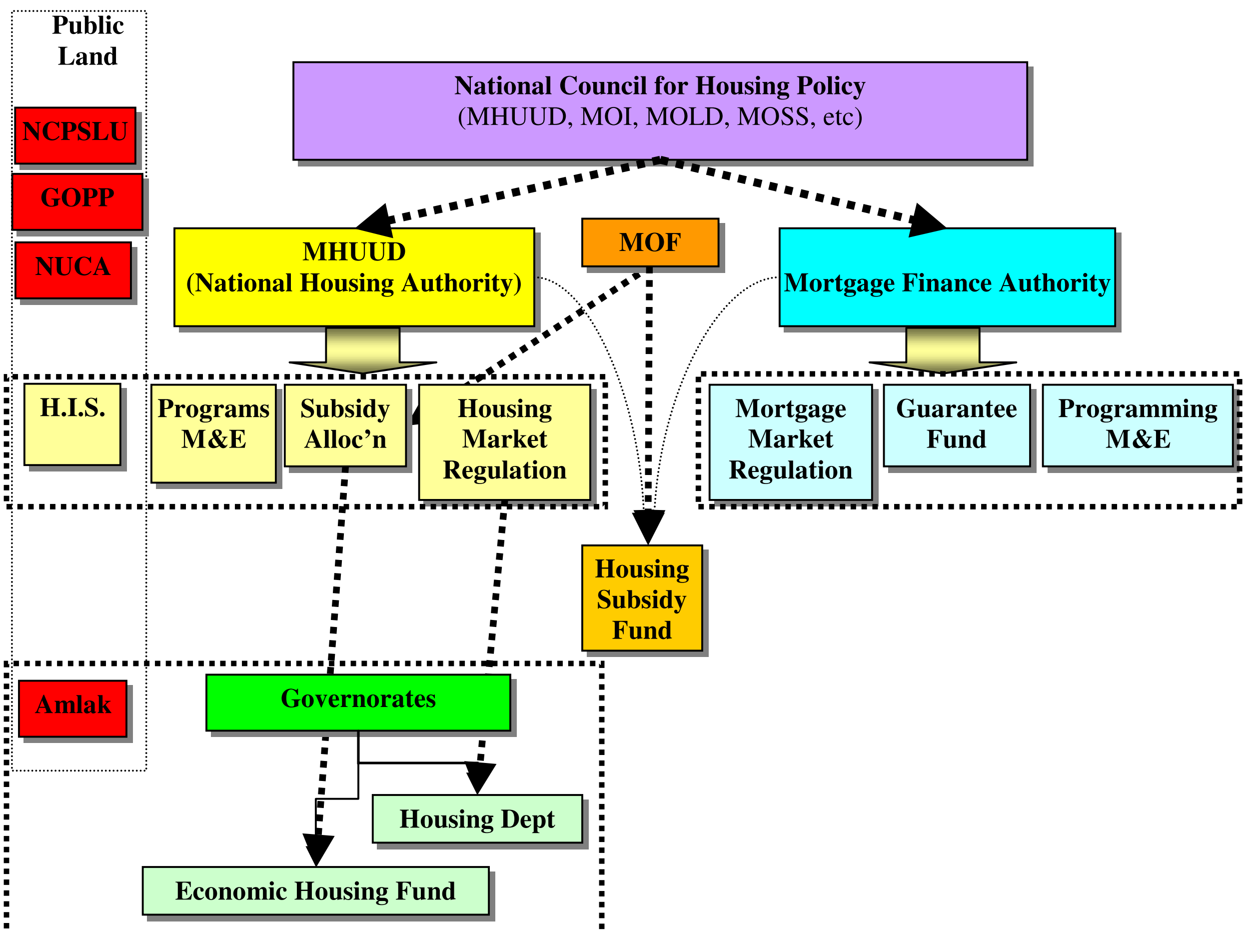
The mandate of the proposed Council would include the following key issues:

- Formulate overall housing and land market policies, including addressing the distortions affecting the functioning of both markets (access to housing and land issues, land use planning and development regulations, rental market issues, etc);

- Formulate the objectives and define the main parameters of housing subsidy policy (budgetary envelope, developer incentives, supply-side and demand-side subsidy instruments and mix, ownership and rental subsidy instruments/programs and mix, quantitative targets, beneficiary eligibility criteria, targeting instruments, measures to ensure efficiency and transparency in subsidy allocation, implementation support, etc);
- Monitor the implementation of housing, land and housing finance markets, and policy implementation including subsidy policy; and
- Devise the appropriate legal, regulatory and institutional framework to support policy implementation (laws, executive regulations, institutional harmonization, collaboration and strengthening, etc).

The Council would be assisted by a ***Technical Secretariat*** (including 1-2 permanent Secretariat staff) that includes an ***Inter-Ministerial Task Force*** (comprised of senior technical staff in the above-mentioned entities, headed by a senior MHUUD official in the role of Council Secretary). The Secretariat is responsible for: (a) oversight of individual or joint preparation by the relevant entities of policy proposals (MHUUD on housing and land market issues, MFA on mortgage finance and down-market expansion issues, MOSS on targeting improvement and support to the poorest/most vulnerable groups, MOLD on strengthening Governorates' role, etc); (b) technical review of policy proposals by the joint MHUUD-MFA Task Force; (c) liaison with other key stakeholders (private sector lenders and developers, etc); and (d) follow-up through the different entities on detailed implementation strategies and programs and preparation of periodic progress reports.

Figure 2: Proposed Institutional Framework for Housing Sector



* Notes: GOPP: General Organization for Physical Planning, MHUUD

NCPSLU: National Center for Planning State Land Uses, Ministry of Agriculture and Land Reclamation
HIS: Housing Information System, proposed under the MHUUD
Amlak: State Land Protection Agency, under the Governorates

IV. IMMEDIATE ACTIONS

1. Establishment of the *National Council for Housing Policy* as the high-level housing policy body to begin formulating the broad policy parameters for housing subsidy policy including the NHP and to formulate and oversee the implementation of the GOE's overall housing and land market policies;
2. Preparation by the joint MHUUF-MFA Task force of the main parameters of a mortgage-linked subsidy program and the necessary reforms to Law 148 and related regulations to launch the program. The Task Force's scope of work was defined in detail in the World Bank March 23-31, 2008 mission Aide Memoire, and requires meetings and focus groups with private developers, property registration officials, and mortgage lenders;
3. Detailed evaluation by the MHUUD of existing pipeline and finished units under the NHP;
4. Technical assistance to the MHUUD on the design of improved systems for private developer provision of affordable housing through the proposed Pilot Innovation Program (for the next stages of NHP, as well as on a voluntary basis for the current phase), including strengthening the land disposition, regulatory, and monitoring procedures, putting in place the right incentives to attract private developers, and proposal evaluation;
5. Technical assistance to the MHUUD and Housing Subsidy Fund in setting up ownership and rental subsidy programs linked to existing units on the market; and
6. Preparation by the MHUUD's GOPP of a national urban upgrading strategy within the scope of the next phase of NHP, in close cooperation with key stakeholders (MOF, Governorates, etc).

ANNEX 1: DESCRIPTION OF PROPOSED SUBSIDY PROGRAMS FOR EXISTING UNITS

The following are sketches of ways to introduce housing subsidies into the wider urban housing market, which is composed of massive amounts of both formal and informal private housing. The rationale for these approaches are threefold: (i) Due to the sunk costs of infrastructure, services and land, any subsidies would apply simply to the market value (purchase or rental) of the unit, and therefore the subsidy itself would be less per beneficiary family and would at the same time represent a higher portion of the total housing cost. (ii) Self-targeting would easily apply, since existing units (especially in the informal sector) are those most suitable for and affordable by lower-income families. (iii) Existing units are located in established inner and near-fringe urban areas, where employment and entrepreneur opportunities are plentiful and where transportation is cheaper. In other words, compared to the present NHP, movement towards subsidy programs for existing units would allow greater housing benefits per subsidy dollar.

Subsidies on the Demand Side for Rental: Key Money and Eviction Guarantee Subsidies for the Very Poor

Providing support to very poor families seeking medium- to long-term rental tenure for small units would present an opportunity to rationalize subsidies, extend their coverage, and target the neediest income segment. In addition, supporting rental demand would be an effective way to attract units out of vacancy, especially if it is combined with improved guarantees to the landlord to ensure the vacation of rental units at the end of the established period.

Subsidy Mechanism. A straightforward mechanism would be to match the required advance payment with a cash subsidy, in the range of LE 2500 to LE 5000. Over the life of the rental contract the beneficiary would be responsible to meet the reduced rent (e.g. LE 100 to LE 180 per month), which makes the scheme very affordable, even if there is a small escalator of say 5% per year.

To meet the concerns of landlords that the beneficiary will not vacate the unit at the end of the contract period, a small cash subsidy (or eviction guarantee) could be paid into an escrow account (perhaps LE 2000-3000). This would constitute a guarantee deposit that could only be withdrawn at the end of the rental period, and only after the beneficiary has vacated the unit. The beneficiary could then use this amount in his search for other rental accommodation. It could also be used as part of the advance payment for a subsequent rental contract in the same premises.

Under this system, the financial cost to government would primarily be the allocated subsidy, which in this example would be LE 7500 to LE 10,000. In addition, there would be a cost for administration and monitoring.

Qualifying Units. Like the rental products already being offered under the NHP, the best way to "self target" the subsidy would be to restrict the rental unit's surface area depending on the size of the applicant family, to a ceiling of 35m2, 50m2, or 65m2. Units located in high income neighborhoods could also be excluded from eligibility. Otherwise any unit, registered or not, would qualify.

Qualifying Beneficiary. Any family (including an individual wishing to marry) living in crowded or bad conditions would qualify. Priority could be given to large families living in one room (about 8% of Cairo families), and those with female or disabled heads of households. Qualification could be linked to other GOE safety net targeting programs, such as those of the Ministry of Social Solidarity or the new ration card regime.

Procedure. A family wishing to participate in the program would first make an application. The applicant would then be screened, including a home visit. Qualified applicants would then seek a qualifying unit for rent through the general market. Negotiation of the rental price, period (minimum five to ten years), and the upfront payment would be the responsibility of the applicant. Upon agreement and setting of the subsidy, the rental contract would be registered either at the MOJ's Real Estate Publicity Department or at the district offices.

Subsidies on the Supply Side for Rentals: Completion of Unfinished Units

There are vast amounts of small housing units, primarily in informal areas, that are half-built, roofless, or require only basic finishing (e.g. windows and doors, internal plastering, and sanitary fixtures) to be habitable. Owners of these units could be encouraged, through small subsidies, to complete these units and put them on the rental market. This would, at minimal economic cost, greatly increase the supply of affordable units in the housing market.

Subsidy Mechanism. The suggested subsidy would be 40% to 60% of total estimated costs to complete the unit. For a small unit needing simple finishing, the estimated subsidy per unit would be LE 3000 to LE 5000. Under this system, the total financial cost to government would mainly be the subsidy allocated, which in this case per unit would be only LE 5000 to LE 10,000. There would also be a small administrative and monitoring cost.

Qualifying Unit. Once again, unit size and location could be used to help ensure the completed unit will be affordable to low-income renters or buyers. In addition, the unfinished unit would need to be in an existing building which has, at least, a completed and inhabited ground floor and access to water, power and sewerage. This will help to filter out applicants who are seeking the subsidy as general cash assistance with the construction of a new building. The unit would not need to be registered.

Qualifying Landlord. While the building need not be registered, the landlord must have some proof of ownership of the unit or building. The owner must also declare intent to rent the unit. It would be preferable if the landlord could show that the rental revenues will improve his living conditions. Although there would be no ironclad guarantee that the landlord would actually put the unit up for rent or sale, he would have every financial motivation to do so, especially if he knew that the rental contract would be easily enforceable.

Procedure. An applicant landlord would submit details of the unit and the estimated cost to complete it. After a rapid inspection, a contract between the funding agency and the landlord would be made, stating exactly what unit improvements the landlord must complete before he qualifies for the cash subsidy. Once he has completed these works, and following a second inspection, the cash subsidy would be handed over. A guarantee (in Arabic *wasl amana*) could be required to guarantee that the subsidy would be spent on finishing the unit and that the unit would be rented out

Subsidies on the Demand Side for Purchase: Upfront Subsidy to Purchase an Unregistered Unit

Many of those seeking home ownership have low incomes but are able to raise a significant sum of money through savings, help from relatives, or personal loans. In fact, compiling LE 10,000 to LE 20,000 through these multiple means is not uncommon.

Subsidy Mechanism. A subsidy of LE 10,000 to LE 15,000, the same as the other NHP homeownership programs, could be provided to eligible low income households. The subsidy would be coupled with the households own savings to purchase a qualified unit.

Qualifying Beneficiary. Participants must meet the same income thresholds as the other homeownership programs in NHP, maximum income of LE 1500 and no previous subsidized housing unit.

Qualifying Unit. Unit size and location could be used to better target the units to needy applicants. The minimum requirement would be that the unit is in a building which is structurally sound and has utilities.

Procedure. Once an applicant is deemed qualified, it would be his responsibility to identify an eligible unit in the market, negotiate the price, and arrange an inspection of the premises and the seller's documentation. Upon signature and exchange of contracts (standardized informal or *urfi* contracts), the applicant's savings plus cash subsidy would be handed over and the unit possessed. This approach would apply to virtually any small unit, whether in the formal or informal housing market. Variations of this approach could include using part of the buyer's subsidy to complete an unfinished unit or to contract with the seller to complete an unfinished unit.

Subsidies on the Supply Side: Streamlined Registration for Sellers of Affordable Units

The use of the GSF by low- to moderate-income households to purchase secondhand units has been extremely limited (less than 10 as of February 2008). While it is reasonable to assume that some portion of households prefer new housing products being constructed in the periphery of Cairo, a significant demand for units in the consolidated urban area should also be present. A possible reason for the lack of transactions involving secondhand units is the low percentage of existing units that are registered, and therefore eligible for the GSF subsidy and accompanying mortgage loan.

Subsidy Mechanism. A subsidy *in kind* would be provided to sellers of units valued at LE 75,000 or less. This would include the provision, for free, of an expedited property registration. If this is not a sufficient incentive, additional cash payment could be considered.

Qualifying Beneficiary. All households who are eligible for the GSF subsidy, i.e. households with a maximum monthly income of LE 1500.

Qualifying Unit. Units with sales prices of LE 75,000 or less of sound structural quality, and with utility services and some proof of ownership would be qualified for the program. The GOE should consider the identification of pilot neighborhoods for implementing the program in the initial period.

Procedure. Housing owners interested in registering and selling their unit would submit an application, including documentation or proof of ownership. The property would be added to a list of available properties for qualified GSF subsidy holders to purchase. If a GSF subsidy holder finds a property he would like to purchase among the list of pre-filtered properties, he would negotiate the sales price with the seller and sign a preliminary sales contract. At this point, the expedited registration process would commence. Upon registration, the sales contract would be finalized and the GSF subsidy and mortgage loan proceeds would be transferred to the seller.