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PROGRAM APPRAISAL DOCUMENT  
ON A  
PROPOSED LOAN

IN THE AMOUNT OF US\$ 500 MILLION  
TO THE

ARAB REPUBLIC OF EGYPT

FOR THE  
INCLUSIVE HOUSING FINANCE PROGRAM-FOR-RESULTS

April 9, 2015

Finance and Markets Global Practice

Middle East and North Africa Region

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## THE ARAB REPUBLIC OF EGYPT

### Currency Equivalents

Unit of Currency = Egyptian Pound (LE)

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

### Fiscal Year

July 1–June 30

### ABBREVIATIONS AND ACRONYMS

AMP	Affordable Mortgage Program
CAO	Central Audit Organization
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CPF	Country Partnership Framework
DLI	Disbursement-Linked Indicators
DPL	Development Policy Loan
EFSA	Egyptian Financial Supervisory Authority
EMRC	Egyptian Mortgage Refinance Company
ESSA	Environmental and Social Systems Assessment
FY	Fiscal Year
GDP	Gross Domestic Product
GMIS	Government Financial Management Information Systems
GOPP	General Organization for Physical Planning
GRM	Grievance Redress Mechanism
GSF	Guarantee and Subsidy Fund
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IT	Information Technology
IVA	Independent Verification Agent
LE	Egyptian Pound
MNA	Middle East and North Africa
M&E	Monitoring and Evaluation
MFA	Mortgage Finance Authority
MFC	Mortgage Finance Company
MIS	Management Information System
NHP	National Housing Program
NIR	Net International Reserves
NPV	Net Present Value
NUCA	New Urban Communities Authority
PAP	Program Action Plan
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program-for-Results Financing
PPP	Public Private Partnership
RBO	Regional Branch Office
SCD	Systematic Country Diagnostic
SHF	Social Housing Fund
SHP	Social Housing Program
UAE	United Arab Emirates
VAT	Value-Added Tax
US\$	United States Dollars
WBG	World Bank Group

Regional Vice President:	Hafez Ghanem
Acting Country Director:	Poonam Gupta
Senior Global Practice Director:	Gloria Grandolini
Global Practice Director:	Sebastian-A Molineus
Practice Manager:	Aurora Ferrari
Task Team Leader:	Sahar Nasr

**THE ARAB REPUBLIC OF EGYPT**  
**INCLUSIVE HOUSING FINANCE PROGRAM**

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# PAD DATA SHEET

Arab Republic of Egypt

## INCLUSIVE HOUSING FINANCE PROGRAM

*Middle East and North Africa  
Finance and Markets Global Practice*

Basic Information			
Date:	April 9, 2015	Sectors:	Housing Finance (100%)
Acting Country Director	Poonam Gupta	Themes:	
Senior Director:	Gloria Grandolini		Other Financial Sector Development (70%)
Practice Manager:	Aurora Ferrari		
Program ID:	P150993		Urban Planning and Housing Policy (30%)
Team Leader:	Sahar Nasr		
Program Implementation Period:		Start Date: May 5, 2015	End Date: December 30, 2019
Expected Financing Effectiveness Date:		July 1, 2015	
Expected Financing Closing Date:		June 30, 2020	
Program Financing Data			
<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Credit	<input type="checkbox"/> Other
<b>For Loans/Credits/Others (US\$ million):</b>			
Total Program Cost:	1,982	Total Bank Financing:	500
Total Co-financing:	1,482		
Financing Source		Amount	
BORROWER/RECIPIENT		1,482	
IBRD		500	
Total		1,982	
Borrower: Arab Republic of Egypt			
Responsible Agency: Ministry of Housing, Utilities, and Urban Development			
Contact:	H.E. Dr. Mostafa Madbouly	Title:	Minister
Telephone No.:	002-02-27957836	Email:	madbouly@yahoo.com

<b>Expected Disbursements (in US\$ Million)</b>					
Fiscal Year (FY)	2016	2017	2018	2019	2020
Annual	68.1	96.6	101.6	117.4	116.3
Cumulative	68.1	164.7	266.3	383.7	500.0
<b>Program Development Objective(s)</b>					
The objective of the Program is to improve the affordability of formal housing for low-income households in the Arab Republic of Egypt and to strengthen the Social Housing Fund's capacity to design policies and coordinate programs in the social housing sector.					
<b>Compliance</b>					
<b>Policy</b>					
Does the program depart from the Country Partnership Framework (CPF) in content or in other significant respects?		Yes [ ] No [x]			
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?		Yes [ ] No [x]			
Have these been approved by Bank management?		Yes [ ] No [ ]			
Is approval for any policy waiver sought from the Board?		Yes [ ] No [x]			
Does the program meet the Regional criteria for readiness for implementation?		Yes [x] No [ ]			
<b>Overall Risk Rating:</b> Substantial					
<b>Legal Covenants</b>					
Name	Recurrent	Due Date	Frequency		
Institutional and Implementation		See below			
<b>Description of Covenant (see Program Agreement)</b>					
<ol style="list-style-type: none"> <li><b>Section I.A</b> Without limitation on the provisions of Article V of the General Conditions, the Program Implementing Entity shall carry out the Program, in accordance with financial management, procurement and environmental and social management systems acceptable to the Bank.</li> <li><b>Section I.C.1</b> The Program Implementing Entity shall carry out the Action Plan in accordance with the schedule set out in the said Action Plan in a manner satisfactory to the Bank. The Program Implementing Entity shall ensure that the Action Plan is not amended, waived, suspended, terminated or abrogated, without the prior written consent of the Bank.</li> <li><b>Section I.C. 2</b> The Program Implementing Entity shall, no later than June 30, 2016, establish a complaints and grievance redress mechanism to handle complaints and grievances from Program beneficiaries or third parties relating to any aspects of the Program including adverse social and environmental impacts, and allegations of fraud and corruption. Such mechanism shall, inter alia, contain procedures for recording of complaints and grievances, directing complainants to the appropriate level for action, the review process, and provision of feedback to the complainant on the action taken on the basis of best practice service standards.</li> <li><b>Section I.C. 3</b> The Program Implementing Entity shall, no later than December 31, 2016 or such later date as the Bank may establish by notice to the Program Implementing Entity, establish an internal audit function providing assurance service for</li> </ol>					

the ownership and rental programs affiliated with the SHF referred to in Part B of the Program.

5. **Section I.C.4** The Program Implementing Entity shall, no later than December 31, 2016 or such later date as the Bank may establish by notice to the Program Implementing Entity, establish a housing monitoring and evaluation unit with powers, functions, staff and resources satisfactory to the Bank, including a system for monitoring and evaluation of the Program.
6. **Section I.C.5** The Program Implementing Entity shall, no later than 3 months after the Effective Date, engage an independent Verification Agent, acceptable to the Bank, to prepare and provide verification reports certifying the achievement of the DLRs in accordance with procedures and arrangements satisfactory to the Bank as referred to in Section IV.B.1(c) of Schedule II to the Loan Agreement.

<b>Team Composition</b>			
<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Sahar Nasr	Program Leader	Task Team Leader	GFMDR/MNC03
Loic Chiquier	Senior Adviser and Chief Technical Expert	Housing Finance	GFMDR
Manuel Vargas	Lead Financial Management Specialist	Governance/PFM	GGODR
Catherine Lynch	Senior Urban Specialist	Housing Policy and Urban Development	GSURR
Angelica Nunez	Senior Urban Specialist	Housing Policy and Urban Development	GSURR
Laila Abdelkader	Financial Sector Specialist	Financial Sector Development	GFMDR
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Claude Taffin	Housing Finance Expert	Rental Programs	GFMDR
Bernard Vorms	Housing Finance Expert	Mortgage Finance	GFMDR
Francois de Ricolfis	Housing Finance Expert	Mortgage Finance	GFMDR
Karim Badr	Financial Economist	Financial Sector Development	GFMDR
Nehal Helmy	Economic Analyst	Financial Sector Development	GFMDR
Sameh Wahba	Practice Manager	Global Urban and DRM	GSURR
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Jamal Abdulaziz	Senior Procurement Specialist	Governance/Procurement	GGODR
Ann-Sofie Jespersen	Country Officer	Country Management	MNC03
Amal Faltas	Senior Social Safeguards Specialist	Social Safeguards	GSURR
Thomas Maketa Lutete	Senior Governance Specialist	Citizens Feedback	GGODR
Fatma El Zahraa Aglan	Research Analyst	Financial Sector Development	GFMDR
Salma Rassem	Research Assistant	Financial Sector Development	GFMDR
Syed I Ahmed	Lead Counsel	Legal	LEGAM
Mohammad Kandeel	Environmental and Social Safeguards Expert	Environmental and Social Safeguards	GSURR
Zoubida Al Tayib	Program Assistant	Legal	LEGAM
Moataz Yeken	Financial Sector Expert	Mortgage Finance	GFMDR



## I. STRATEGIC CONTEXT

### A. Country Context

1. ***Egypt's economic recovery is proceeding—economic activity grew by 6.8 percent in the first quarter of FY15, the highest rate since the financial crisis, on the backdrop of improved sentiment, rebound in tourism, and base effect.*** This followed better economic activity in the third and fourth quarter of FY14, which grew by 2.5 percent and 3.7 percent respectively, compared to 1.2 percent in the first half of FY14. However, growth for the whole fiscal year remained subdued at 2.2 percent. Net exports continued to limit growth, while investments started to contribute positively to growth alongside accelerated disbursement of stimulus spending. Economic recovery is important to establish stability ahead of the Parliamentary elections (a major milestone in Egypt's political roadmap). The date of the elections is yet to be determined.

2. ***Inflationary pressures mounted early in FY15 due to higher taxes and fuel/electricity prices; however this was short lived and prices are starting to decelerate.*** Inflation increased in July 2014 by 3.5 percent, the highest monthly increase since the 2008 global food price shock. Accordingly, inflation averaged 11.2 percent in the first quarter of FY14, before decelerating in November to 9.1 percent on the backdrop of lower food inflation. Headline inflation is expected to average 11-12 percent in FY15. Internal market reforms being implemented can help partially address structural supply bottlenecks and help contain inflationary pressures. Egypt has benefitted from large scale financial support from the Arab Gulf Countries,<sup>1</sup> which allowed authorities to jumpstart the economy by embarking on stimulus spending worth three percent of Gross Domestic Product (GDP) in FY14, lowering cost of borrowing by 400 basis points in FY14, and increasing foreign reserves.

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

4. ***Early in July 2014, the newly elected President approved a wide range of structural reforms,*** mainly increasing and/or enacting new taxes, such as implementing a long delayed property tax, introducing taxes on dividend and capital gains, an additional five percent tax on high incomes, and increasing taxes on alcohol beverages and tobacco. On the expenditures side, streamlining regressive electricity and fuel subsidies with notable price adjustments were introduced in July 2014, followed by the issuance of a decree detailing electricity tariff and annual increases for all users for the coming five years. These measures contributed to the recent upgrade of Egypt's sovereign rating, and are expected to generate fiscal savings of LE 80 billion (3.5 percent of FY15 projected GDP).

5. ***Key macroeconomic risks, vulnerabilities, and challenges prevail,*** including sustaining a broad-based and inclusive economic recovery that requires levelling the playing field, reforming the regulatory environment, addressing skills mismatches, tackling infrastructure and energy gaps, maintaining reform momentum and steady implementation of the value-added tax (VAT) scheme, closing the expected financing gap, and addressing external competitiveness which continue to be eroded by high inflation differentials with trading partners. Regional instability remains a major threat along with the sustained decline in international oil price that can limit needed regional supports, official financing, and inflows.

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

6. ***The official unemployment rate reached 13.1 percent as of end-September 2014 up from 8.9 percent in the same quarter of 2010.*** Out of the 3.6 million currently unemployed persons, some 64.3 percent are between 15 and 29 years old, making youth unemployment the main challenge for economic inclusion and stability. Unemployment rates among males and females stand at 9.6 percent and 24.5 percent, respectively. Urban areas recorded a higher unemployment rate (16 percent) than rural areas (10.9 percent). The latest poverty data indicate that 26.3 percent of the population was living below the national poverty line in FY13.

7. ***Expanding housing options for the lowest income groups, particularly the impoverished youth, and improving their access to housing, public services and employment became key priorities for the Government post-revolution.*** The Government adopted a stimulus program in 2014, with the housing sector being a priority. The construction and housing sectors are amongst the most labor intensive and largest employment sectors in Egypt, with close to 12 percent of total employment at the end of 2012, and around 2.8 million employees. The Central Bank of Egypt (CBE) implemented a second stimulus for the housing sector through an infusion of below-market-rate funds, totaling LE 20 billion, into the mortgage sector to stimulate the financing of houses for low- and middle-income groups. The low-income component of the stimulus provides banks and their affiliated mortgage companies with low cost funds to issue mortgage loans at seven percent interest rates with a 20 year term, and targets households with incomes as low as LE 1,200 per month, just below the 20<sup>th</sup> percentile of the income distribution. The economic rationale for investing public funds in the housing sector is a proven stimulus to domestic job creation and economic growth and the redistributive wealth effect of providing real assets to the poor.

## **B. Sectoral and Institutional Context**

8. ***The housing sector in Egypt has been confronted by numerous challenges.*** Egypt never had a coherent housing policy, which prevented the Government from addressing the pressure on the housing sector caused by high population growth and urbanization. Government programs and policies for underserved population groups have been implemented by multiple uncoordinated units within the Ministry of Housing, Utilities and Urban Development<sup>2</sup> and other public authorities, resulting in major gaps in available housing programs for underserved groups. Past subsidy programs that focused on the supply of Government built houses for ownership were extremely costly<sup>3</sup> (amounting to LE 1.5 billion in 2012), and did not reach the required scale to really affect the supply of formal housing options for the poor. The private sector played only a negligible role in the provision of middle and low-income housing. Land policies have been inefficient, and rental market regulations hindered the development of the rental housing market.

9. ***Moreover, the cost of formal housing exceeds the payment capacity of the majority of households.*** As in many other countries in the Middle East and North Africa (MNA) region, building and planning standards are high, residential infrastructure provision is insufficient and permit procedures are inefficient, adding to construction costs. The affordability problem is made worse by the limited availability or slow growth of mortgage credit. Egypt developed its legal and regulatory mortgage framework only in the first half of 2000. Property registration in older urban areas is still limited, and property registration in new developments has only recently been adjusted to facilitate mortgage lending. Foreclosure procedures are now enforced successfully. The uncertain macroeconomic environment of the past few years has, however, hindered growth of the mortgage sector.<sup>4</sup> There is also a low level of awareness of the mortgage product by potential clients. In comparison with other

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<sup>2</sup> Thereafter referred to as “The Ministry”, unless otherwise specified.

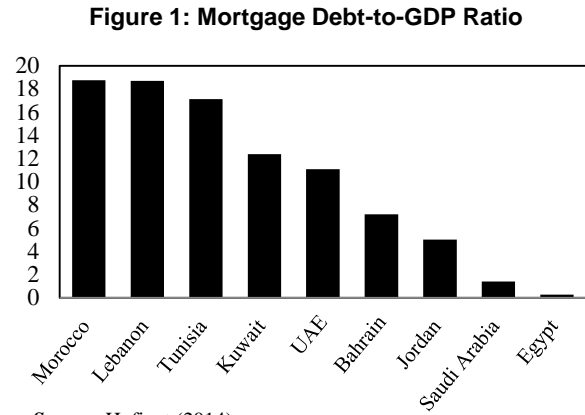
<sup>3</sup> Cumulative subsidies on different types of houses under the National Housing Program (NHP) (2005-2011) ranged from 76 to 98 percent in 2008 (World Bank calculations for the Affordable Mortgage Finance Development Policy Loan).

<sup>4</sup> The vast majority of newly built properties in Egypt are purchased either with cash or through an installment loan system provided by the real estate developer.

countries in the MNA region, Egypt has the lowest mortgage-to-GDP ratio—less than one percent (Figure 1).

10. ***Another problem is the lack of well-located serviced land for residential development, related to restrictions on construction on agricultural land.***

Development of new middle- and low-income housing in new towns in desert locations has been embraced as the main solution to the pressure on agricultural land. These developments are, however, often located at a considerable distance from both formal and informal employment opportunities and social amenities without adequate transportation, which poses a particular problem for low-income households. This has contributed to the high vacancy rates in new housing developments and expansion of informal housing areas. Additionally, long commuting times have disproportionate effects on women’s access to economic activities. Decent and well located housing linked to job opportunities enables both women and men to participate in the labor market with major impacts on household incomes.



11. ***Poor policies and low-income and finance affordability resulted in chronic housing shortages and growth of informal housing.***

The housing backlog is up to three million units. Egypt requires approximately 300,000 new housing units per year to house newly formed households, plus an additional 254,000 units to gradually deal with the backlog of housing over the past five years.<sup>5</sup> However, total formal housing production in the country has not exceeded 200,000 units per year.<sup>6</sup> At the same time, a large proportion of existing houses is not available because they are left vacant or unfinished by the owners (an estimated three million units in urban areas alone). The high vacancy rate is associated with past rent control in older areas and poor location of new housing. The lack of market mobility has led to stagnating neighborhoods that should have undergone change as part of urban and employment transformation (such as the downtown area of Cairo). The relatively low housing production levels, high vacancies, and low incomes relative to housing costs have resulted in a rapid growth in informal housing production, estimated at half of all housing production, and sometimes more. It is estimated that 12 to 20 million people live in informal housing areas, with inadequate services and infrastructure.<sup>7</sup>

12. ***The poor location of new housing and relentless growth of informal housing areas have had an increasing cost to society, both economic costs and social costs, relative to better planned new housing.***

Economic impacts include the loss of agricultural output by encroachment of informal housing on agricultural land, and loss of labor productivity and participation because of long commutes and congestion. Social costs of poorly located housing and informal housing include negative impacts on the well-being of households (particularly women and children), lack of access to services and related health issues, and a sense of disenfranchisement.

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

- *Formal home-ownership without subsidy* is accessible for households with incomes in the top 30 to 40 percent of the household income distribution.

<sup>5</sup> Ministry of Housing, Utilities, and Urban Development (2014).

<sup>6</sup> National accounts show that the Egyptian economy has been investing on average 1.8 percent of GDP in housing over the past two decades. These levels of investment are low compared to the housing needs of the country and its urbanization rate, but these figures exclude informal housing production. Comparable lower middle-income countries invest on average six percent of GDP in housing. Average investments for MNA region are estimated at around 4.5 percent of GDP.

<sup>7</sup> Central Agency for Public Mobilization and Statistics (CAPMAS), (2013).

- *Subsidized new formal ownership housing* has been the dominant type of Government housing program during the past few decades. Previous programs had unsustainably high subsidies on the supply side and through the financing of units, and suffered from difficulties to verify beneficiary incomes and eligibility. A new, more efficient subsidy program linked to mortgage was launched in 2010, which serves households with income as low as LE 1,000 (below the 2<sup>nd</sup> decile of the income distribution).
- *Subsidized self-construction* options existed in the past, but were poorly managed and have been discontinued.
- *New formal rental market serves mainly middle and higher income households.* No new formal private rental housing is constructed for low-income households. Public rental programs delivered only a small number of units. Rental units under old rent control contracts serve middle and higher income households disproportionately.
- *Informal rental and ownership housing* provide the most important housing options (estimated at 50 percent of urban units) and are utilized by very low to middle-income households.

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

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

Potentially Available (to the entire bracket)
  Partially Served
  Not Served

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

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

14. *In response to these challenges, the current Government and the Ministry have recently undertaken substantial transformational policy reforms that have strengthened the legal, regulatory and institutional framework in the housing sector, in an attempt to remedy and tackle crippling structural issues that have been the root causes that hinder the development of the housing sector in Egypt for decades.* The Government’s commitment to improve accessibility and affordability for low- and middle-income households was evident in the undertaking of long-awaited key legal and regulatory reforms, most notably, improving building codes; introducing regularization of informal areas; initiating reform of subsidies; improving real estate transaction and property registration systems; promoting private sector participation; enhancing inclusion and facilitating access to mortgage loans; and streamlining foreclosure procedures. These reforms were complemented by the strengthening of the institutional framework for social housing through the adoption of the law establishing the Social Housing Fund (SHF), expanding housing options for the lowest income groups, as well as improving their access to services and employment (see details in Box 1).

### **Box 1: The Housing Sector—Recent and Ongoing Reforms**

**Ratification of the Real Estate Transactions Registration in New Communities Law** in June 2013, in consultations with the Ministry of Justice, Ministry of Housing, New Urban Communities Authority (NUCA), private sector developers, financial intermediaries and civil society. The law aims at improving real estate and property registration procedures by allowing NUCA to issue certificates for the property of units that are financed via mortgages, and also allows for partial registration of units in large development projects, when land is paid in annual installments. These measures made mortgage lending in NUCA territories, where most of the new units exist, possible and easier.

**Issuance of a Ministerial Decree 10 of 2014** in February 2014, allowing: (i) the streamlining of land and property registration in urban areas through a *tripartite agreement between the Ministry of Housing, Ministry of Justice, and NUCA*; (ii) the chairmen of the authority's administrative apparatuses to sign tripartite mortgage finance contracts to streamline the registration procedures. A Ministerial decree issued in January 2015 requires NUCA to sign such contracts within a week after submission by lenders. In addition, there was a *significant reduction in land and registration fees* from three percent of property value to a flat fee, not exceeding LE 2,000.

**Transformation to demand-side housing subsidies**, moving from inefficient and poorly targeted supply-side housing subsidies that went to the large developers, to a transparent, well-targeted and economically efficient demand-side subsidy system.

**Establishment of a Resolution Committee** in June 2014 to settle any debatable land contracts with the main residential developers of low-income housing (of which many cases were solved). In addition, new PPP arrangements are under discussion, as a result of which, the private sector shows renewed interest in the housing sector.

**Implementation of the CBE Economic Stimulus** for the housing sector in June 2014, through an infusion of funds, totaling LE 20 billion, into the mortgage sector to stimulate housing construction for low- and middle-income groups. The low-income component of the stimulus (at seven percent interest rates) targets the same income level as the Guarantee and Subsidy Fund's (GSF) subsidies. This stimulus will allow the GSF to extend housing subsidies linked to mortgage loans to households below the 20<sup>th</sup> percentile of the income distribution. Since January 2015, the CBE allows banks to substitute income statements with bank records from borrowers with informal incomes, opening up the program to qualifying informally employed applicants.

**Ratification of the amendments of the Real Estate Finance Law 148 of 2001** by the President in July 2014, stipulating foreclosure procedures and allowing greater flexibility in setting new limits to the proportion of income to be allocated to mortgage payments, and in establishing qualifying income levels for mortgage-linked subsidies. Law 148 of 2001 allowed the formation of non-bank mortgage finance companies and the establishment of the GSF that administers the Affordable Mortgage Program (AMP).

**Establishment of the first liquidity facility, the Egyptian Mortgage Refinance Company (EMRC)**, to provide long-term funding for primary mortgage institutions—banks and mortgage finance companies (MFCs). The EMRC refinanced 15 percent of total outstanding mortgages in the market; all linked to low-income subsidy programs. Approximately 50 percent of the refinanced loans are from banks and 50 percent from MFCs, accounting for 83 percent of the total market.

**Introduction and enforcement of stricter rules and penalties on fraud**, specifically concerning the requirement for occupancy of the subsidized units by the beneficiary and their household, banning disposition of purchased unit for seven years to discourage speculation, and levying financial penalties (LE 50,000 to LE 100,000) or imprisonment terms for providing fraudulent data in applying for social housing.

**Regularization of Informal Areas Law** approved by the Cabinet and the State Council in 2014, allowing informal residential buildings that are built without a licence on private land, to be regularized upon payment of a penalty. Formalization and regularization of informal houses will allow for the extension of services and utilities—clean water and sanitation, and infrastructure. It will also facilitate property registration and borrowing for improvements.

**Approval of the Unified Building Code**, which addresses supply side hurdles on the construction side. For example, it ensures that housing units are designed according to engineering codes of practice to prevent fraud, as well as mismanagement and misuse of resources, which were in some cases associated with collapse of buildings. In addition, it also addresses high building and planning standards, which add to high construction costs.

**Amendments of the Real Estate Tax Law**, which was approved by the Cabinet in July 2014 and its Executive Regulations issued by the Ministry of Finance in November 2014, stipulates that 25 percent of tax revenues is directed to developing slum areas, and another 25 percent is allocated to local development in rural, poor and marginalized areas.

**Launching the National Housing Strategy**, in May 2013, aiming to improve the efficiency of the housing system for all income segments of society, including: (i) enhancing access to affordable housing for low-income households; (ii) introducing different mechanisms for homeownership and rental programs; and (iii) addressing supply-side and legal constraints in the rental housing market, the mortgage market, and the land market.

15. ***Consequently, a concerted effort is now critical to improve the governance of the social housing sector, implement more efficient and equitable subsidy programs for the underserved, and integrate market solutions and funding—addressing the Egyptian people’s needs and demands.*** The Social Housing Program was launched in the wake of the Egyptian revolution, a momentum for change, with the goal of providing one million houses. The Social Housing Law 33 of 2014 was ratified on May 2, 2014, establishing the SHF with the objective of providing houses for low-income households. The SHF was mandated to “propose, plan and release social housing projects, and supervise their implementation, to secure suitable residences for low-income citizens, and land management for low and middle-income citizens.” The Fund is the implementing entity of the Social Housing Program within the Ministry which is charged with designing housing laws and regulations and social housing programs, as well as providing oversight for their implementation in consultation with relevant housing entities, and managing financial resources for social housing. It is a legal entity whose Executive Director is nominated by the Minister, and appointed by the Prime Minister.

16. ***To reach the low-income housing goals, ensure synergies and effective coordination of housing activities, as well as improve efficient use of funds, the SHF is consolidating and expanding existing housing programs that have been operating in silos, but have the ability to attain the needed scale and reach the targeted household groups.*** The SHF will create new programs to fill the housing gap for the poorest and most underserved segments of the population, both rental and ownership housing. It has been assigned considerable fiscal and financial resources to sustain such subsidy programs, with capitalization of approximately US\$ 4 billion. In addition, the SHF will address major outstanding policy making issues that hinder private investment in the housing sector, and cause the underutilization of the stock and poor location of new residential construction. Bringing together dedicated streams of financing, policy and programming control, inter-agency coordination, and high-level commitment to reform will help to incrementally shift the Government from being a producer of social housing to being an enabler of the housing sector as a whole.<sup>8</sup>

17. ***The Social Housing Law 33 of 2014, also sets guidelines for the location of land parcels, and requires that new developments include access to services and infrastructure.*** To ensure that low-income households received a housing asset that will hold its value and contribute to wealth distribution, location of housing projects is key. Broad access to the program across all regions of Egypt is ensured by requiring all Governorates to provide well located land for the Social Housing Program, and select the type of programs the Governorates require based on citizens’ demand and priorities. The programs have been prepared in extensive consultations with stakeholders and market players.<sup>9</sup>

18. ***Furthermore, the Government intends to increase the role of the private sector in both the development of social housing and the financing of units.*** The Ministry is currently negotiating public-private partnership (PPP) agreements with private companies to develop mixed-income housing developments that would include a specified percentage of housing units affordable to the target beneficiaries of the SHF. Public and private lenders are encouraged to enter the mortgage market for low and middle income households through mortgage-linked demand-side subsidies and the CBE stimulus package for the sector. While the current uptake of the CBE program by banks is still low, since many

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<sup>8</sup> The Ministry implements its programs through the housing directorates of local Governorates and the New Urban Communities Authority (NUCA), which was established in 1979 as an affiliated entity under the Ministry to develop new towns on desert land. The Ministry has a representative in each Governorate, who is responsible for the implementation of the housing policy in collaboration with the Governorates’ housing directorates.

<sup>9</sup> The first phase of the one million houses program was introduced in May 2014, of which 52,000 units were constructed, nearly all by regional private contractors according to specifications by the Ministry—55m<sup>2</sup> units for rental housing and 75m<sup>2</sup> units for homeownership. Most of these units were built in smaller urban areas, and approximately 8,000 were constructed in rural areas. The second phase is currently being implemented, and includes approximately 90,000 units with a high concentration in Giza, Fayoum, Minya and Assiut (Upper Egypt). The program is set to complete the construction of 200,000 units in FY 2015/16, approximately 150,000 in the Governorates by the private sector and 50,000 by NUCA.

banks have to establish mortgage departments and procedures for underwriting, the CBE is actively pursuing the program with the banks.

19. ***The Government has requested the World Bank Group’s support to the SHF, the implementing entity of the Inclusive Housing Finance Program.*** The proposed PfoR supports the “Program”, within the boundaries identified, namely the demand side, focusing on: (i) enhancing the institutional capacity of the SHF; (ii) increasing the effectiveness of the Social Housing Program; (iii) improving access to homeownership and rental units for low-income households through demand side subsidy programs; and (iv) promoting better located social housing, and the utilization of vacant and unfinished units. Hence, the operation does not directly address supply issues, such as land and title registration systems, building and planning regulations, and construction permit systems, which are beyond the boundaries of this Program.

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

20. ***The proposed operation is closely linked to the World Bank Group (WBG) strategic goals, and the 2014 MNA Regional Strategy, as well as the Systematic Country Diagnostic (SCD), and the Country Partnership Framework (CPF)—both under preparation.*** The operation is aligned with the MNA Regional Strategy, which emphasizes governance, job creation, inclusion and sustainable growth as key pillars. The Program fosters governance as it will assist the Ministry and the SHF in setting policies for the housing sector that will enhance transparency and accountability, notably through the establishment of monitoring and evaluation (M&E) systems, internal audit, and a grievance redress mechanism. Overall, the Program will ensure that any existing or future inclusive housing policies are “pro-social” and will not be reversed, weakened or diluted. The Program will also foster economic inclusion and sustainable growth through promoting access to adequate housing for the poor and linking housing to job markets to benefit from agglomeration economics. Furthermore, indirectly, new employment opportunities will be created, for skilled and unskilled labor, as an impact of the Program. In addition, the Program will contribute to boosting economic growth, where it is expected to increase GDP by 0.6 percent in year one and close to two percent in subsequent years based on multiplier analysis with input-output tables<sup>10</sup>, as well as increasing private sector participation in the low-income formal housing market, and improving housing options for the bottom 20 percent. The Program is expected to serve approximately 1.6 million poor individuals, representing around seven percent of the poor in Egypt. Hence, this operation will help Egypt in ending extreme poverty and boosting shared prosperity in a sustainable manner, especially since its focus is on underserved households.

21. ***The WBG is currently finalizing the SCD, and is preparing the CPF for Egypt for the period of 2016–2019.*** The SCD indicates that reforming the housing sector, improving its governance structure, and increasing the supply of affordable, well-located and quality housing is essential for achieving the strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. The proposed operation, with a focus on supporting low-income housing is well aligned with pillars on inclusion that involve ensuring broader access by disadvantaged segments of the population—women, youth, the poor, and lagging geographical regions. In addition, the Program will also address spatial integration, as it is designed to link affordable housing to jobs, through the efficient selection of potential housing locations that are in the proximity of vibrant employment opportunities. This will enhance access to formal jobs, boost productivity through benefiting from economies of agglomeration, and reduce transportation and congestion costs.

22. ***The Program specifically addresses one of the three highest priorities identified in the SCD, namely: “improvement in public governance”.*** It supports and backs the Government’s attempt to fundamentally improve the governance of the social housing sector, a large economic sector, through the efficient institutionalization and operationalization of the SHF, strong legal and regulatory reforms, and

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<sup>10</sup> Assuming that there are no capacity constraints in the economy going forward.

effective policy enforcement (see Box 2). This would be achieved through: (i) consolidating housing programs and entities, which will ensure synergies, consistency of different policies, and adequate monitoring of the different government organizations, - for example, through effective targeting of subsidies and prevention of leakages and double subsidization, by having a central and unified database of beneficiaries and units at the SHF and/or affiliated entities and prohibiting the transactions on units without prior approval from the SHF and/or affiliated entities; (ii) promoting transparency and accountability, through improving access to information and making data available for public dissemination; (iii) introducing citizen feedback mechanisms to allow citizens to express their discontent with service provision and bureaucratic behavior, especially for the poor, which would be well integrated in the accountability platform; (iv) improving financial management procedures, as well as the clear determination of sources of funding of the SHF, and defining the framework of funds utilization and monitoring; (v) combating corruption and favoritism, through strengthening the institutional setup, improving the regulatory framework, and developing an IT system, promoting a level playing field, as well as criminalizing the disclosure of misleading information in the application for low-income housing; (vi) enhancing land management, through a systematic process of setting locations of land parcels for the SHF programs, and ensuring that they are fulfilling requirements of proper urban planning including access to services, infrastructure and employment opportunities.

**Box 2: Summary of Program Transparency and Accountability Measures**

**Organization and Management.** These measures include: (i) sector institutional restructuring and consolidation for improved policy development and implementation; (ii) appointment of an Executive Director with sound credentials; and (iii) corporate governance mechanisms for the SHF Board and Audit Committee.

**Transparency.** Measures include: (i) national public awareness campaign targeted at potential Program beneficiaries; (ii) consultations, communication and reaching out plan; (iii) public dissemination of housing sector data, consolidated data on number and location of beneficiaries, the SHF subsidy expenditures, and pipeline housing developments; (iv) combination of financial and indicator verification audits by independent auditors; (v) publication of the program audited financial statements; (vi) piloting of Integrated Reporting bringing different elements (financial, nonfinancial, governance, environment, and social) together by the SHF; and (vii) use of the SHF's webpage to support the preceding measures.

**Accountability.** Actions include: (i) beneficiary screening mechanisms; (ii) penalties for beneficiary fraud; (iii) unified beneficiary database to enhance management and prevent fraud; (iv) mechanism for monitoring the occupancy of housing units for which subsidy is provided; (v) service standards for processing subsidy applications; (vi) fiduciary strengthening measures related to the SHF's rules and regulations, budget system integration, MIS development and integration, financial reporting, and internal and external audit; (vii) internal audit function that will help, inter alia, with enforcement of legislation to prevent fraudulent practices; (viii) Audit Committee; (ix) Social Function Officer; (x) monitoring of rejected applications and explanation to rejected applicants; (xi) grievance redress mechanism; and (xii) client satisfaction surveys included as part of M&E arrangements.

**Participation.** Mechanisms include: (i) beneficiary feedback mechanism (from applicants and potential applicants); (ii) consultations during Program preparation; and (iii) annual implementation consultations with

23. **The proposed operation also promotes a level playing field and enhances the participation of the private sector.** In concurrence with the recommendations of the SCD that emphasized the importance of engaging the private sector in the housing sector, the construction under the SHF is done mostly by small to medium private contractors. To foster the role played by the private sector in the housing market, the operation offers new incentive programs to re-engage the private sector in the development of low-income housing, bring private rental landlords into the low income rental housing sector, including a demand-side subsidy program for lower income tenants, and to stimulate owners of vacant



units to utilize the new demand-side rental subsidy program to make their units accessible for low-income households.

24. *Different financing instruments to support the Program were considered, including investment project financing, development policy financing, and Program-for-Results financing (PforR).* Since the proposed operation focuses on enhancing the institutional capacity of the SHF to achieve improved performance and efficiency, and to design and implement new programs that will address gaps in the current housing programs for low-income households, the PforR instrument was considered the most suitable option. The PforR instrument can disburse flexibly against the Program results, strengthen the institutional capacity of the SHF, improve public governance, enhance accountability, support the design and consolidation of housing programs and enhance their efficiency, improve the targeting of subsidy programs, and enable increased participation by the private sector in the provision of housing for the poor. Essentially, the PforR instrument will help to incentivize the Government's progression through a series of critical steps towards creating a functional housing system that ensures affordable housing for vulnerable and low-income households. An impressive array of policy reforms and institutional strengthening has already taken place in recent years, but further policy decisions will be needed along the life of the PforR to make sure that the ambitious Program objectives and proposed Disbursement Linked Indicators (DLIs) will be achieved. Further technical assistance from the World Bank will be provided in parallel to the operation.

#### **D. Link with World Bank Group and Development Partners Activities**

25. *The WBG has been supporting the development of the housing and financial sectors in Egypt over the last decade through a programmatic approach—a continuum of instruments, ranging from financial services to advisory inputs, knowledge sharing and convening services.* The WBG brings its cross country experience and regional knowledge to the operation to assist the Government in designing and implementing social housing programs that are efficient, equitable and sustainable, as well as fostering economic growth and job creation. The Bank has provided advisory services to the Government to support the setting of the legal and regulatory framework for housing finance, including the issuance of the Real Estate Finance Law in 2001 and the Land Management Strategy in 2006.<sup>11</sup> This was followed by an investment loan, the Mortgage Finance Project (US\$ 37.5 million), which was complemented by IFC investments in the first liquidity facility in Egypt, the EMRC, promoting private sector participation in the mortgage finance market. In order to push forward policy reforms, the Bank financed the Affordable Mortgage Finance Development Policy Loan (DPL)<sup>12</sup> (US\$ 300 million).<sup>13</sup> All this allowed for the preparation of a PforR that supports the implementation and enforcement of these policy reforms, leading to tangible results on the ground, while building capacity, good governance, and a strong institutional framework, which would ensure sustainability beyond the proposed operation.

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

<sup>12</sup> The design of the proposed operation has been built upon the DPL, taking into account lessons learnt. While the DPL targeted low and middle-income beneficiaries through a mortgage-linked subsidy program, the proposed operation can reach further down market through a combination of both rental and ownership programs- reaching households with incomes in the first decile of the income distribution. The mortgage-linked subsidy program will include underserved households from just below the 20<sup>th</sup> percentile to the 60<sup>th</sup> percentile— an overall more inclusive targeting. Other lessons learnt include better selection of location of housing, accounting for commuting time to job opportunities, the importance of Government's commitment and ownership of the program for efficient implementation and timely disbursement. Moreover, consultations with citizens and stakeholders are essential throughout the lifetime of the operation—doing business differently post revolution.

<sup>13</sup> This DPL has been fully released in three tranches, amounting to US\$ 100 million each, with the achievement of all envisaged institutional and policy actions.

26. ***IFC has also been providing advisory services and capacity building*** of mortgage finance companies, banks and the EMRC, as well as advisory services in the area of property registration, regulatory framework, rental programs, and tax reforms with the objective addressing bottlenecks for private developer in the housing sector. Together, these activities have successfully established a mortgage market, setting the regulatory and institutional framework, and launched the mortgage-linked subsidy homeownership program for low-income households. Earlier technical assistance laid the foundation for reforms in the land allocation systems. These different interventions and policy loans (that were legally binding) by the World Bank have ensured sustainability of the subsidy programs over the last years, and have proven success in terms of continuation and irreversibility of the reform agenda, even in most difficult and volatile periods of political unrest and economic uncertainty. With the numerous changes in regimes and cabinets, the Bank was able to maintain the policy dialogue, and proceed with the necessary reforms required for developing the housing finance sector, and reforming housing subsidies, as well as promote legal and regulatory reforms that were critical for financial inclusion.

27. ***Coordination with development partners.*** The Gulf countries have supported Egypt's post-revolution economic recovery. In the housing sector, the UAE<sup>14</sup> signed an agreement for a LE 6.5 billion contribution for low-income housing construction through the SHF—50,000 units have recently been completed. The World Bank will work closely with the various Arab Gulf Countries to ensure consistency and synergies in the implementation of the programs. Moreover, the proposed Program is complemented by technical support from the UN Habitat on land management.

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

## **II. PROGRAM DESCRIPTION**

### **A. Program Scope**

#### **The Government Program**

29. ***The SHF has the mandate to finance, manage and release social housing units using dedicated resources from multiple sources, and provide commercial and vocational services necessary for these housing projects to be sustainable.*** To this end, the main responsibility of the SHF is to coordinate social housing policy, as well as design, monitor, and oversee a sustainable and comprehensive set of support programs for the poor. Accordingly, the SHF will strengthen existing programs and develop new ones for the low- and middle-income housing sector, both on the supply-side (direct construction of units) and the demand-side (financial support linked to households and investors).<sup>15</sup> The SHF will work on improving the housing sector, through: (i) the consolidation and coordination of different housing entities, and social housing functions of the various agencies within and outside the Ministry; (ii) the introduction and formulation of legislation, decrees, regulations and procedures to support social housing, as well as the unification of existing ones; (iii) the development of new social housing programs for rental and ownership; and (iv) the improvement of the management systems for housing

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<sup>14</sup> In terms of UAE support to the housing sector in Egypt, there are two distinct programs: (i) UAE Government support to Egypt, amounting to LE 6.5 billion (equivalent to US\$ 900 million), targeted to low-income households. This program comprises 50,000 units, with LE 135,000 unit cost, which were allocated in-kind to the Ministry. The proceeds from the sale of units will be utilized to capitalize SHF; and (ii) UAE private sector investments through Arabtec Company, targeted to provide housing units to middle and high-income households, over a five-year period (2015-2020). The unit price starts from LE 400,000, thus not targeting social housing and not at all part of the SHF. This project has been approved by the Government of Egypt in April 2015.

<sup>15</sup> The program boundaries supported by the World Bank are limited to the demand side. This is explained later in the PAD.

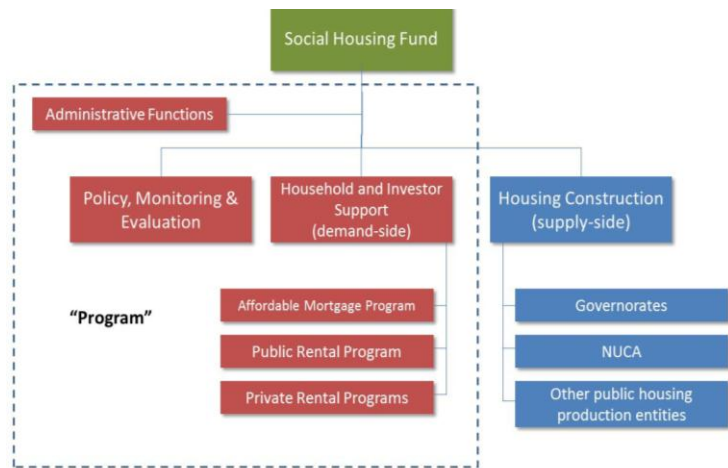
programs, which will be done primarily through building the institutional capacity at the SHF; the establishment of research capabilities and M&E systems; the maintenance of a complete social housing project and beneficiary database; establishment of a transparency and accountability mechanism for the social housing sector; and the collection of land and social housing market data.

30. **The SHF and CBE are effectively coordinating their housing programs.** The CBE stimulus has offered LE 20 billion to banks and their affiliated MFCs to make seven percent, 20 year mortgage loans to households qualifying under the AMP program and intends to expand the program with growing demand. To date 14 banks have signed up for the program for a total amount of LE 12 billion. The SHF and CBE are coordinating program implementation, and apply their subsidies to the same targeted low-income group. In addition, the CBE is on the Board of the SHF, as well as on the GSF’s Board. Bi-weekly progress reports are prepared on disbursements under the CBE-AMP programs. While the CBE program is currently still in expansion mode, the SHF and the CBE intend to closely coordinate the future phasing out of the program when interest rates come down and a stimulus is no longer needed. The CBE will review and adjust its stimulus program in close coordination with the SHF in the next months in order to accelerate its optimal use, in particular for the low-income bracket, for which the demand from banks is higher due to the increased availability of finished homes.

**The Inclusive Housing Finance Program**

31. The Inclusive Housing Finance Program (the “Program”) will support the following aspects of the Government’s Social Housing Program: (i) institutional consolidation and capacity building; (ii) development of housing policy, and the design of regulations and program guidelines; (iii) measures to improve the effectiveness, transparency, and accountability of housing programs; and (iv) demand-side housing programs, including financial support to low-income households to help them access housing or housing finance. It will also assist in developing incentives for private rental investors to rent out their units to low-income tenants. This ensures sustainability of the Program, and allows the Government to focus on housing solutions for the lowest income and underserved segment. Housing programs that involve the direct construction of housing units are not part of the Program. A schematic overview of the Program is presented in Figure 2.

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



Source: World Bank (2014).

32. The Program supports institutional consolidation, capacity building, policy development and research and monitoring and evaluation. The Program emphasizes support to improve the dynamics of the housing market, through research, legal and tax reforms, new policies, monitoring of government programs. Supporting the SHF in these areas is the core of the Program, and will allow the SHF to play its key role in coordinating social housing policy and in designing, monitoring, and overseeing a sustainable and comprehensive set of support programs for the poor. Complementary capacity building activities are detailed in Section D and Annex 9, and include support to the housing finance sector that is critical for the implementation of the SHF’s programs, and based on which, the SHF’s operational budget is accordingly planned.

33. The Program will support the SHF’s social housing programs in expanding (in size and geographic reach), and strengthening its existing demand-side ownership program and in the development of financial products that will promote homeownership for those currently excluded from attaining formal

homeownership, including the poor and the informally employed. It will help create a new demand-side subsidy program for public rental housing and an incentive package for investors in private or employer rental housing with complementary demand-side subsidies for tenants.

34. ***The Program supports demand-side housing subsidies.*** The purpose of the subsidy programs is the improvement of housing consumption by underserved households and increasing the supply of affordable housing. In countries with incomplete housing markets—where there is a gap between housing demand and supply, especially for the poor—subsidies are often used to bridge the gap. The most efficient and effective type of subsidy mechanism to reach these goals has proven to be demand-side subsidies (vouchers) to households linked to well-defined housing programs—both rental and ownership. These types of subsidy can be designed to be progressive with income and can be applied to ownership and rental housing. For ownership programs, demand-side subsidies can be linked to a maximum affordable loan, and therefore, reduce the required subsidy amount relative to subsidizing the overall cost of housing. They provide beneficiaries a choice of housing options. Box 3 examines the rationale for housing subsidies.

35. Chile was one of the first emerging market countries to use demand-side subsidies in the form of vouchers to be disbursed towards the down-payment (following the US Housing Subsidy Experiment mentioned in Box 3) to increase access to formal housing for middle and lower middle-income groups and stimulate the supply of affordable housing (initiated in 1978). Many countries in Latin America, including Mexico, Brazil, Colombia, Peru, and Costa Rica, have since introduced demand-side voucher subsidies linked to finance. The US and many European countries have introduced demand-side subsidies for rental housing.<sup>16</sup> The program supports only demand-side subsidies for both ownership and rental housing.

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

	2016	2017	2018	2019	2020
<i>Demand-side homeownership subsidies (AMP)</i>	50,000	125,000	300,000	500,000	725,000
<i>Demand-side rental subsidies</i>	5,400	26,500	47,500	75,000	102,400
<b>Total Number of Household Beneficiaries</b>	<b>55,400</b>	<b>151,500</b>	<b>347,500</b>	<b>575,000</b>	<b>827,400</b>

Source: World Bank (2015).

36. ***The total number of Program beneficiaries is expected to reach more than 3.6 million individuals or close to 830,000 households with an average household size of 4.3 individuals (Table 2).*** Based on a preliminary estimate of the distribution of units across Governorates, the total number of beneficiaries that are below the Household Poverty Line is expected to reach 1.6 million individuals (Annex 4), which represents 37 percent of total Program beneficiaries, and around 7 percent of the total poor in Egypt (22 million individuals based on poverty rate of 26.3 percent in 2012/13).

37. ***In light of the previous experience with unsustainable, inefficient and poorly targeted subsidies, it is important that the existing and proposed demand-side subsidy programs be carefully costed and monitored.*** The targeted volume of the subsidy programs would be announced in advance and monitored closely. The potential fiscal impacts, especially if economic circumstances change (for instance, the interest rate rises) will be analyzed, and contingencies specified. The incidence of the subsidies will be estimated and disseminated. The Program will assist the SHF to ensure that the subsidies remain progressive.

<sup>16</sup> Hoek-Smit, Marja C and Douglas Diamond (2003) "Subsidizing Housing Finance", *Housing Finance International*, June 2003, London, UK. Hoek-Smit, Marja, Subsidizing Housing Finance, in Loic Chiquier and M. Lea, *Housing Finance in Emerging Markets*, World Bank (2009); Susin, Scott. "Rent Vouchers and the Price of Low-Income Housing." *Journal of Public Economics* 83, No. 1 (2002): pp. 109-52; Peppercorn, Ira Gary, and Claude Taffin. *Rental Housing: Lessons from International Experience and Policies for Emerging Markets*. World Bank Publications, 2013.

**i. Ownership Programs—*Affordable Mortgage Program***

38. The homeownership program provides demand-side subsidies to complement an affordable mortgage loan, and a down-payment (ranging from 15 to a maximum of 40 percent) for the purchase of new or existing houses. AMP serves households with incomes between LE 1,000 and LE 2,500 per month. Mortgage loans under the AMP were made at market rates and for a maximum term of 15 years. Mortgage interest rates went up to 17 percent in recent years, which stopped mortgage lending. Loans made under the new CBE stimulus program carry a rate of seven percent and have a term of 20 years, while other conditions are the same.

39. The average subsidy under the pre-stimulus programs was in the order of LE 19,000 per household and is somewhat lower under the CBE loan program. The net present value (NPV) of the CBE interest rate subsidy is substantially higher given the current high interest rates (by 50 to 100 percent).<sup>17</sup> The combination of the AMP and CBE subsidies effectively decreases the inherent regressivity of the CBE interest rate subsidy and the combined subsidy decreases with higher incomes.<sup>18</sup> Mortgage rates are coming down (13.5 percent in January 2015), so CBE subsidy levels are decreasing.

40. Beneficiaries of the AMP can use the subsidy to purchase any housing unit on the market (existing and new) that is affordable to them under the conditions set by the AMP (i.e., income and other household qualifications, down-payment and mortgage loan qualifications). To date 14,000 subsidized loans have been issued under the market mortgage rate program. The new program reaches households from below the 20<sup>th</sup> to the 60<sup>th</sup> percentile of the income distribution, with the median at the 30<sup>th</sup> percentile. Approximately 24 percent of beneficiaries are female-headed households. The GSF received 155,000 applications after the announcement of the CBE stimulus program. Support will be provided to develop a mortgage guarantee product to encourage lenders to include informally employed beneficiaries into the AMP and to assist financial institutions to establish mortgage systems, including in their branches.

41. Although the first phase of construction of affordable housing units is currently being implemented mostly by regional small to medium private contractors, under contract with the SHF, requiring only a small profit margin, the Ministry is finalizing new low-income housing PPP agreements for private developers to ensure their participation in the SHF programs. Prior to the revolution, private developer participation in the low-income market segment was increasing. In fact, during the latter years of the National Housing Program (2005-2011), which aimed to deliver 500,000 housing solutions over six years, 22 percent of the completed units were built by private developers who assumed all risks, including market risk. Government entities only produced less than 50 percent of completed units.<sup>19</sup> Private developers left the low-income sector during the transition period when land contracts with the Government were retracted, inflation rates were volatile, and interest rates were too high for the low-income mortgage market to work. However, private developers are expected to gradually return, as the CBE program has made mortgage loans accessible for the low-income segment, and new land contracts are being put in place. The ultimate goal of the Government is to move away from the direct involvement in the construction of housing.

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<sup>17</sup> Using a discount rate of 9.75 percent, a market rate of 14 percent, a house price of LE 135,000, and down-payment of 15 percent.

<sup>18</sup> The AMP subsidy amount decreases with increasing income, while CBE subsidy increases with higher loan amounts.

<sup>19</sup> Under the National Housing Program (2005-2011), 320,000 units were produced until 2011; 150,000 by government entities, 70,000 by the private developers, and 100,000 self-construction parcels.

### Box 3: Rationale for Housing Subsidies in Egypt

Housing is a private good, yet governments around the world subsidize housing. The question of why housing should be subsidized can best be understood by perceiving better housing as a means to achieve higher level societal goals. The economic rationale for housing subsidies rests on one of two grounds: (i) efficiency: housing subsidies alleviate an existing distortion or market incompleteness, which could not be addressed through other instruments, and which lead to a welfare-enhancing allocation of resources; (ii) redistribution: even if there were no distortions, if society feels that the distribution of income is unequal, then interventions that redistribute income from rich to poor are justified. In the absence of lump-sum transfers, subsidies in housing could be a (second-best) way of redistributing income. Other goals that are frequently involved are improving public health (which is mostly addressed through investment in services) and enhancing fairness in society (when poor housing impedes people's opportunity to improve their chances of success in life), or address the destabilizing social effects of poor housing and neighbourhood conditions.

*Efficiency:* The efficiency argument is often expressed in terms of the (correct) observation that housing markets are imperfect and incomplete. Housing markets are often incomplete because of faulty regulation, insecure property rights, lack of information, etc. which make it impossible for markets to provide housing particularly for the low-income segment. In a highly distorted system, regulatory and legal improvements alone may prove ineffective to reach the desired outcomes. This is particularly the case for housing finance and land institutions. In such cases there may be a need to partly subsidize institutions, such as the proposed guarantees to induce lenders to serve the informally employed. This should only be done when regulatory and other bottlenecks to serve that population have been removed. Such subsidies should be phased out as soon as market institutions are able to provide such products. A complementary household subsidy may be needed to help deepen the low-income market under these conditions. A second argument is that of externality costs; without access to formal housing, households must build their homes in illegal settlements or rent in mass produced informal housing, with inadequate access to clean water, sanitation and community services. The lack of access to clean water and sanitation, in turn, has externality costs, such as contamination of the water supply. In principle, these should be addressed as part of the government's water and sanitation policy, as they are in Egypt. Thirdly, informal housing in Egypt is poorly constructed and unsafe, and this may have a social cost (although the solution may be better information or enforcement of standards rather than housing subsidies). To the extent that settlements encroach on scarce agricultural land, whose output may have a higher value than that of housing, informal settlements may have a direct economic cost, but the problem may be imperfect land markets.

*Redistribution:* While the most efficient way of achieving redistribution is through lump-sum transfers (which allow poor people the choice of how much housing as well as other goods and services to buy, and hence maximize their welfare), governments may choose to employ housing subsidies for a number of reasons. Governments may feel that the amount of housing that people will purchase with cash transfers is still too low. Low incomes may particularly impede people's access to housing rather than food for example. Urban housing with higher densities and costly infrastructure standards is expensive relative to household incomes or investor resources, certainly when urban in-migration swells the ranks of low-income households, as is the case in Egypt. Access to long- and medium-term financing to pay for a house over time is often not widely available, which impedes low- and moderate-income housing markets in particular from clearing. Land market constraints may have a similar effect. Focusing income transfers on housing is, therefore often preferred over general transfers in emerging markets. Second, poor housing conditions cause social disenfranchisement, as has been documented for Egypt, and impede the broader social wellbeing of households, particularly, women and children. Moreover, homeownership in well located neighborhoods creates a source of wealth for poor households in a manner that most will not make their own economic decisions would lead them to invest

### Box 3: Rationale for Housing Subsidies in Egypt (Cont.)

Finally, there may be political reasons for governments to subsidize housing. Given that a government has decided that it will subsidize housing, it is important that the programs be designed to maximize the benefits to the housing market and the targeted households. In the past, most governments supported the housing sector through direct supply-side subsidies—Egypt was no exception. However, international experience demonstrates that supply-side subsidies do not work well for the housing sector. They do not allow proper targeting of beneficiaries, are not portable and are prone to misallocation by developers. Moreover, they are often off-budget and not transparent, allowing for inefficiencies in the management of public investments and resources. The most complete comparative housing subsidy analysis was conducted in the USA in the 1970s, the Experimental Housing Allowance Program, and housing vouchers/demand-side subsidies were proven to be most efficient and least distortive. In particular, demand-side subsidies linked to a mortgage do not significantly distort the market provided they are open to any distribution channel, and in contrast to supply-side subsidies, multiply the impact of government spending by leveraging credit. Another option would be to provide households with unconditional cash transfers and leave the choice to households to find better housing. Studies have shown that cash transfers, even though they maximize households' well-being, will not necessarily be used exclusively for the improvement of housing, nor will they translate into increased supply of affordable housing because of market inefficiencies and market incompleteness.\*

A single demand-side housing subsidy cannot serve all underserved households. Segmentation of underserved households according to housing requirements, income and employment is a first step in the design of a comprehensive subsidy package. Households that could, with some assistance, access credit for housing should leverage their capacity to borrow and therefore reduce the need for subsidy. Households that will not be able to acquire a mortgage need rental solutions or may be assisted to manage the construction of their own house, with the use of short-term lines of credit.

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

## ii. Rental Programs

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

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

**(c) Private Rental Subsidy Programs for Tenants.** In addition to investors' incentive packages, the Program will support the development of demand-side tenant subsidies aiming at filling the gap between the rent required by the investor and the payment affordable to the tenant, estimated at 25 percent of

income. Technical assistance for designing the scale of the subsidy, the collection and monitoring of information on beneficiary households (income, family size, etc.), and the delivery of the subsidy (to the tenant, the manager or the landlord) will be provided to support the implementation of the Program.

## **B. Program Development Objective**

42. *The objective of the Program is to improve the affordability of formal housing for low-income households in the Arab Republic of Egypt and to strengthen the Social Housing Fund's capacity to design policies and coordinate programs in the social housing sector.* To that end, the Program includes the five Results Areas described below. For each Results Area, the Program has a roadmap for working towards the ultimate outcomes (see Annex 4). Key milestones from the roadmaps are reflected in the DLIs, Program Action Plan (PAP) and Results Framework.

## **C. Program Key Results and Disbursement Linked Indicators**

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

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

45. *Results Area 2: Enhancing Transparency and Accountability of Social Housing Programs.* Management of information systems (MIS) is critical for the sustainability and effectiveness of housing programs whether implemented through the public or the private sector. The ability to efficiently collect accurate data on housing demand and production is a key input for improving policy design, and the decision-making. Moreover, housing finance subsidy programs need to be monitored regularly and adapted to changing social and economic conditions. The establishment of a robust Research and M&E unit within the SHF is a fundamental building block. Public dissemination of housing indicators, housing expenditures, and program selection criteria is essential for promoting transparency and accountability. The establishment of a robust integrated grievance redress mechanism will help address the local level complaints and concerns in an efficient manner that ensures that beneficiaries have a voice and are responded to in a timely manner.

46. In addition to the internal audit function described under Results Area 1, the Program includes three additional DLIs focused on enhancing transparency and accountability in the SHF. The first is the establishment of a housing M&E system that compiles a comprehensive set of housing sector indicators, collected on at least an annual basis from Governorates, housing agencies, ministries, and other relevant non-governmental organizations (DLI 2). This data is used for planning and is disseminated to the public. The second is the establishment of a functioning accountability and transparency mechanism, including: (i) a national public awareness campaign targeted at potential Program beneficiaries; (ii) standard processing times for subsidy applications; (iii) established procedures for rejected



applicants to receive explanation of program requirements not complied with; (iv) monitoring of rejected applications; (v) establishment of a robust and integrated grievance redress mechanism; (vi) public dissemination of consolidated data on number and location of beneficiaries, the SHF subsidy expenditures, and pipeline housing developments; and (vii) publication of the program audited (DLI 3).

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

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

49. Despite the new Rental Law of 1996, there are multiple obstacles to the expansion of the rental housing market in Egypt—a large proportion of the housing stock is frozen under the old rent control, unfavorable tax laws (i.e. treatment of rental income), and cumbersome eviction procedures.<sup>20</sup> A byproduct of the dysfunctional rental market is the high number of vacant units. The SHF will address these inefficiencies as mentioned above, in order to attract private rental investors and address the chronic vacancy issue. Moreover, the Ministry is formulating a strategic approach to incorporate vacant and unfinished housing units into the housing market. In addition to creating new housing for low-income households, the Ministry will provide financial incentives to owners of vacant or unfinished units in both formal and informal neighborhoods to improve these units and bring them to the market.

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

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

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<sup>20</sup> Units that are currently vacant or built after 1996 are not impacted by rental control.

52. Specifically, the Program eligibility criteria mandate that sites should be: (i) designated for social housing by urban planning authorities<sup>21</sup>; (ii) connected to basic utilities; (iii) connected to the transport network; and (iv) accessible to basic services, such as schools and health clinics. DLI 7 will incentivize that units acquired with demand-side subsidies supported under the Program are located near employment opportunities. This will be measured as the percentage of Program units located within a 60 minute travel time from an employment center.<sup>22</sup> Given current data limitations, DLI 7 will measure the expected travel time between the site/unit and the closest village with at least the mean number of jobs for the Governorate in which it is located. For Greater Cairo the expected travel time between the unit and the closest homogeneous sector (as defined by GOPP) will be used. It is important to note that DLI 7 will be calculated using a GIS system under standard assumptions and it will not measure the actual commute time for each Program beneficiary, but only the expected (or “theoretical”) time to an employment center as a proxy for “good” location. During Program implementation, GOPP will receive TA to develop more robust accessibility models. These models will serve not only to measure the match between housing and employment more accurately, but also to guide housing policy towards the design of policies and programs that promote well-functioning urban areas, increase urban sustainability and reduce physical exclusion of the lower income segments. Finally, the results framework includes a list of more granulated indicators (for example units located within 45 or 30 minutes) in order to provide the Program with sufficient information to fine-tune the guidelines and better understand the land and city dynamics.

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

54. ***Results Area 5: Promoting Private Sector Participation in Low-Income Housing.*** Egypt cannot address its housing deficit without the strong participation of the private sector, including banks, mortgage companies, construction companies, and developers in the low-income housing market. To rebuild the momentum that was developing in this nascent market segment prior to the Revolution, the SHF must define itself as a credible and effective partner and ensure a level playing field for all private sector entities. Achieving this will require a multi-pronged approach, including public dissemination of PPP guidelines for the SHF programs, a targeted program to help small-scale contractors in Upper Egypt—currently building housing units based on a fixed profit margin—transform into development companies. It is also important to design and implement ‘inclusionary housing’ requirements into public land auctions. Continuing the consultations with private sector entities would be critical. This will need to be accompanied by refinements to the CBE low interest rate program to attract more private banks and developers to the low-income market segment. The Program includes a DLI focused on the outcome of this set of actions—an increase in the number of demand-side subsidies supporting the purchase or rental of housing units developed by the private sector (DLI 8).

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

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<sup>21</sup> Master plans are developed by the General Organization of Physical Planning (GOPP) within the Ministry and approved at the Prime Ministerial level.

<sup>22</sup> The 60 minute benchmark was selected upon the basis of existing travel data and taking into account that most of the Program beneficiaries are expected to use public transportation.

Table 3, and the complete DLI matrix with detailed definition and verification protocols, is provided in Annex 3.

**Table 3: Summary of Disbursement-Linked Indicators**

<b>Disbursement-Linked Indicator</b>	<b>Definition</b>	<b>Amount (US\$ millions)</b>
<b>Results Area 1: Strengthening Governance and Institutional Set-up of the Housing Sector</b>		<b>25</b>
<b>DLI 1:</b> Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with the SHF	The internal audit function should be established in the SHF, reporting to the Board through an Audit Committee. The internal audit function should cover, at a minimum: (i) assessment of the risks associated with improper benefit payments; (ii) use of analytical procedures, information system audit and assurance standards, and data mining tools; (iii) undertaking of spot checks and field visits to validate continued relevance of internal controls, including the quality of the complaints mechanism; and (iv) procedures for following up on the timely implementation of audit recommendations have been established.	25
<b>Results Area 2: Enhancing Transparency and Accountability of Social Housing Programs</b>		<b>125</b>
<b>DLI 2:</b> Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system	A functioning M&E system is defined as, at a minimum: (i) a fully staffed M&E unit; (ii) an agreed set of comprehensive housing sector indicators, including social housing programs, that are collected on at least an annual basis from Governorates, housing agencies, ministries, and other relevant non-Governmental organizations; (iii) public dissemination of a minimum set of housing data on an annual basis. Multi-Year Plan and Annual Targets approved by the SHF must explicitly refer to and reflect this data.	25
<b>DLI 3:</b> Establishment and functioning of an accountability and transparency mechanism within SHF for implementing the Program	A functioning accountability and transparency mechanism includes, at a minimum: (i) a national public awareness campaign targeted at potential Program beneficiaries; (ii) standard processing times for subsidy applications; (iii) established procedures for rejected applicants to receive explanation of program requirements not complied with; (iv) monitoring of rejected applications; (v) establishment of a robust and integrated grievance redress mechanism; (vi) public dissemination of consolidated data on number and location of beneficiaries, the SHF subsidy expenditures, and pipeline housing developments; and (vii) publication of the program audited financial statements.	50
<b>DLI 4:</b> Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy and percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP	The SHF must establish a mechanism for monitoring the occupancy of housing units for which subsidy is provided as part of the Program. This system must include, at a minimum: (i) rules stipulating the limitations on the resale and occupancy of units; (ii) procedures for communicating these rules to Program beneficiaries; (iii) operational manual for conducting a post-occupancy survey on a representative sample of units; and (iv) procedures for dealing with non-complying beneficiaries. In Years 2-5, DLI measures the percentage of total housing in the Program portfolio that is in compliance with occupancy rules at least one year after the subsidy is provided to the beneficiary. The SHF conducts post-occupancy survey of AMP subsidy recipients based on approved mechanism to monitor occupancy of housing post-subsidy.	50
<b>Results Area 3: Improving Access to Affordable Housing</b>		<b>273.75</b>
<b>DLI 5:</b> Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP	DLI measures new AMP subsidies provided to targeted beneficiaries to purchase housing units produced by the public and private sectors. Report on demand-side homeownership subsidies is to be produced by the SHF (or related entity) on a quarterly basis.	225
<b>DLI 6:</b> Number of new households participating in rental subsidy programs in each Fiscal Year during Program	DLI measures number of new rental subsidies provided to Program beneficiaries to rent housing units produced by public and private sectors. Report on rental subsidies is to be produced by SHF (or related entity) on a quarterly basis.	48.75

<b>Results Area 4: Promoting Well Located Social Housing</b>		<b>25</b>
<b>DLI 7:</b> Percentage of demand-side subsidies provided supporting the purchase or rental of housing units located within a commute of 60 minutes or less to an employment center	DLI measures new units added to the Program during the year. Location analysis will measure in the GIS system used for physical planning (GOPP) expected travel time between the unit and the closest village with at least the mean number of jobs for the Governorate in which it is located. For the Greater Cairo area the expected travel time between the unit and the closest homogeneous sector (as defined by GOPP) will be used. The M&E unit of the SHF will compile the information on the location of units and the GOPP will conduct the location analysis as described for homeownership and rental units. The indicator will be reported through quarterly monitoring reports.	25
<b>Results Area 5: Promoting Private Sector Participation in Low-Income Housing</b>		<b>50</b>
<b>DLI 8:</b> Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities in each Fiscal Year during Program implementation. (Private sector entities are those that are owned at least 51% by private individuals or are listed on the stock exchange)	DLI measures the percentage of total Program beneficiaries who receive a subsidy to own or rent a unit that was produced by a private developer. Private sector is defined as a company or organization that is majority owned (at least 51 percent) by private individuals or is listed on the stock exchange.	50
<b>TOTAL</b>		<b>498.75</b>

#### D. Key Capacity Building and Systems Strengthening Activities

56. Capacity building is a major element of the operation and will span the full five years of the Program. Trust fund resources<sup>23</sup> are pursued to support the main areas for capacity building that are provided in Annex 9, and highlighted below:

- ***Developing the SHF's organizational foundation.*** Technical support will be provided to the SHF leadership on organizational issues, staffing priorities, development of TORs for core positions, such as internal audit and M&E and preparation of operational manuals and protocols on agreements with affiliated entities. This support will be a continuation of technical support currently being provided by technical experts.

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

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

<sup>23</sup> Trust fund resources would include: (i) UN Habitat, which is providing technical support on land management; (ii) Egypt MSME TA Facility, which provides capacity building activities to MSMEs, including small private sector developers; (iii) Egypt Inclusive Regulations for Microfinance Transition Fund, which enhances access to finance for low-income households through micro lending; and (iv) Egypt Equal Access and Simplified Environment for Investment Transition Fund, which aims at having simplified and more transparent processes for industrial licensing and land allocation. In addition, the Bank budget dedicated to the Program's supervision and implementation support, will be utilized to provide advisory services and technical assistance related to developing SHF's organizational foundation, operational capacity, and financial management and accountability mechanisms.

- ***Institutional strengthening to support low-income mortgage lending.*** Assistance will be provided to support the expansion of mortgage lending in general, and for down-market lending specifically, including mortgage insurance if necessary. The Program will support the development of consumer awareness material about mortgages. Separately, support will be provided to develop mortgage guarantees for informally employed beneficiaries and for the development of non-collateralized housing finance products.

- ***Strengthening accountability mechanisms, research, monitoring and evaluation capacity.*** Technical support will be provided to define the format and content of information to be provided by housing agencies on the implementation of the social housing programs, including information such as construction number, cost, and occupancy (including vacancy rates). Advice will be provided on the design of a data collection system, including format and content of data to be collected from each housing agency, technical means, single identification tracking number for beneficiaries and applicants, and contractual arrangement between the SHF and housing agencies.

- ***Strengthening the fund's financial management capacity and assurance mechanisms.*** Advice will be provided on budgeting, cash management, controls, accounting, financial reporting, and internal audit arrangements related to the SHF and sub-programs. An Integrated Reporting pilot will also be supported.

- ***Strengthening the SHF's capacity for environmental and social risk management.*** Support will be provided to the SHF to increase its capacity to perform the required environmental and social aspects related to the Program, including capacity building of the local units to screen for buildings safety. Support will be provided to perform an in-depth assessment for the existing grievance redress system. A subsequent design should be carried out to ensure the grievance redress system is mainstreamed to allow for an integrated and responsive system that ensures better local accessibility.

- ***Strengthen the SHF's operational capacity to manage the risks related to the supply side.*** Support will be provided to the SHF to provide training and develop guidelines on procedures related to occupational safety for the construction activities and handling of building chemicals and construction wastes. Technical assistance will be also delivered on topics related to land acquisition, involuntary resettlement and enhancing the monitoring and evaluation capabilities to manage risks related to involuntary resettlement. Although these topics are not relevant to the demand side financed by the Bank, the technical assistance related to these topics will have an overall positive impact on the SHF operations and will ensure sustainability.

- ***Information sharing and disclosure mechanisms*** will also be strengthened to ensure the local population on the Governorate level are having equitable and user friendly access to information through multiple, locally sensitive modalities. Additionally, support will be provided to boost the capacity of the SHF and associated staff to audit beneficiary eligibility, stakeholder communication and consultation plans, implement grievance redress systems, and ensure adequate information dissemination.

57. The capacity building activities described above will require a combination of inputs delivered by individual technical experts, both from within the World Bank and international experts. In parallel, the Program will incur expenditures related to institutional strengthening, including, for example, contracting of specialized staff in the SHF; procurement of IT systems for internal audit, M&E, and beneficiary databases; contracting of local firms to conduct surveys and studies necessary for planning and policy design; execution of public awareness campaigns; and workshops with the main stakeholders from relevant government entities and the private sector.

### **III. PROGRAM IMPLEMENTATION**

#### **A. Institutional and Implementation Arrangements**

58. ***Governance.*** The SHF is governed by a Board of Directors whose primary role is to develop a general policy that guarantees the achievement of the Fund's objectives. Other roles include, approving

the draft budget, defining the investment policy, approving draft housing laws, regulations and guidelines, approving social housing programs, and appointment of program directors. The membership of the Board reflects the multi-sectoral nature of the social housing sector. It consists of 15 members, including the Minister of Housing, Utilities and Urban Development, who serves as its chair. Other members include the Minister of Finance, Sub-Governor of CBE, Minister of Planning, Minister of Local Development, Minister of Social Solidarity, Minister of International Cooperation, a counselor in the capacity of Vice-President for the State Council, Deputy Minister of Defense, the Executive Director of the SHF, and five members competent and experienced in areas related to the Fund's activities in economics and finance who are appointed by a Ministerial Decree. The Head of legal affairs of the SHF is also on the Board, but does not have voting rights.

59. **Organizational structure.** The Executive Director was appointed in November 2014, an organization chart including staffing needs has been established, and the core team is currently being assembled.

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

61. **Social and environmental risk management.** Actions related to strengthening environmental and social risk management capacity have been included in the PAP and will be implemented by the SHF with support from the Governorates and external consultants as needed. The screening of buildings for safety and suitability of water supply and sanitary facilities will be carried out by the local units in each Governorate, with support from registered consultants as necessary; the SHF will have overall supervision of the process. The SHF will strengthen risk management by enhancing the capacity centrally and assigning social officers locally to coordinate social dimensions of the Program and involve non-governmental actors. Local social officers will be assigned at the Governorate level to be in charge of the contextualization of information dissemination and ensure locally accessible channels for the grievance redress mechanism that feeds into the integrated grievance redress system. The risk of program leakage to ineligible cases will be handled through strengthening the system and enhancing its accountability to ensure equal opportunities are granted for the poor and vulnerable groups through transparent information sharing and responsive complaints handling system.

## **B. Results Monitoring and Evaluation**

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

63. As a fundamental input to policy making and program design, research and M&E of the housing sector are key functions of the SHF. A department for evaluation and research, and a department for audit and monitoring are established within the SHF and report directly to the Executive Director. In the short term, the SHF will take over the responsibility for tracking the implementation of social housing programs, which is currently handled by the Housing and Utilities Sector. This process will be enhanced

to include additional data requests and analyses based on policy making and program design needs. An in-depth review of housing data availability will be necessary to avoid duplication of effort. The SHF will primarily rely on reporting from housing program entities, such as the GSF, NUCA, and the Housing Directorates in the Governorates for data on social housing units and beneficiaries. Mechanisms to automate or achieve efficiencies in that collection process are being explored. As a first step, the SHF will draw on the extensive, automated data collection and handling system developed by the GSF. Other sources of housing data will include census data from CAPMAS, private sector developers and financial institutions, and market analysis companies. The evaluation unit will have a data analysis and dissemination role. This is well aligned with international best practice.

### C. Disbursement Arrangements and Verification Protocols

64. **Independent Verification Agent (IVA).** A verification agent will be hired<sup>24</sup> by the SHF to serve as the IVA for the Program<sup>25</sup>, providing independent confirmation of the results reported by the SHF to the Bank. In most cases, as detailed in Annex 3, the SHF will prepare reports explaining the achievement of DLI targets (based on predetermined content and criteria) for submission to the verification agent. The IVA will review the reports, conduct sample surveys, if necessary, and provide a written opinion regarding the achievement of the DLI, which would in turn be assessed by the Bank. These verified results will accompany any disbursement request to the World Bank by the Ministry of Finance.

65. **Advances and Prior Results.** The Government has informed the World Bank that advances will be needed in order to provide sufficient liquidity to launch all SHF activities. Advances up to 25 percent of the total financing can be made by the World Bank to the Ministry of Finance. The Ministry of Housing, Utilities and Urban Development will determine how much of an advance will be requested, within the 25 percent limit. When the DLI(s) are achieved, the amount of the advance will be recovered. The advance amount recovered by the World Bank is then available for additional advances ("revolving advance"). The World Bank requires that the Government refund any advances (or portion of advances) if the DLIs have not been met (or have been only partially met) by the Closing Date, promptly upon notice thereof by the World Bank. In addition, the loan may finance prior results, in the maximum amount of US\$ 25 million, for results achieved starting August 14, 2014.

## IV. ASSESSMENT SUMMARY

### A. Technical (including Program Economic Evaluation)

66. A detailed technical assessment of the Program was undertaken during the preparation of the PforR operation. A summary of the findings of the assessment is included in Annex 4.

67. **Government commitment to social housing.** The Government has a long-established commitment to social housing. This has been reinforced in the wake of the recent revolutions, and the housing sector has featured prominently in the Government's attempts to rekindle economic growth, create employment, and improve the living conditions of the population. The Government launched several economic stimulus packages and residential construction has been a major component of all because of its immediate effect on job creation and known economic multiplier effects.

68. **An opportunity to transform the housing sector.** To ensure synergies and effective coordination and improve efficient use of funds, the SHF will consolidate the various housing programs and funds that have been operating in silos. Bringing together dedicated streams of financing, policy and programming control, inter-agency coordination, and high-level commitment to reform will help to incrementally shift the Government from being a producer of social housing to being an enabler of the housing sector as a whole.

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<sup>24</sup> The IVA will be hired based on terms of reference agreed on by the Bank including the methodology and sampling size.

<sup>25</sup> An independent entity will be hired to perform this role. Moreover, one of the reputable and accredited audit firms will be appointed to conduct the independent audit of Program's financial statements and some of the DLIs.

69. **Technical soundness.** The technical assessment found the SHF’s governance, organizational structure, and mandate to be technically sound and well-aligned with international best practice. As stated in the SHF’s Internal Regulations, issued by the Board in December 2014, the SHF’s main task is to develop social housing policies for all aspects, and supervise the implementation of this program and its various components. The combination of policy, programming, and resource allocation powers gives the SHF the ability to take a comprehensive approach to reforming the housing sector and completing the menu of housing options for poor and vulnerable segments of the population.

70. **Program expenditure framework.** Total Program expenditures are estimated to be US\$ 2 billion, the vast majority of which are related to the demand-side subsidies (Table 4). Expenditures related to items 1, 2 and 3 were estimated based on the Ministry’s past costs and inputs. Projected expenditures for items 4 and 5 were derived by multiplying the targets stated in the Program Results Framework by the estimated subsidy amounts (Annex 4), specifically, LE 19,000 per mortgage-linked subsidy and an average rental subsidy of LE 100 per month. The mortgage-linked subsidies are a one-time transfer of funds to help a low-income family buy a housing unit. Rental subsidy programs, on the other hand, are cumulative, once a household has entered the program, the subsidy continues into the following year(s).

71. In terms of sustainability, the SHF is being capitalized by the donation of the proceeds of sale of 50,000 units from the UAE and the sales proceeds of 115,000 units currently under construction in the Governorates. Funding for the construction of the units by the Housing Directorates in the Governorates came from the State budget as part of the stimulus package. It is estimated that the sale of these 165,000 units will provide the SHF with US\$ 3.2 billion (equivalent to approximately LE 23.1 billion) in FY 14/15. In addition to this endowment, the Social Housing Law 33 of 2014 provides the SHF with other financial resources, including substantial allocations from the annual budget. Annex 4 provides a full description of the SHF’s projected revenues and expenses.

72. **Economic evaluation.** The provision of decent housing matters because it improves significantly living standards. It is also a key factor in economic development (shared prosperity). In addition to directly providing shelter, decent housing improves health and facilitates educational achievement. A home and its environs affect identity and self-respect. Egypt has made strides in improving access to basic services, one of the most important components of living standards related to housing. The differences between the regions of Egypt in access to water are minimal, however, access to sanitation across regions and by income group shows vast differences and requires further development.

73. A secondary goal of investing public funds in the housing sector is its stimulus for economic growth. The economic multiplier according to Egypt’s input-output tables is 2.1 (2010 data). Based on that figure, the Program is expected to increase GDP by 0.6 percent in year one and close to 2 percent in subsequent years. Another economic benefit for the provision of formal housing is that it will likely decrease the expansion of informal housing on agricultural land and the related impact on agricultural output.

74. The entire housing stimulus program of the SHF will indirectly contribute to generating job opportunities for skilled and unskilled labor. Based on an elasticity of employment in the construction sector of 1.5, it is estimated that the total number of jobs indirectly generated through the SHF over a six year period is 1.5 million job-years. Another critical economic rationale to assist the housing sector that

**Table 4: Program Expenditures** (US\$ millions)

Expense Item	Year	Year	Year	Year	Year
	1	2	3	4	5
1.SHF overhead	2.0	3.0	3.0	4.0	4.0
2.SHF studies, plans, and capacity building	2.0	2.0	2.0	2.0	2.0
3.Housing data and systems	3.0	3.0	2.0	2.0	2.0
4.Housing demand programs – ownership	199.3	332.2	398.6	465.0	531.5
5.Housing demand programs – rental	0.8	2.5	3.4	5.0	5.9
<b>Total</b>	<b>207.1</b>	<b>342.7</b>	<b>409.0</b>	<b>478.1</b>	<b>545.3</b>

*Source:* World Bank estimates based on the Ministry of Housing, Utilities and Urban Development, (2014).



is closely linked to the strategic goals of poverty reduction and shared prosperity is improving the link between housing and labor market participation. Well located and decent housing frees up people's time and enables them to participate in the labor market. Economic opportunities are disproportionately located in urban and metropolitan areas of developing countries such as Egypt, which generally offer agglomeration benefits and enhanced labor productivity. Linking house location to job opportunities disproportionately affects women's access to economic activities and enables them to participate in the labor market (Box 4.1 in Annex 4 provides more details on gender mainstreaming in the Program).

75. ***World Bank's value-added.*** The World Bank is working closely with the authorities on all aspects related to SHF. The Bank's input, drawing upon international experience, is focused on improving the Program design, performance, processes, and capacity of the SHF. Some of the specific areas for which the Bank will provide technical support aiming at strengthening governance and accountability, include establishing a robust M&E system, preparing a coherent and transparent housing subsidy system, improving the grievance redress system, strengthening its financial management capacity and assurance mechanisms, as well as employer and private rental programs.

## **B. Fiduciary**

76. ***Country systems, rules, procedures and oversight mechanisms.*** The expenditures to be incurred under the Program will form part of the SHF budget. Even though the SHF is a new entity, it will be subject to the Government's Public Financial Management (PFM) arrangements, which have been thoroughly analyzed. The Bank has been engaged in the provision of technical advisory services in Government financial controls, public procurement, and external audit. A renewed engagement on PFM systems and legislation is starting.

77. ***Capacity and performance of the Program implementing agencies.*** The Fiduciary Systems Assessment (Annex 5) is focused on the arrangements for the development of the SHF. The SHF will have a dedicated budget, sources of revenues, bank account, accounting and internal control system, and will be subject to the audits of the Central Audit Organization (supreme audit institution). The SHF Board can also appoint independent auditors. The SHF is managed by an Executive Director, and has its own Finance Department. The staffing process for senior SHF positions, and the assessment of the administrative units within the Ministry that will be consolidated within the SHF, is progressing. The SHF Board will approve the SHF budget as well as its annual accounts. The SHF will establish reporting mechanisms for each program it manages or oversees, in addition to the SHF's reporting on its own operating expenses.

78. Since 2008, the Bank has supported the design and implementation of the AMP, administered by the GSF. The Bank has provided technical support to the GSF to strengthen its M&E systems, improve data quality and management, and update program parameters, including beneficiary qualification criteria. The AMP is implemented in accordance with a comprehensive Procedure Manual, making use of IT systems and procedures that have been tested to handle a large volume of applicants. The system is set up to generate monitoring reports that include information on households, loan and subsidy level information, and lender information. The GSF receives funding from the State budget as well as self-generated revenue. Its final accounts for 2012/13 showed significant unspent funds in "Chapter 4" expenditures (mortgage subsidies), mainly because of delays in the completion of housing units. The actual expenditure was only eight percent of the budget. Significant improvements are expected over the coming years to result from measures to increase the supply of housing solutions and housing finance.

79. ***Procurement.*** Given that the financing under the Program will be limited to demand-side incentives and operating costs, there will be no major procurement involved.

80. ***Fraud and corruption.*** The GSF, under the Ministry, conducts a thorough process of screening beneficiary's applications. In addition to outsourced specialized investigation companies for conducting beneficiary's background checks, the GSF carries out reconciliation with the Housing and Development

Bank database to identify any prior allocation of units to applicants. The GSF also keeps comprehensive records of rejected applications with information on the reason for rejections (such as not meeting the program thresholds, and falsified information on residence or income). The GSF receives complaints through its websites. Its manual requires handling complaints within 48 hours of receipt. All fraud cases or information that has driven to rejection based on the GSF requirements, are required to be compiled in a "black list" that must be checked when a new file is appraised. Furthermore, the Real Estate Law 148 of 2001 was amended in July 2014, introducing stricter rules and penalties on fraud by beneficiaries.

81. ***Fiduciary risk and mitigation.*** The fiduciary risk is substantial because the institutional structure and systems of the Program implementing entity (the SHF), and some of the sub-programs, are still under development. The positive experience with the administration of the AMP by the GSF exemplifies the Government's track record with development of fiduciary systems for similar programs. Building upon this experience, the PAP will include fiduciary strengthening measures related to: (i) rules and regulations; (ii) budget system integration; (iii) MIS development and integration; (iv) internal audit; (v) financial reporting; (vi) external audit; and (vii) complaints and grievances mechanisms (details are provided in Annex 5). The Program's audited financial statements will be made public through the SHF's website.

### **C. Environmental and Social Effects**

82. ***An Environmental and Social Systems Assessment (ESSA) was prepared in accordance with the Operational Policy 9.00 for PforR financing.*** The Program has clear boundaries within the demand-side programs of the SHF. No supply-side activities (housing construction) will be supported by the Program, therefore no major environmental or social impacts and risks are expected. Within the well-defined boundaries of the Program, there will be no land acquisition, construction activities, or civil works. The Program does not include any Category-A type investments, does not pose a risk to natural habitats or physical cultural resources. Also, no negative impacts related to acquisition of land or livelihoods are expected as a result of the Program, since the portion of the program supported by the Bank is solely focused on the demand-side of the program with no involvement of land acquisition, construction or civil works. Risks related to supply-side of the program (such as resettlement and construction activities) are discussed below in paragraph 90 and in the Integrated Risk Assessment (Annex 7).

83. ***The Program will yield some environmental and social benefits,*** as the Program results are expected to improve the efficiency of the housing sector which would result in rationalizing construction activities. The Program will also help to reduce commuting time for employment with less traffic impacts. The Program will facilitate access to appropriate ownership and rental housing schemes among low- and middle-income groups and will be accommodating various income groups including the poorest who lack financial capacity and lack assets to place for loan guarantees. The Program will also address environmental aspects, since access to formal affordable houses for the poor families entails having access to water supply and sanitation fixtures, being designed according to engineering codes of practice. There will be limited environmental and social risks. The occupation of housing units with some structural stability issues or with low fire safety precautions will form a community risk, which will be minimized through ensuring compliance with safety standards by requirements that buildings used by the Program beneficiaries have adequate occupancy certificates.

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

redress mechanism that streamlines between the local level complaints and concerns to feed into an integrated system.

85. **Grievance Mechanisms.** Currently, complaints are being handled through a number of mechanisms, most importantly: (i) the “Citizens’ Service Office” which affiliates to the Executive Agency of the Social Housing and is established at central level in the Ministry in Cairo; and (ii) direct handling by the GSF. Generally, there is lack of clear distinction between the types of complaints that should be channeled through these two mechanisms. Citizens do not receive sufficient guidance related to the channel that they should use and the timeframe within which the complaint should be handled in addition to lack of easy local access. The current grievance redress system is fragmented, with weak channels for disseminating information and submitting grievances locally. During Program implementation, the SHF will need to develop a grievance supervision mechanism, and provide any needed assistance to the GSF for mainstreaming best practices on timely handling of grievances. In addition, a customer satisfaction mechanism will be established. The GSF has started designing the GRM and other social accountability mechanisms (information dissemination mechanisms and customer satisfaction mechanisms). The appropriate human resources to manage the GRM will be mobilized on the central and Governorate level, and the GRM will be launched by end of 2015.

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

#### D. Integrated Risk Assessment Summary

87. According to the risk assessment undertaken by the Bank, the mitigation of identified risks is possible within the design of the Program. However, given the novelty of the results-based approach in Egypt and the novelty of the SHF, the overall risk is rated as substantial. The Integrated Risk Assessment is presented in Annex 7, and the main risks are summarized in Table 5.

**Table 5: Integrated Risk Assessment Summary**

<b>Risk</b>	<b>Rating</b>
Technical	Substantial
Fiduciary	Substantial
Environmental & Social	Moderate
DLIs	Substantial
Overall	Substantial

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

89. Another significant technical risk to the achievement of the Program’s objective is limited private sector participation in the low-income housing sector, which would increase the Government’s burden of providing social housing. The Program will address this risk by supporting the SHF to develop policies and PPP arrangements that facilitate private sector engagement. Low private sector participation would also limit the amount of choice that Program beneficiaries have in selecting a home to purchase using the demand-side subsidy.

90. There are some risks related to land, property registration and construction works that are outside the Program scope. First, the majority of low-income housing will be built on public land either by public or private developers. This risk related to land and potential involuntary resettlement is low given that public land that will be used for social housing is primarily in uninhabited desert areas. Moreover,

the first two phases of housing development under the SHF (about 100,000 units) has required no resettlement and this risk did not apply. However, this risk could increase as the SHF seeks to find better located land closer in to the urban core. The second risk is that titling and registration bottlenecks could slow down Program implementation. While the third risk is related to the occupational health and safety of construction workers and handling of building chemicals and wastes, these risks will be managed through the provision of technical assistance and capacity building that will enhance the capacity of the SHF and enable them to monitor these risks during the Program implementation. These actions will enhance the SHF's due diligence, have a positive overall impact on the SHF operations and will ensure the Program's sustainability. These actions are elaborated in more details in the PAP.

91. Finally, the financial soundness of the SHF could be undermined should the Government create a large-scale supply-side public rental housing program with insufficient rent levels and allocations for operations and maintenance of units. Such programs are known to create extremely poor social and physical living environments and the Government is well aware of that risk. At the same time, rental housing options are needed for the very poor and young mobile population. The Program will mitigate this risk by assisting the SHF with the development of a demand-side rental subsidy program that will fill the gap between rents affordable by low-income tenants and equilibrium rents. The Program will further assist with developing selection criteria for management companies for operation and maintenance.

92. **Fiduciary.** The fiduciary risk is substantial because the institutional structure and systems of the Program implementing entity (SHF), and some of the sub-programs, are still under development. The fiduciary risk also involves the risk of providing subsidies to ineligible beneficiaries, either due to fraudulent application by beneficiaries, political interference to influence targeting, or errors. To mitigate this risk, the Bank is providing technical support to improve subsidy targeting systems and procedures in the SHF, with a view to ensure that the funds reach the intended beneficiary households. The Bank is also playing an important role advising the development of institutional governance and systems of the SHF, building upon existing arrangements for the GSF programs that would be consolidated under the SHF. The positive experience with the implementation of the AMP by the GSF exemplifies the Government's track record with development of monitoring systems for similar programs. The systemic fiduciary risk mitigation issues will be addressed through the PAP and selectively through the DLIs connected to the SHF capacity development and program effectiveness.

## **E. Program Action Plan**

93. The PAP includes measures related to technical issues, fiduciary strengthening, and environmental and social risk management (Annex 8). With regards to the technical issues, the most significant measures are included in the Program design as DLIs. These include the establishment of an M&E system and a mechanism to monitor occupancy post-subsidy. Other actions include staffing of SHF to ensure that all required functions are being implemented, integration of housing location criteria and requirement to collect physical coordinates into housing program guidelines (as a means of tracking improved location of units in respect to employment centers), and the establishment of unified beneficiary database.

94. The PAP includes fiduciary strengthening measures related to: (i) rules and regulations; (ii) budget system integration; (iii) MIS development and integration; (iv) internal audit; (v) financial reporting; (vi) external audit; and (vii) complaints and grievances redress mechanisms.

95. Environmental and social risk management actions ranging from improving positive impacts of the Program through incentivizing energy efficiency and waste management to ensuring housing unit safety through requiring valid occupancy certificates for participation in the Program. Modalities to improve availability of information will be developed to ensure transparency. Assessment of the grievance

redress mechanism will result in the design of a streamlined, simple and comprehensive grievance redress system on central and local levels.

## ANNEX 1: Detailed Program Description

1. *The objective of the Inclusive Housing Finance Program is to improve the affordability of formal housing for low-income households in the Arab Republic of Egypt and to strengthen the Social Housing Fund's capacity to design policies and coordinate programs in the social housing sector.* To achieve this objective, the Program will support the following aspects of the SHF: (i) institutional consolidation and capacity building; (ii) housing policy development, and the design of regulations and program guidelines; (iii) measures to improve the effectiveness of housing programs through research and M&E; and (iv) demand-side housing programs, including financial support to low-income households to help them access housing or housing finance. The SHF's housing programs that involve the direct construction of housing units are not part of the Program.

2. *This annex provides an overview of the demand-side home ownership and rental programs supported by the Inclusive Housing Finance Program.* It also includes an analysis of housing location aspects of the SHF. Annex 4 (Summary of the Technical Assessment) focuses on the Program's institutional arrangements, results chain analysis and selection of disbursement-linked indicators, expenditure analysis, economic evaluation, and technical risks.

### A. Ownership Program

3. *Affordable Mortgage Program.* The core home-ownership program of the SHF is the AMP. This program provides demand-side subsidies to complement a market rate mortgage loan (with a maximum term of 15 years and a minimum 10 percent down-payment) for the purchase of a new or existing house. The transparent and targeted subsidies reduce the down-payment requirement and monthly payments for income-constrained households. The subsidies are set to increase with decreasing income levels, and are linked to a maximum affordable mortgage loan by a financial institution of the beneficiary's choice. The underreporting of income has a negative impact on the affordable loan amount, and thus affects the type and price of the house that can be acquired. In May 2014, the CBE initiated a LE 20 billion stimulus package for the housing sector, lowering the banks' cost of funds and allowing them to on-lend to qualifying low income households under the AMP. Under the CBE program the lending rate is seven percent on a fixed rate, 20 year loan. The banks are allowed a fixed margin of 4.5 percent. Currently, 14 banks are partaking in this initiative.

4. *Targeting and subsidy size.* The AMP serves households with incomes between LE 1,000 and LE 2,500 per month, reaching just below the 20<sup>th</sup> percentile of the income distribution (with a median beneficiary income of LE 1,750 per month). The average demand-side subsidy is LE 19,000 (US\$ 2,800) per household under the current combined subsidy program. The additional and temporary CBE interest rate subsidy is substantially higher in NPV terms<sup>26</sup> (by 50 to 100 percent) given the current high interest rates. However, the combined subsidy is still just 50 percent of the house price for the lowest income segment (<LE 1400). The combination of the AMP and CBE subsidies effectively decreases the inherent regressivity of the CBE interest rate subsidy. Moreover, the combined subsidy decreases with higher incomes.<sup>27</sup> Until recently, only households with formal incomes were accepted by the lenders and thus by the GSF. In January 2015, the CBE announced that banks were allowed to substitute bank records for income statements by informally employed households, opening up the program for at least a segment of the informally employed households.

5. *Delivery mechanism.* The AMP is administered by the GSF, an entity under the Ministry of Housing, Utilities, and Urban Development that was established in 2003 (see Box 1.1 for more details). When a new tranche of the AMP is publicly announced, interested households submit an application to the GSF. The GSF enters the applicants in its computer system and checks whether the applicant has received a previous housing subsidy. Incomes and residences are verified by two external firms

<sup>26</sup> Using a discount rate of 9.75 percent and a market rate of 14 percent, a house price of LE 135,000 and down-payment of 15 percent.

<sup>27</sup> The AMP subsidy amount decreases with increasing income, while the CBE subsidy increases with higher loan amounts.

reporting to the GSF. The GSF includes the credit bureau report in the applicant's file. The AMP verifies beneficiaries' compliance with the eligibility criteria. To verify applicants' information and eligibility, the AMP utilizes the services from a specialized company that conducts background checks on applicants' data and income. The AMP also counts on the banks credit I-score reviews to verify applicants' credit performance and worthiness.

6. Once approved the applicant selects a lender of its choice from a list of participating financial institutions for the mortgage loan. The GSF sends the electronic beneficiary file to the bank. Computer systems are linked in real time. The bank underwrites the household again and, if found acceptable and creditworthy, issues the loan and pays the developer at the same time that the GSF pays out the subsidy. The GSF rejects roughly 25 percent of applicants and the banks an additional 10 to 15 percent. Beneficiaries can choose any housing unit on the market (existing and new) that is affordable to them under the conditions of the AMP (i.e., income levels and other program requirements, down-payment and mortgage loan requirements).

**Box 1.1: Background on the Affordable Mortgage Program**

The GSF was established by a Presidential Decree in 2003 with a mandate to develop innovative products to stimulate the private housing finance industry in order to grow in scale and expand the market to lower income segments. The GSF had by law three mechanisms to use: (i) issue guarantees/credit enhancement initiatives; (ii) provide upfront subsidies to qualifying beneficiaries; and (iii) engage in physical development of low-income housing for which it would receive public land free of charge.

The GSF was, however, constrained by conditions on loan-to-value ratios set in the Real Estate Finance Law 148 of 2001 (there being a maximum of 25 percent), legally stipulated income levels, and rising interest rates post-revolution. Amendments to Law 148 were sought in order to make mortgage finance more inclusive, however these efforts were deferred by the two consecutive revolutions. The Amendments were finally passed in July 2014 and included the following: (i) delegation to EFSA (the new regulator of the non-bank mortgage finance companies) to set payment-to-income ratios and loan-to-value provisions for mortgage lending; (ii) delegation to the Board of the GSF the ability to issue decisions on determining the rules and conditions of entitlement to low-income subsidized housing, as well as establishing the criteria for low-income housing projects; (iii) definition of the GSF as a legal entity under the supervision of the Ministry of Housing, Utilities, and Urban Development; (iv) the GSF's guarantee program for non-payment was eliminated but the GSF kept the option to assume activities to eliminate the risk of non-payment of the obligations arising from mortgage finance; and (v) the GSF was given the right to establish strict rules on fraud of beneficiaries in obtaining and using subsidized housing units, and was allowed to set heavy penalties including imprisonment.

Moreover, the functions of the GSF were expanded and included responsibility of subsidizing the mortgage finance activities in the field of sale or use of housing units, or leasing them through the rent-to-own system. It may also support the housing lease for low-income categories, including payment of a part of the value of installments in cases of sale or lease ending with ownership (which shall not exceed the maximum limit determined by the Board of Directors). However, by that time the Amendments were passed, mortgage lending had virtually stopped as a consequence of political and economic uncertainties post-revolution and the beneficiaries reached by AMP were small. Factors such as lack of housing units in the market contributed to the limited scale of the program. Given the circumstances, the GSF did little to advertise the program and refrained from embarking on a publicity campaign. It posted educational material on its website, but the public had no way to find out about the program. After the official announcement of the CBE program in May 2014, the true demand for the mortgage-linked subsidy product came into perspective—155,000 applications were received within days of the announcement, and the GSF needs to scale up its capacity to deal with the dramatically increased numbers of applicants and increased availability of low-income units provided by the SHF

7. *Program expansion.* Under the SHF, the AMP has a much broader geographical outreach. Instead of mostly serving households in NUCA developments around the major cities, the expanded program includes households from 16 Governorates spread over the Delta, Upper Egypt and Greater Cairo. In

addition, approximately 24 percent of the estimated beneficiaries are female heads of households (which is above the national average).

8. Prior to the announcement of the CBE stimulus, 14,000 subsidies were provided by the AMP through the market rate mortgage channel. After the CBE stimulus was announced, the AMP received 155,000 applications, and an additional 3,000 subsidies were issued. The AMP has to increase its capacity to process subsidy applicants and expand its interface systems with participating banks and bank branches in order to reach the scale required to achieve the SHF's short-term one million houses goal.

9. The original AMP was launched less than a year before the start of the revolution in 2011.<sup>28</sup> The ensuing macroeconomic uncertainty and distress in the construction sector restricted the expansion of the program. The lingering effects of that period are still felt in the limited number of private sector low-income projects now in the market. Developers left the low-income sector during the abovementioned period as land contracts were retracted, inflation rates increased, and mortgage rates rose making mortgage lending unfeasible for low-income households. In response, private developers moved to a higher income bracket, i.e., households that could pay cash or in installments. However, private developers are expected to gradually return, as the CBE program has made mortgage loans accessible for the low-income segment, and the Ministry is finalizing new PPP agreements for low-income housing developments. In the interim, regional, private, small- and medium-sized contractors have filled the gap, building units according to the SHF's specifications.

10. In order for the SHF to reach its targeted number of beneficiaries, it needs to strengthen the AMP. It will need to issue at least 150,000 subsidies per year within two years. This will require additional funding as well as systems improvements and expansion through the SHF or any of its affiliates, including:

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

## **B. Rental Programs**

### ***(i) Public Rental Subsidy Program for Tenants***

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

12. In the example above, the amount of the monthly subsidy would be equal to the difference between the rent (LE 225) and the household's contribution of 25 percent of their income, for example LE 25 for an income of LE 800, LE 75 for an income of LE 600. Special attention should be paid to households with very low incomes for whom 25 percent portion of their income is still a high burden. The Government is considering a security upfront payment of LE 1,000 as a protection for non-payment.

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<sup>28</sup>Details of the allocation of subsidies under the old subsidy regime across regions, gender and income, are outlined in Table 1.1.



**Table 1.1: Affordable Mortgage Program Applicants by Income Band**

(May, 2014)

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

Source: Guarantee and Subsidy Fund (2014).



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

14. *Monitoring.* This type of subsidy requires not only an initial assessment of the beneficiary's income but also its periodic update. In homeownership programs, those applicants who would try to declare a lower income in order to get a higher subsidy would be penalized by not getting their loan or getting a lower amount than expected. With a rental subsidy, such a counterweight does not exist, which makes assessment of income quite a challenge.

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

***(ii) Private Rental Subsidy Programs for Investors (new, unfinished, and vacant)***

16. Incentive packages are necessary to attract private investors to rental housing for moderate income households. They consist in two distinct demand-side programs, for investors and for their tenants.

17. *Targeting and subsidy size.* Incentive schemes will be offered to private rental investors who would commit themselves to rent out their units to households with moderate incomes for a given period of time. The scheme would concern investors buying newly-built units from developers or renting out previously-owned units that were either left unfinished, or kept vacant. The amount of the subsidy will be based on the calculation of the risk-adjusted rate of return agreed upon by investors and the Government, given the commitments accepted by the investor (maximum rent charged, and number of years). Various types or scales of subsidies should apply to new investment and unfinished or vacant units.

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

***(iii) Private Rental Subsidy Programs for Tenants (new, unfinished, vacant, and decontrolled)***

19. In addition to investors' incentive packages, the Program will support the development of demand-side tenant subsidies aiming at filling the gap between the rent required by the investor and the payment affordable to the tenant. This program is similar to the Public Rental Subsidy Program for tenants described above but the parameters are different.

20. *Targeting and subsidy size.* Targeted beneficiaries are lower income households, in the range of LE 900 to LE 2,500. The rent level and its subsequent increase will be set by the Government. Assuming that the initial rent agreed upon taking into account the subsidies granted to the investors is LE 350, and the rent affordable to the tenant is estimated at 25 percent of his/her income as above, tenants with incomes below LE 1,400 would be eligible to a subsidy. The maximum subsidy amount, for a household with a LE 900 monthly income, would reach LE 125 (=  $350 - 900 \cdot 0.25$ ).

21. ***Building Capacity for a Successful Rental Housing Sector.*** Egypt does not have deep experience with social rental housing programs, and the SHF will require significant capacity building and technical assistance to establish a management support system for social rental housing that includes capacity building for Governorates, tenant selection methods and tenant education programs, rent collection/enforcement systems, and maintenance issues.

### **C. Location of New Housing Units**

22. The one million housing units to be delivered as part of the SHF over the next six years are planned to be distributed across all Governorates responding to demand and developed by both the public and private sectors. NUCA and the Governorates will identify specific parcels of land that could be used for the developments. It is anticipated that all new housing developments<sup>29</sup> will be built on publically owned, undeveloped land that is allocated, auctioned, or disposed of through a PPP arrangement with the selected public or private developer.

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

24. An initial desk review<sup>30</sup> to evaluate the suitability of potential project sites for development was conducted as part of Program preparation<sup>31</sup>, in order to ensure that the Program's demand side support will be provided to units that are well-located. Proximity to an employment center was evaluated for a selection of preliminary program sites, within a total of 266 marrakez (or villages).

25. For this sample of potential sites, the approximate number of units planned for construction was compared with the existing number of jobs and current population at marrakez level, the smallest unit for which geo-coded data is available. As a proxy for access to job opportunities (employment density), the ratio of new units to the number of existing jobs was calculated.<sup>32</sup> A low ratio (i.e. small number of units being built in a village with a high number of jobs) indicates that families occupying the new units would have a greater chance of accessing employment near to their home. A high ratio, or null for the villages that have no formal jobs, indicates that it would be difficult or impossible to access employment within the village. Based on this blunt filter, over half of the planned units could be characterized as having a good location in terms of access to employment opportunities (Table 1.2). While the presence of jobs within the boundary of the village does not necessarily represent a match between job and housing occupant, it can be assumed that it represents a good proxy for economic activity, which is also generally associated with urban services, and infrastructure.

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<sup>29</sup> Existing units (e.g., formerly vacant units) are also eligible under the AMP and private rental programs.

<sup>30</sup> The preliminary screening of potential housing sites, a theoretical exercise, was conducted to: (i) ensure that there is a stock of suitable sites that are not too far away and disconnected from jobs and markets; and (ii) verify that there is sufficient and available data to measure the objective of well-located housing. For sustainability purposes, the Program should include measures to incentivize that beneficiaries are not worse off by receiving housing units with no access to adequate infrastructure and services. Real allocations of housing sites will be based on demand for different types of housing by the Governorates and NUCA, as well as on land availability. The Program will ensure that the demand side support will be provided to units that are well-located.

<sup>31</sup> It is important to note that sites have not been identified.

<sup>32</sup> Egypt Labor Market Panel Survey (ELMPS 2012) was used to estimate the number of jobs.

26. Additionally, to estimate the ability of villages to absorb additional population (once the units are occupied) was reviewed. This is important to ensure that new communities have adequate access to urban and community services (once units are occupied). The estimated additional population (on the basis of the preliminary sites and projects proposed by NUCA and the Governorates) was compared to existing population. In this case, a low ratio (i.e., small number of new population compared to the existing) indicates that the new families can be relatively easily absorbed into the existing community and make use of community services such as schools, health centers, retail shops, recreation, etc. A high ratio indicates that the new housing development will have a significant impact on the existing village, especially in terms of demand for services. Based on this analysis, it could be concluded that more than half of the new units (56 percent) can be easily absorbed into their respective villages (Table 1.3). However, a large proportion of the planned units would represent a significant increase in the village population. An example is Badr City where the new development represents a 24-fold increase in population.

**Table 1.2: Preliminary Distribution of Units as a Percentage of Jobs in the Village**

New Units/Jobs	Number of Planned Housing Units	Percent of Total (%)
< 10%	690,185	58
10% - 25%	101,744	8
25% - 100%	40,742	3
> 100%	94,942	8
No jobs	272,393	23

**Table 1.3: Preliminary Distribution of Units as a Percentage of Existing Households in the Village**

New Pop/Existing Pop	Number of Planned Housing Units	Percent of Total (%)
< 10%	668,003	56%
10% - 25%	157,962	13%
26% - 100%	42,919	4%
101% - 400%	108,396	9%
> 400%	123,995	10%

*Source:* World Bank analysis of the Ministry’s data (2014).

27. This broad analysis<sup>33</sup> of the potential preliminary sites, which was conducted to help increase the sustainability of the Program by ensuring that the demand-side support will be provided to units that are well-located, reflects that around half of the tentative Program sites could be considered adequate in terms of location, however, there is a clear need to develop a set of differentiated methods to judge the adequacy of proposed land parcel by parcel and by city (or at least by city category). Ideally, after reviewing the site for access to basic services and permits (which constitutes the list of the eligibility criteria mandated by the law and adopted by the Program) site screening should be reviewed by an accessibility model. Under such model, the number of jobs accessible to the site within a certain commuting time (i.e. 60 minutes) could be measured.<sup>34</sup> With this information those sites with higher accessibility could be prioritized under the Program. Given the data and methodological limitations, DLI 7 will be measured as the expected travel time between the site/unit and the closest village with at least the mean number of jobs for the Governorate in which it is located. It is important to note that DLI 7 measures access to employment, not the actual commute time for each Program beneficiary. For Greater Cairo the expected travel time between the unit and the closest homogeneous sector (as defined by GOPP) will be used. At a later stage it is expected that GOPP will receive support under the Program to develop more robust accessibility models. These models will serve not only to measure the match between housing and employment more accurately, but perhaps more importantly to guide housing policy towards the design of policies and programs

<sup>33</sup> This helps increase the sustainability of the Program, and ensures that beneficiaries are not worse off by receiving a housing unit with no access to adequate infrastructure, jobs and markets.

<sup>34</sup> These type of methods are being used at city level for urban transport modelling. The Bank is already implementing such models in cities such as Bogota and Mexico City.

that promote well-functioning urban areas, increase urban sustainability and reduce physical exclusion of the lower income segments.

## ANNEX 2: RESULTS FRAMEWORK AND MONITORING

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

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

<b>Intermediate Results Area 3: Improving Access to Affordable Housing</b>												
Number of households receiving demand-side homeownership subsidies for new housing units during Program implementation under the AMP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Number	0	50,000	125,000	300,000	500,000	725,000	Annual	SHF	SHF
Number of new households participating in rental subsidy programs during Program implementation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Number	0	5,400	26,500	47,500	75,000	102,400	Annual	SHF	SHF
Number of previously vacant units occupied 1 year after inclusion into the Program	<input type="checkbox"/>	<input type="checkbox"/>	Number	0	0	5,000	10,000	20,000	30,000	Annual	SHF	SHF
<b>Intermediate Results Area 4: Promoting Well Located Social Housing</b>												
Percentage of demand-side subsidies provided supporting the purchase or rental of housing units located within a commute of 60 minutes or less to an employment center	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Percent	0	50	50	50	50	50	Annual	SHF	SHF
Percent of demand-side subsidies supporting the purchase or rental of housing units within a 45 minute travel time to an employment center	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	30	30	30	30	50	Annual	SHF	SHF
Percent of demand-side subsidies supporting the purchase or rental of housing units within a 30 minute travel time to an employment center	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0.	15	15	15	15	15	Annual	SHF	SHF
Percentage of land made available for SHF developments that complies with location and service criteria stated in Law	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	80	100	100	100	100	Annual	SHF	SHF
<b>Intermediate Results Area 5: Promoting Private Sector Participation in Low-Income Housing</b>												
Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities during Program implementation <sup>35</sup>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Number	0	5,000	25,000	75,000	150,000	250,000	Annual	SHF	SHF
Percent of demand-side subsidies supporting the purchase or rental of housing units developed by the private sector	<input type="checkbox"/>	<input type="checkbox"/>	Percent	0	6	14	29	37	43	Annual	SHF	SHF
PPP guidelines publically disseminated	<input type="checkbox"/>	<input type="checkbox"/>	Y/N	0	Yes	Yes	Yes	Yes	Yes	Annual	SHF	SHF

<sup>35</sup> Private sector entities are those that are owned at least 51% by private individuals or are listed on the stock exchange



### ANNEX 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

**Table 3.1: Disbursement-Linked Indicator Matrix**

	<i>Total Financing Allocated to DLI</i>	<i>As a percent of Total Financing Amount</i>	<i>Indicative timeline for DLI achievement</i>					
			<i>DLI Baseline</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<b>DLI 1: Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with the SHF</b>			No	No	Yes	Yes	Yes	Yes
Allocated amount:	25	5%		0	15.0	5.0	2.5	2.5
<b>DLI 2: Establishment and functioning of a housing monitoring and evaluation system and an M&amp;E unit within SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&amp;E system</b>			No	Yes	Yes	Yes	Yes	Yes
Allocated amount:	25	5%		5.0	5.0	5.0	5.0	5.0
<b>DLI 3: Establishment and functioning of an accountability and transparency mechanism within SHF for implementing the Program</b>			No	Yes	Yes	Yes	Yes	Yes
Allocated amount:	50	10%		20.0	10.0	10.0	5.0	5.0
<b>DLI 4: Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy and percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP</b>			No mechanism in place, therefore the baseline is 0 <sup>36</sup>	Mechanism to monitor occupancy of housing post-subsidy established	65% of AMP units occupied by targeted beneficiaries after at least 1 year	75% of AMP units occupied by targeted beneficiaries after at least 1 year	85% of AMP units occupied by targeted beneficiaries after at least 1 year	
Allocated amount:	50	10%		20.0	10.0	10.0	10.0	0
<b>DLI 5: Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP</b>			0	50,000	75,000	175,000	200,000	225,000
Allocated amount:	225	45%		15.5	23.3	54.3	62.1	69.8

<sup>36</sup> Percent of AMP units occupied by targeted beneficiaries after at least 1 year unknown.

<b>DLI 6: Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation</b>			0	5,400	21,100	21,000	27,500	27,400
Allocated amount:	48.75	9.75%		2.60	10.04	10.01	13.10	13.0
<b>DLI 7: Percentage of demand-side subsidies provided supporting the purchase or rental of housing units located within a commute of 60 minutes or less to an employment center</b>			0	50%	50%	50%	50%	50%
Allocated amount:	25	5%		5.0	5.0	5.0	5.0	5.0
<b>DLI 8: Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities in each Fiscal Year during Program implementation. (Private sector entities are those that are owned at least 51% by private individuals or are listed on the stock exchange)</b>			0	5,000	20,000	50,000	75,000	100,000
Allocated amount:	50	10%		1.0	4.0	10.0	15.0	20.0
<b>Total Financing Allocated:</b>	<b>498.75</b>	<b>99.75%</b>		<b>69.10</b>	<b>82.34</b>	<b>109.31</b>	<b>117.70</b>	<b>120.30</b>

**Table 3.2: DLI Verification Protocol Table**

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
1	<b>Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with the SHF</b>	The internal audit function should be established in the SHF, reporting to the Board through an Audit Committee. The internal audit function should cover, at a minimum: (i) assessment of the risks associated with improper benefit payments; (ii) use of analytical procedures, information system audit and assurance standards, and data mining tools; (iii) undertaking of spot checks and field visits to validate continued relevance of internal controls, including the quality of the complaints mechanism; and (iv) procedures for following up on the timely implementation of audit recommendations have been established.	No	SHF	Verification Agent	A report describing the internal audit function, as outlined in the definition of the DLI, is submitted to the Verification Agent, along with documentation of staffing and allocation of resources for the internal audit unit to perform its mandate. After first achievement of the DLI, a report on continued functioning of the internal audit unit is provided on an annual basis  Verification will be done by the Fund's independent auditors and will include: (i) review of the report described above for consistency with DLI definition; (ii) review of analyses or documents described in the report; and (iii) interviews with SHF staff. Verification will take place annually.
2	<b>Establishment and functioning of a housing monitoring and evaluation system and an M&amp;E unit within SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&amp;E system</b>	A functioning M&E system is defined as, at a minimum: (i) a fully staffed M&E unit; (ii) an agreed set of comprehensive housing sector indicators, including social housing programs, that are collected on at least an annual basis from Governorates, housing agencies, ministries, and other relevant non-Governmental organizations; (iii) public dissemination of a minimum set of housing data on an annual basis. Multi-Year Plan and Annual Targets approved by SHF must explicitly refer to and reflect this data.	No	SHF	Verification Agent	SHF prepares an annual report describing M&E unit staffing, data collection processes and procedures, indicators and their analysis, and means of public dissemination of housing data. SHF submits M&E report as well as Multi-Year Plan and Annual Targets to the Verification Agent.  Verification will include: (i) review of the report described above for consistency with DLI definition; (ii) confirmation of public dissemination; (iii) review of Multi-Year Plan and Annual Targets to confirm consistency with housing data collected; and (iv) interviews with SHF staff. Verification will take place annually.
3	<b>Establishment and functioning of an accountability and transparency mechanism within SHF for implementing the Program</b>	A functioning accountability and transparency mechanism includes, at a minimum: (i) a national public awareness campaign targeted at potential Program beneficiaries; (ii) standard processing times for subsidy applications; (iii) established procedures for rejected applicants to receive explanation of program requirements not complied with; (iv) monitoring of rejected applications; (v) establishment	No	SHF	Verification Agent	SHF prepares an annual report describing the accountability and transparency mechanisms and all related activities accomplished during the year. SHF submits the report to the Verification Agent.  Verification will include: (i) review of the

	of a grievance redress mechanism; (vi) public dissemination of consolidated data on number and location of beneficiaries, SHF subsidy expenditures, and pipeline housing developments; and (vi) publication of the program audited financial statements.				report described above for consistency with DLI definition; (ii) review of a sample of accepted and rejected applications; (iii) review of a sample of complaints received through the GRM and their resolution; (iv) confirmation of public dissemination; and (v) interviews with SHF staff and social officers at the governorate level. Verification will take place annually.
4	<b>Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy and percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP</b>	SHF must establish a mechanism for monitoring the occupancy of housing units for which subsidy is provided as part of the Program. This system must include, at a minimum: (i) rules stipulating the limitations on the resale and occupancy of units; (ii) procedures for communicating these rules to Program beneficiaries; (iii) operational manual for conducting a post-occupancy survey on a representative sample of units; and (iv) procedures for dealing with non-complying beneficiaries. In Years 2-5, DLI measures the percent of total housing in the Program portfolio that is in compliance with occupancy rules at least 1 year after the subsidy is provided to the beneficiary. SHF conducts post-occupancy survey of AMP subsidy recipients based on approved mechanism to monitor occupancy of housing post-subsidy.	Year 1: No Years: 2-5: Yes	SHF	Verification Agent  SHF hires third-party agency to conduct the occupancy survey and prepares finding report for submission to the Verification Agent on annual basis.  Verification will include: (i) review of the report described above for consistency with DLI definition and (ii) review of the survey findings for technical quality. Verification will take place annually.
5	<b>Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP</b>	DLI measures new AMP subsidies provided to targeted beneficiaries for the purchase of housing units developed by the public and private sectors. Report on demand-side homeownership subsidies to be produced by SHF on a quarterly basis. Report must include, at a minimum: (i) number of subsidies provided during the period; (ii) household size and income; (iii) gender of head of household; (iv) financial institution providing the mortgage; (v) developer of housing unit; and (vi) geographical coordinates of housing unit.	Yes	SHF	Verification Agent  Report prepared by SHF and submitted to the Verification Agent.  Verification will include: (i) review of the report described above for consistency with DLI definition and (ii) review of a representative sample of processed applications to ensure adherence to program rules. Verification will take place at least annually, but can be as frequent as quarterly.
6	<b>Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation</b>	DLI measures number of new rental subsidies provided to Program beneficiaries to rent housing units produced by the public and private sectors. Report on rental subsidies to be produced by SHF (or related entity) on a quarterly basis. Report must include, at a minimum: (i) number of subsidies provided during the period broken down by specific rental program; (ii) household size and income; (iii) gender of head of household; (iv) profile of unit owner; and (v) geographical coordinates of housing unit.	Yes	SHF	Verification Agent  Report prepared by SHF and submitted to the Verification Agent.  Verification will include: (i) review of the report described above for consistency with DLI definition and (ii) review of a representative sample of processed applications to ensure adherence to program rules. Verification will take place at least annually, but can be as frequent as

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quarterly.

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7	<b>Percentage of demand-side subsidies provided supporting the purchase or rental of housing units located within a commute of 60 minutes or less to an employment center</b>	DLI measures new units added to the Program during the year. Location analysis will measure in the GIS system used for physical planning (GOPP) expected travel time between the unit and the closest village with at least the mean number of jobs for the Governorate in which it is located. For the Greater Cairo area the expected travel time between the unit and the closest homogeneous sector (as defined by GOPP) will be used. The M&E unit of SHF will compile the information on the location of units and the GOPP will conduct the location analysis as described for homeownership and rental units. The indicator will be reported through the monitoring reports.	Yes	SHF/GOPP	Verification Agent	SHF with support from GOPP conducts the analysis as described on the definition and provides a findings report to the Verification Agent on annual basis.  Verification will include: (i) review of the report described above for consistency with DLI definition and (ii) review of a representative sample of units to confirm the technical quality of the analysis. Verification will take place annually
8	<b>Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities in each Fiscal Year during Program implementation. (Private sector entities are those that are owned at least 51% by private individuals or are listed on the stock exchange)</b>	DLI measures the number of total Program beneficiaries who receive a subsidy to own or rent a unit that was produced by a private developer. Private sector is defined as a company or organization that is majority owned (at least 51%) by private individuals or is listed on the stock exchange.	Yes	SHF	Verification Agent	Report prepared by SHF and submitted to the Verification Agent.  Verification will include: (i) review of the report described above for consistency with DLI definition and (ii) review of a representative sample of processed applications to ensure adherence to program rules. Verification will take place at least annually, but can be as frequent as quarterly.

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**Table 3.3: Bank Disbursement Table**

No	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
1	Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with the SHF	25	0	5.0	December 31, 2016	N/A	N/A	In Year 2, disbursement amount is US\$ 15 million and made when this result is first achieved and verified. In Year 3, disbursement is US\$ 5 million. In Year 4 and 5, disbursement is US\$ 2.5 million
2	Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system	25	0	5.0	December 31, 2016	N/A	N/A	Disbursement amount is US\$ 5 million made when this result is first achieved and verified and US\$ 5 million per subsequent year when this result is operating
3	Establishment and functioning of an accountability and transparency mechanism within SHF for implementing the Program	50	0	10.0	June 30, 2020	N/A	N/A	Disbursement amount is US\$ 20 million and made when this result is first achieved and verified. In Year 2 and 3, disbursement is US\$ 10 million. In Year 4 and 5, disbursement is US\$ 5 million
4	Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy and percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP	50	0	10.0	June 30, 2019	Years 2-4: 50% each year	Year 2 = 65% Year 3 = 75% Year 4 = 85%	In Year 1, disbursement amount is US\$ 20 million and made when establishment and implementation of mechanism is first achieved and verified. In Year 2, disbursement is US\$ 154,000 for each occupancy 1% achievement of DLI up to a maximum of US \$10 million. In Year 3, disbursement is US\$ 133,000 for each occupancy 1% achievement of DLI up to a maximum of US\$ 10 million. In Year 4, disbursement is US\$ 118,000 for each occupancy

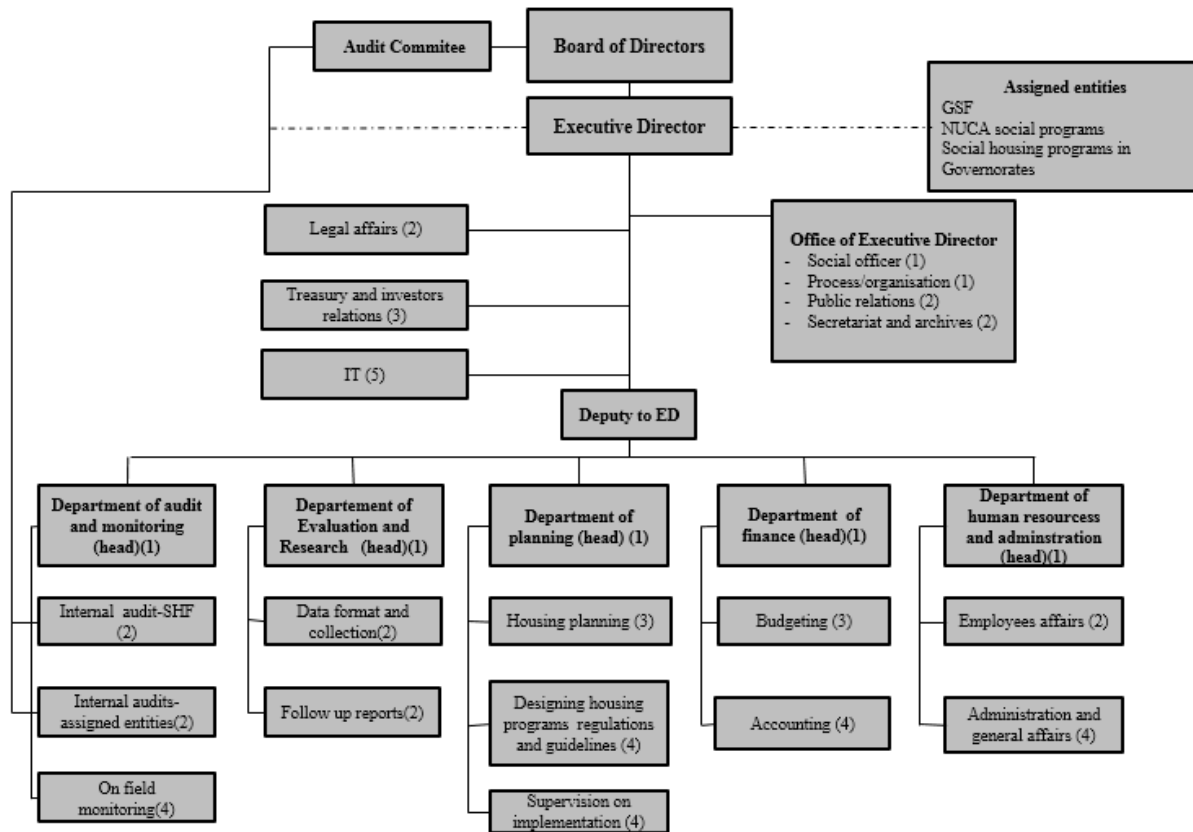
								1% achievement of DLI up to a maximum of US\$ 10 million.
5	<b>Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP</b>	225	24.0	56.25	June 30, 2020	0	725,000	Disbursement is US\$ 310.34 for each subsidy provided up to a maximum of US\$ 225 million.
6	<b>Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation</b>	48.75	0	10.0	June 30, 2020	0	102,400	Disbursement is US\$ 476.07 for each subsidy provided up to a maximum of US \$48.75 million.
7	<b>Percentage of demand-side subsidies provided supporting the purchase or rental of housing units located within a commute of 60 minutes or less to an employment center</b>	25	0.5	5.0	June 30, 2020	Years 1-5 = 20%	Years 1-5 = 50%	Disbursement is US\$100,000 for each 1% achievement of DLI up to a maximum of US \$5 million per year.
8	<b>Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities in each Fiscal Year during Program implementation. (Private sector entities are those that are owned at least 51% by private individuals or are listed on the stock exchange)</b>	50	0.5	10.00	June 30, 2020	0	250,000	Disbursement is US\$ 200 for each subsidy provided up to a maximum of US\$ 50 million.

## ANNEX 4: Summary Technical Assessment

1. This annex focuses on the institutional arrangements, results chain analysis and selection of disbursement-linked indicators, expenditure analysis, economic evaluation, and technical risk portions of the Technical Assessment.
  2. ***Role of the SHF in Housing Policy and Finance.*** The SHF is an agency within the Ministry tasked with designing housing laws and regulations, designing social housing programs, with overseeing their implementation in consultation with relevant housing entities, and with managing financial resources for social housing.
  3. ***Structure and Institutional Arrangements of the SHF.*** The SHF is governed by a Board of Directors whose primary role is to develop a general policy that guarantees the achievement of the Fund’s objectives. Additional roles include, among others:
    - Ensuring that the competent authorities are involved in discussing and approving the estimated draft budget for the Fund, prior to initiating the process, and approving the closing accounts as per applicable rules.
    - Approving the internal regulations and regulating decrees related to the Fund’s financial and administrative affairs without being restricted by the Government’s rules and regulations.
    - Approving the organizational structure of the Fund, and the policies related to hiring of employees, and identifying their rights, and terminating their services.
    - Approving the annual Fund plan and reviewing the periodical reports submitted to report progress achieved and the financial status of the Fund.
  4. ***The membership of the Board reflects the multi-sectoral nature of the social housing sector.*** It consists of 15 members, including the Minister of Housing, who serves as its chair. Other members include the Minister of Finance, the Minister of Planning, the Minister of Local Development, the Minister of Social Solidarity, the Minister of International Cooperation, a counselor in the capacity of Vice-President for the State Council, a Sub Governor of the Central Bank of Egypt, a representative of the Minister of Defense, an Executive Director of the Fund, and five members, who are competent and experienced in areas related to the Fund’s activities in economics and finance who shall be appointed by decree of the Minister.
  5. ***Organizational structure.*** The target size of the SHF is estimated at 55-60 staff. The organization chart (Figure 4.1) identifies key functions: planning (including design of programs), audit and monitoring, evaluation and research, finance and beneficiary engagement (social officer). The Executive Director is appointed by the Prime Minister based on a nomination made by the Minister of Housing. The appointment is for a term of three years, and can be renewed once.
- A. Results and Disbursement-Linked Indicators**
6. ***The World Bank has been working with the Ministry to define the roadmap within the Bank-supported Program that will help the Government achieve its goals.*** To that end, the Program includes the five Results Areas described below. For each Results Area, the key obstacles or challenges that it addresses as well as the “results chain” or roadmap for working towards the ultimate outcomes are provided. Elements of the results chain that are included in the operation design as DLIs, Program actions (PAP), or Program results (Results Framework) are indicated with color coding.



**Figure 4.1: Organizational Structure of the SHF**



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

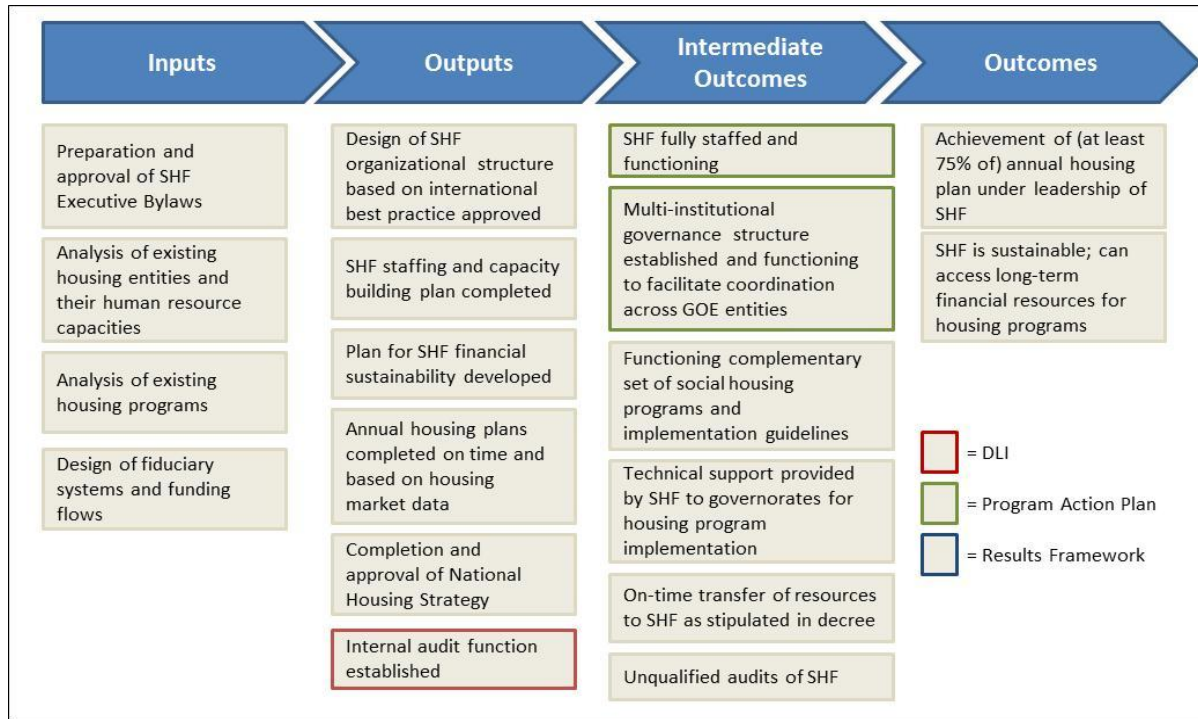
**7. Results Area 1: Strengthening Governance and Institutional Set-up of Housing Sector.**

The social housing sector in Egypt has suffered from poor governance, fragmented entities, and uncoordinated programs. The SHF will consolidate critical expertise, functions, entities, and programs related to low-income housing in one entity, as well as design new ones with the objective of ensuring effective coordination, synergies, and sound governance. With the goal of establishing an accountable, competent and responsive bureaucracy, the SHF has appointed a competent and experienced Executive Director who is in the process of appointing a strong leadership team and assembling core staff from the Ministry and beyond, who are experts in social housing policy and program development.

8. As the primary channel of funding for housing in the country and to ensure efficient use of public expenditures, the Program includes a DLI to establish an internal audit function. The internal audit function will include the assessment of risks associated with improper benefit payments, use of analytical procedures, information system audit and assurance standards, and data mining tools, spot checks and field visits to validate continued relevance of internal controls, including the quality of the complaints mechanism, and follow-up on the timely implementation of audit recommendations.

9. The results chain for Results Area 1— Strengthening Governance and Institutional Set-up of the Housing Sector is provided in Figure 4.2.

**Figure 4.2: Results Chain for Results Area 1– Strengthening Governance and Institutional Set-up of the Housing Sector**



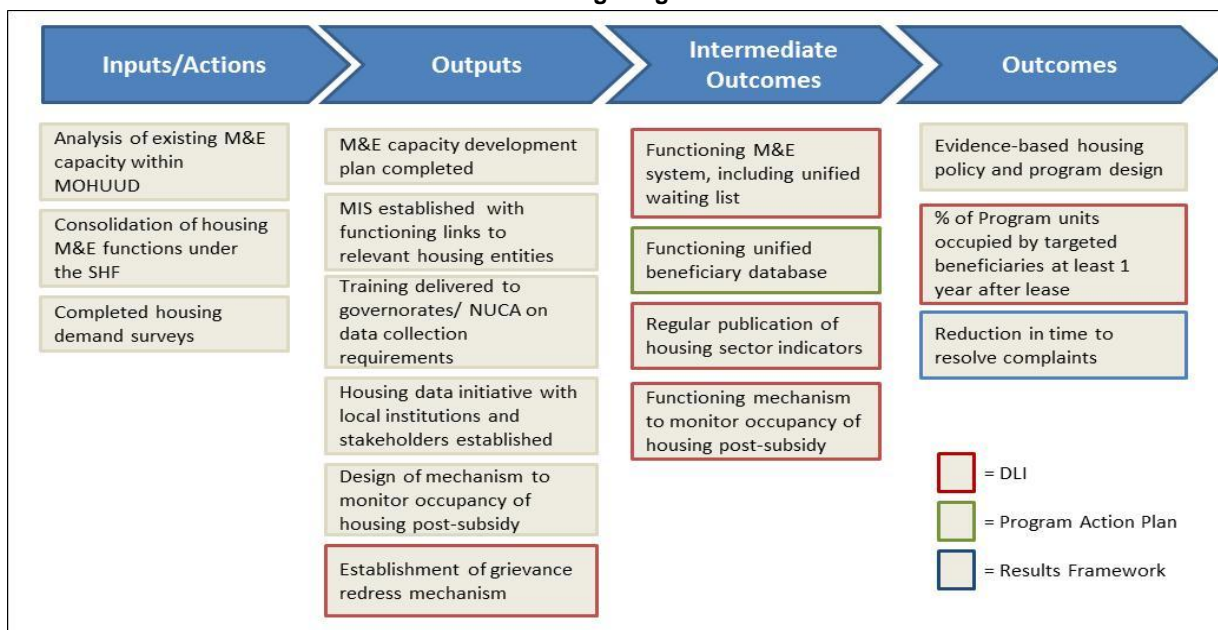
Source: World Bank (2014).

**10. Results Area 2: Enhancing Transparency and Accountability of Social Housing Programs.** Management of information systems (MIS) is critical for the sustainability and effectiveness of housing programs whether implemented through the public or the private sector. The ability to efficiently collect accurate data on housing demand and production is a key input for improving policy design, and the decision-making. Moreover, housing finance subsidy programs need to be monitored regularly and adapted to changing social and economic conditions. The establishment of a robust Research and M&E unit within the SHF is a fundamental building block. Public dissemination of housing indicators, housing expenditures, and program selection criteria is essential for promoting transparency and accountability. The establishment of a robust integrated grievance redress mechanism is necessary to ensure that beneficiaries have a voice.

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

issues and the significant housing vacancy problem. The SHF will establish a mechanism for monitoring the occupancy of housing units for which subsidy is provided as part of the Program. This system will include clear rules stipulating the limitations on the resale and occupancy of units, procedures for communicating these rules to Program beneficiaries, a post-occupancy survey on a representative sample of units, and procedures for dealing with non-complying beneficiaries. The results chain for Results Area 2 is provided in Figure 4.3.

**Figure 4.3: Results Chain for Results Area 2 – Enhancing Transparency and Accountability of Social Housing Programs**



Source: World Bank (2014).

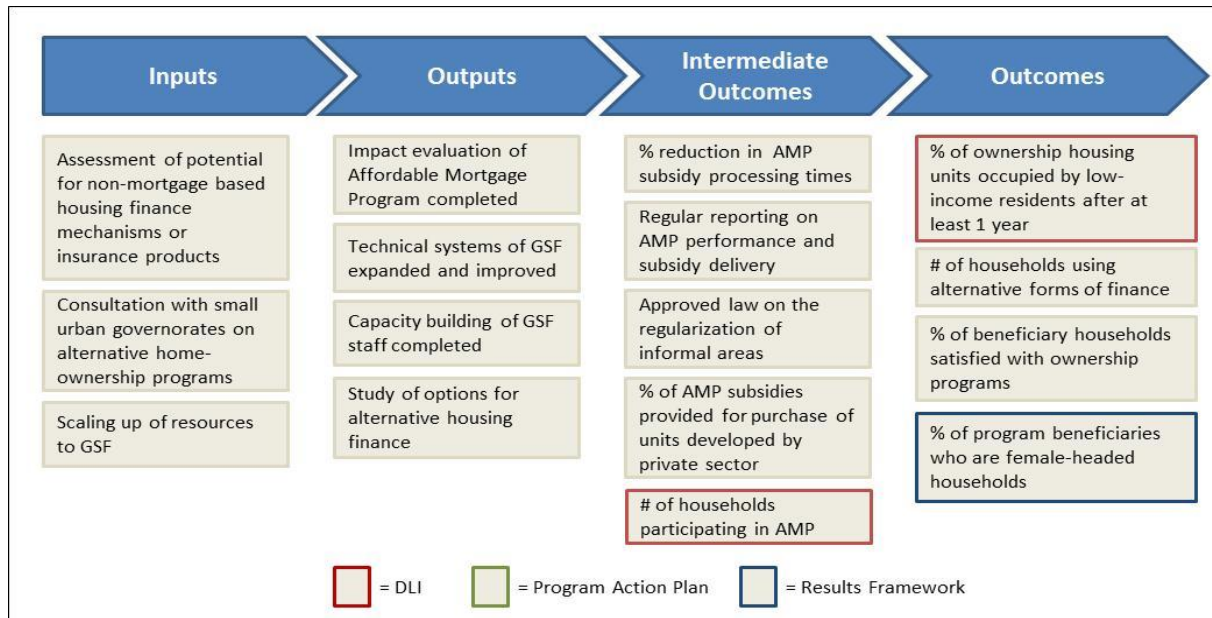
12. **Results Area 3: Improving Access to Affordable Housing.** The SHF will focus on designing and subsidizing housing programs for underserved households—youth, low-income, households in lagging regions—offering them a wider choice of tenure and house-types, including rental options. The AMP has been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

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

14. The Program design includes two DLIs focused on incentivizing the delivery of demand-side subsidies to low-income households. The targets set for ownership subsidies represent a

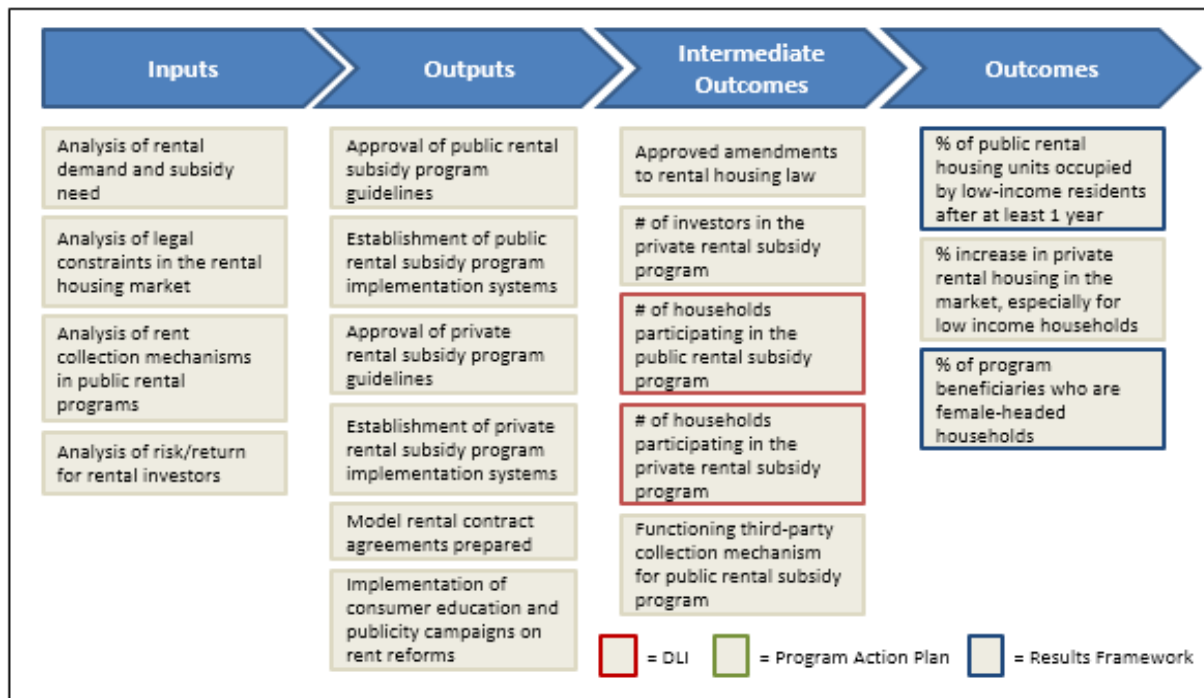
significant scaling-up of the AMP. To achieve the rental subsidy targets, the SHF will need to develop and launch the public and private rental subsidy programs. It is important to note that DLI 4, the mechanism for monitoring housing occupancy by targeted beneficiaries will help to ensure that new programs do not add to the current stock of vacant units and that elite capture or leakage is minimized. The results chain for Results Area 2 is provided in Figures 4.4, 4.5 and 4.6.

**Figure 4.4: Results Chain for Results Area 3 – Improving Access to Affordable Homeownership**



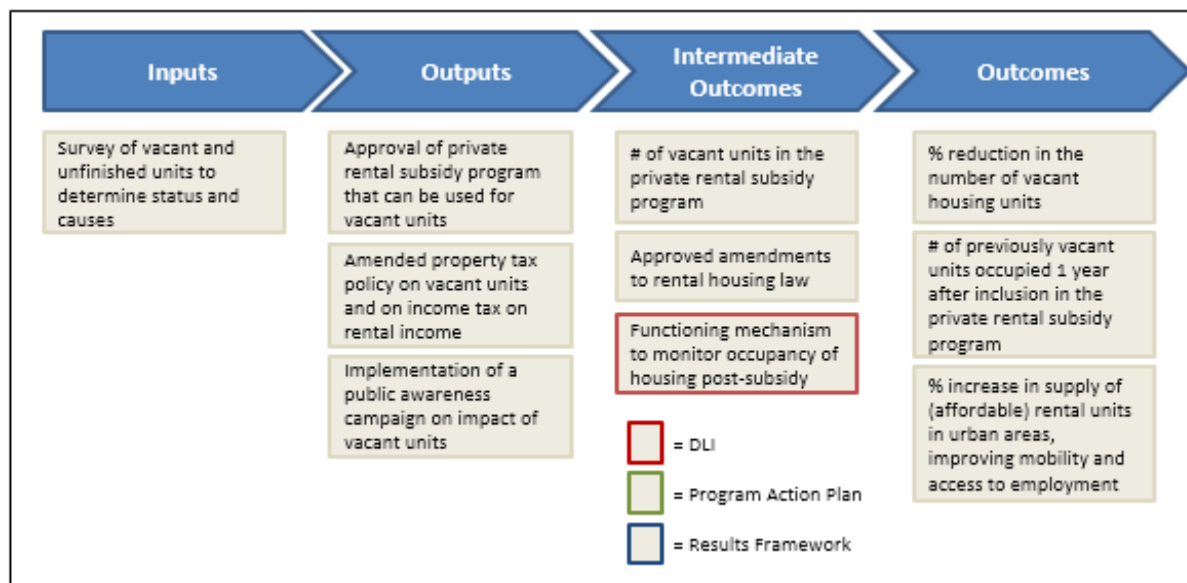
Source: World Bank (2014).

**Figure 4.5: Results Chain for Results Area 3 – Improving Access to Affordable Rental Housing**



Source: World Bank (2014).

Figure 4.6: Results Chain for Results Area 3 – Utilizing Vacant and Unfinished Units

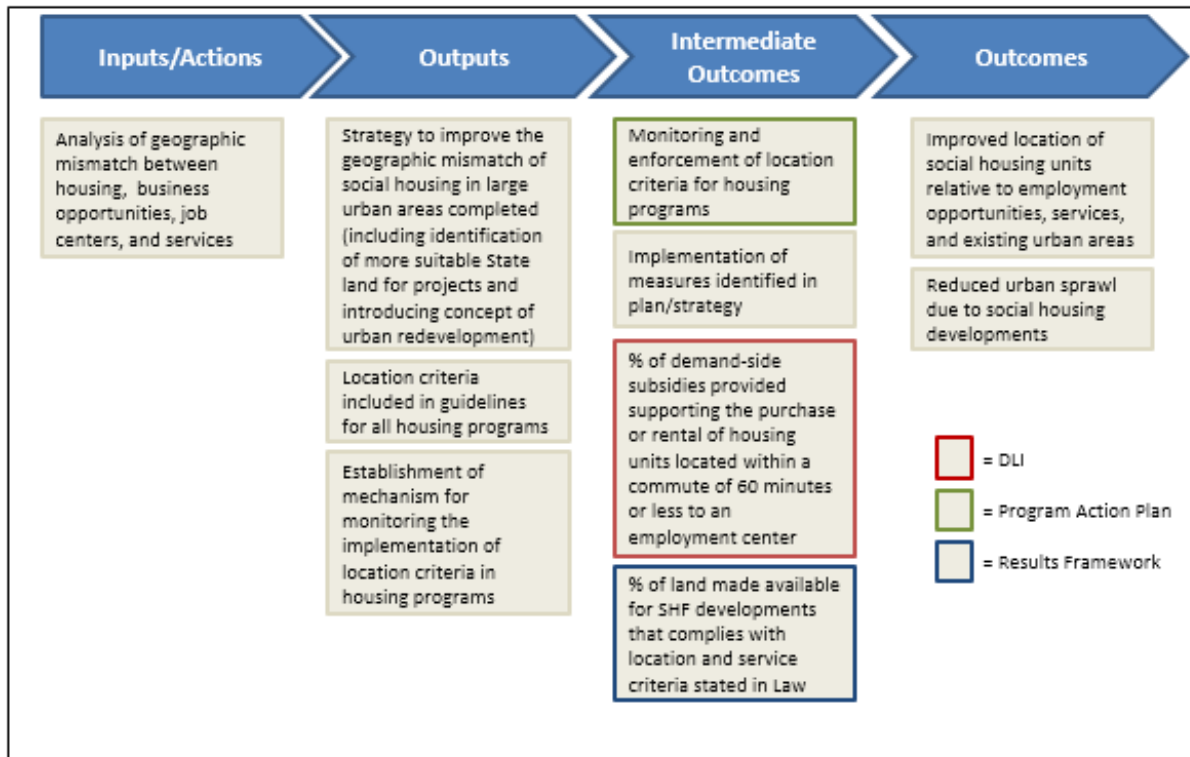


Source: World Bank (2014).

15. **Results Area 4: Promoting Well Located Social Housing.** Equitable access to services, connectivity and amenities is essential to foster well-functioning urban areas and to ensure long term sustainability of the housing sector, notably through lower vacancy rates. The Program will support the design and financing of demand-side social housing programs to increase affordability and access to housing. It is anticipated that most new housing developments will be built on publically owned, undeveloped land allocated, auctioned, or disposed of through PPP arrangements. To reduce the risk of increasing sprawl and spatial inequality, the Program will incorporate eligibility criteria to ensure that units have access to basic services and infrastructure and will include a DLI (DLI 7) to promote better linkages between housing and employment. Specifically, criteria to be eligible for Program support mandates that sites should be approved by urban planning authorities,<sup>37</sup> have access to basic utilities, be connected to the transport network, and ensure accessibility of basic services such as schools and health clinics. In addition, the DLI will seek to promote that units acquired with demand-side subsidies supported under the Program are located near employment opportunities (as measured by the expected commute from the unit to the closest high employment density area). Combined, these measures are expected to promote not only better siting of social housing in relation to jobs and services, but also more efficient use of serviced land and more compact urban growth. The results chain for Results Area 4 is provided in Figure 4.7.

<sup>37</sup> Master plans are developed by the General Organization of Physical Planning within the Ministry and approved at the Prime Ministerial level.

**Figure 4.7: Results Chain for Results Area 4 – Promoting Well Located Social Housing**

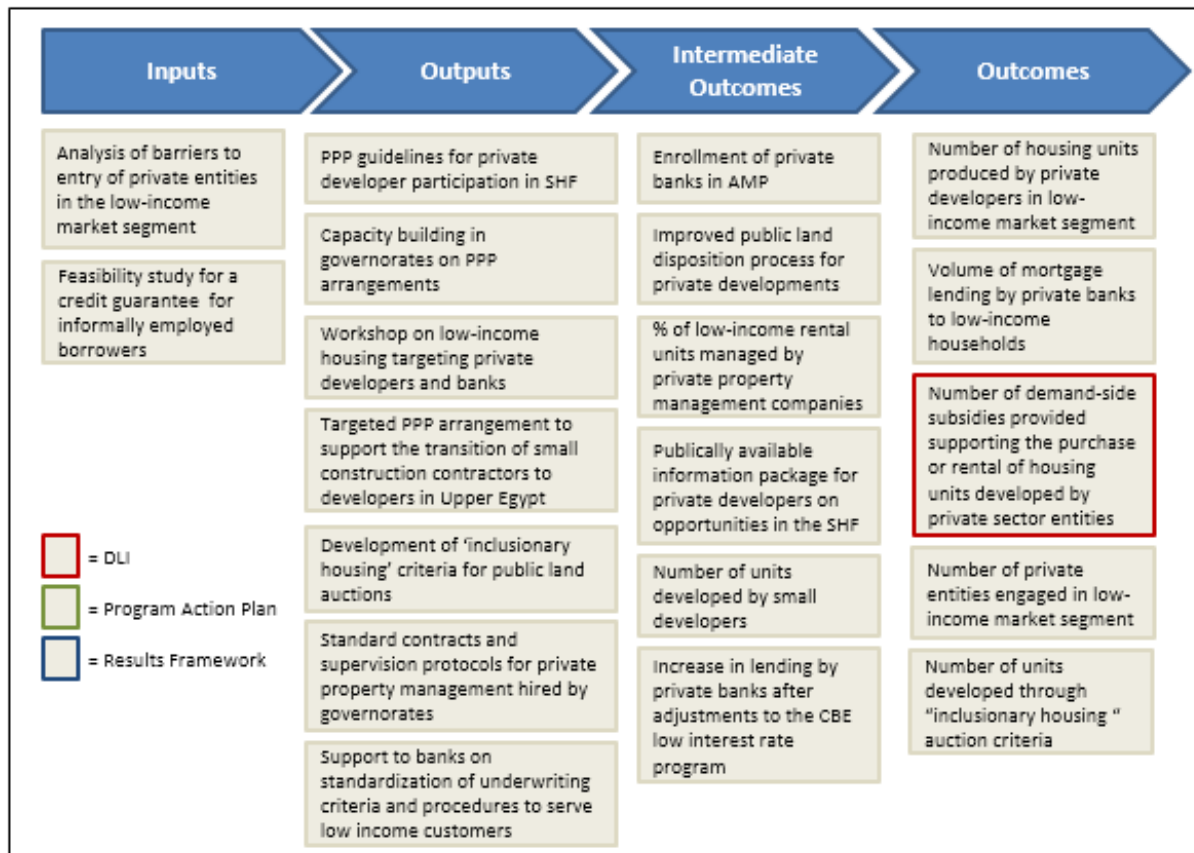


Source: World Bank (2014).

**16. Results Area 5: Promoting Private Sector Participation in Low-Income Housing.**

Egypt cannot address its housing deficit without the strong participation of the private sector, including banks, construction companies, and developers, in the low-income housing market. To rebuild the momentum that was developing in this nascent market segment prior to the 2011 revolution, the SHF must define itself as a credible and effective partner and ensure a level playing field for all private sector entities. Achieving this will require a multi-pronged approach including the finalization and public dissemination of PPP guidelines for the SHF programs, a targeted program to help small-scale contractors in Upper Egypt - who currently build housing units based on a fixed profit margin—transform into development companies, design and implementation of ‘inclusionary housing’ requirements into public land auctions, and workshops/consultation with private sector entities. This will need to be accompanied by refinements to the CBE low interest rate program to attract more private banks and developers to the low-income market segment. The Program includes a DLI focused on the outcome of this bundle of actions—an increase in the number of Program beneficiaries occupying units developed by the private sector. The results chain for Results Area 5 is provided in Figure 4.8.

**Figure 4.8: Results Chain for Results Area 5 – Promoting Private Sector Participation in Low-Income Housing**



Source: World Bank (2014).

## B. Projected Revenue of the SHF

17. *The SHF is being capitalized by the donation of the proceeds of sale of 50,000 units from the United Arab Emirates and the sales proceeds of 115,000 units currently under construction in the Governorates.* Funding for the construction of the units by the Housing Directorates in the Governorates came from the State budget as part of the stimulus package. It is estimated that the sale of these 165,000 units will provide the SHF with US \$ 3.2 billion (LE 23.1 billion) in FY 14/15.

18. *In addition to this endowment, Law 33 of 2014 provides the SHF with other financial resources, including:*

- Proceeds generated from rental, sale or lease of buildings established by the Fund.
- Budget surplus from NUCA.
- State budget allocations for specific projects.
- Amounts allocated for the Fund's purposes in agreements held with the State.
- Revenues generated from penalties collected.
- Donations, grants, endowments, and amounts received from estates.
- Loans approved by its Board of Directors.<sup>38</sup>

<sup>38</sup> The SHF is the sole recipient of foreign loans and grants for housing, housing finance and urban planning, and is responsible for setting the rules of use of such funds in agreement with the lender/donor.

- Revenue generated from investing the Fund’s money.
- One percent of the revenues generated from the auction of properties owned by the State, and public entities, and public sector companies; and 25 percent of the revenues generated from the sale of lands owned by local entities.

19. *These revenues represent a mix of earmarked funds, annual budget allocations, irregular windfalls, debt, and self-generated funds.* An assessment of the scale and predictability of the first two types—earmarked funds and annual budget allocations—was conducted for the past five years. Actual State budget allocation for social housing programs was used as a proxy for the amount that would have been channeled to the SHF had it existed in those years. Based on this analysis, without external debt or revenues from operations, the SHF would have a budget of about US\$ 253.4 million per year on average. It is necessary to keep in mind that this sum must cover all demand- and supply-side activities. Based on the average cost of an economic unit (LE 130,000), this implies that current budget levels would facilitate the development of at most 14,000 units per year. This high-level review of past funding also shows that these sources of funding experience some fluctuation. Land sales are particularly unstable because real estate markets are highly cyclical. The demand for land, and the price of parcels, fluctuates violently, even in urban areas experiencing strong, long-term growth.<sup>39</sup>

**Table 4.1: Projected Revenue of the SHF** (US\$ millions)

Source of Funding	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Returns generated by the Fund (sales)	-	1,118.9	1,118.9	1,118.9	1,118.9	1,118.9
Returns generated by the Fund (rental)	-	3.8	3.8	3.8	3.8	3.8
NUCA budget surplus	-	75.0	75.0	100.0	100.0	100.0
State budget allocations	250.0	139.9	139.9	139.9	139.9	139.9
Other amounts allocated by the State	2,573.4	-	-	-	-	-
Revenues generated from penalties	-	-	-	-	-	-
Donations, grants, and endowments	1,118.9	-	-	-	-	-
Loans	-	68.1	96.6	101.6	117.4	116.4
Investment revenue	-	1.2	1.2	1.1	1.0	0.8
1% of auctions of State properties	5.0	5.0	5.0	5.0	5.0	5.0
25% of auctions of Governorate land	-	1,118.9	1,118.9	1,118.9	1,118.9	1,118.9
<b>Total</b>	<b>3,947.3</b>	<b>1,411.8</b>	<b>1,440.3</b>	<b>1,470.2</b>	<b>1,485.9</b>	<b>1,484.7</b>

20. To project SHF revenues in the medium term, conservative estimates of “earmarked” revenues have been used (Table 4.1). Specifically, a NUCA surplus of US\$ 100 million, State budget allocation of US\$ 140 million, and US\$ 5 million from State land auctions. It is assumed that revenue for land auctions in the Governorates will be negligible.

### C. SHF Expenditures

21. *In the short term, the majority of resources in the SHF will be used for the construction of housing, both rental and ownership. For ownership units SHF is reimbursed upon sale of the unit to the beneficiary.* Only the public rental units will remain in SHF’s ownership. However, a goal of the SHF is to gradually shift this balance in favor of providing mostly household support (demand-side programs) as the Government moves away from being the primary producer of low-income housing and towards being an enabler of the whole housing market. Program expenditures are driven by the mix of housing type and source of production (public and private). To forecast the sustainability of the fund, a base scenario of

<sup>39</sup>Peterson (2009).Unlocking Land Values to Finance Urban Infrastructure.



housing supply was developed as well as a target number of demand-side subsidies per year (see Table 2 in main text). Based on the assumed levels of supply-side activities and demand-side subsidies, Table 4.2 presents the projected expenditures for the entire SHF.

**Table 4.2: Projected SHF Expenditures** (US\$ millions)

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

#### D. Sustainability of the SHF

22. *In the scenario described above and supported by the Program, net income declines year on year starting in FY15/16, but overall SHF's cash balance is quite buoyant due to its high level of initial capitalization.* An analysis was conducted to test the sensitivity of the SHF cash balance in FY19/20 to a series of input variables including the: (i) number of public rental units, (ii) size of the public rental subsidy, (iii) size of the upfront mortgage-linked subsidy, and (iv) number of upfront mortgage-linked subsidies provided. Each variable was tested independently. All four variables have negative slopes, meaning that as each increases, the FY19/20 SHF cash balance decreases. The SHF is sustainable in the medium run, through maintaining a positive cash balance due to its high capitalization. Similar to all subsidies funds, SHF's financial sustainability is dependent on its capacity to contain its expenditures through the different subsidies programs, which are managed by it.

**Table 4.3: Sustainability of the SHF in Base Case Scenario** (US\$ millions)

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

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

24. *The sustainability of SHF is more sensitive to the size of the upfront mortgage-linked subsidy than the number provided.* Holding the number of upfront subsidies fixed at 725,000,

SHF cash balance would be depleted in FY 19/20 if the upfront subsidy reached LE 33,262. This might occur when CBE program is phased out and interest rates would increase by about three percent. That scenario assumes, however, that the same income group and number of households will be served and the same standard of housing unit will be provided. A more likely scenario will be that the parameters of the program will be adjusted to gradually target a lower income group when financial institutions and developers will begin to serve income groups at the current higher end of the program and fewer subsidies will be issued. Under current CBE interest rate conditions, the cash balance in FY 19/20 reaches zero when the cumulative number of upfront subsidies exceeds 1.36 million units which is highly unlikely.

## E. Program Expenditures

25. *The Program supported by the PforR operation only includes the policy, programming, and demand-side subsidy activities of the SHF.* As such, within the scope of the Program, expenditures will include salaries, operating expenses, goods, and other overhead expenses related to policy, M&E as well as the costs of the demand-side programs. Table 4.4 provides a breakdown of the anticipated expenses during the life of the operation. It is a subset of the expenditures shown in Table 4.3 above. Total Program expenditures are expected to be approximately US\$ 2billion (FY 15/16 – FY 19/20).

**Table 4.4: Program Expenditures** (US\$ millions)

	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Overhead (salaries, offices, etc)	2.0	3.0	3.0	4.0	4.0
Studies, Plans, and Capacity Building	2.0	2.0	2.0	2.0	2.0
Housing Data and Systems	3.0	3.0	2.0	2.0	2.0
Upfront subsidies	199.3	332.2	398.6	465.0	531.5
Rental subsidies	0.8	2.5	3.4	5.0	5.9
<b>Total Expenses</b>	<b>207.1</b>	<b>342.7</b>	<b>409.0</b>	<b>478.1</b>	<b>545.3</b>

## F. Economic Evaluation

26. *The accumulation of decent housing matters both because of the difference it makes to living standards and because of its centrality to economic development (shared prosperity).* In addition to directly providing shelter, decent housing improves health and facilitates educational achievement.<sup>40</sup> A home and its environs affect identity and self-respect. Egypt has made strides in improving access to basic services, one of the most important components of living standards related to housing (Box 4.1).

27. *A major economic rationale for investing public funds in the housing sector is its proven stimulus for economic growth.* The economic multiplier according to Egypt's input-output tables is 2.1. Based on that figure, the Program will increase GDP by 0.6 percent in year one and close to 2 percent in subsequent years. Another economic benefit for the provision of formal housing is that it will decrease the expansion of informal housing on agricultural land and the related impact on agricultural output. The entire housing stimulus program of the SHF will indirectly contribute to generating job opportunities for skilled and unskilled labor. Based on an elasticity of employment in the construction sector of 1.5, it is estimated that the total number of jobs indirectly generated through the SHF over a six-year period is 1.5 million job-years. This diverse job creation happens across different geographical areas, and, therefore, the economic benefits can be felt in regions irrespective of the location of the housing itself. Using the current stimulus programs to help the Government establish

<sup>40</sup> World Bank (March, 2012).

sustainable public and private housing investment programs will make sure that the sector can continue to play a powerful role as a generator of economic growth and employment in the

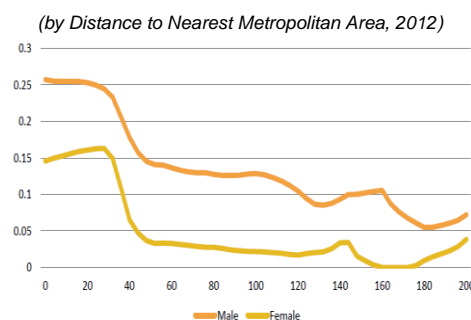
#### Box 4.1: Housing and Gender in Egypt

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

Poor location of housing relative to employment affects women disproportionately. The World Bank 2012 Job Report for Egypt shows that labor force participation by females is low and it decreased between 2006 and 2012 from 27 percent to 23 percent, in particularly for younger women, despite dramatic improvements in educational achievements. Women also suffer from an extremely high unemployment rate. This negative outcome appears to be affected by constraints rather than preferences. One of the core constraints is that women find it more difficult to commute long distances—fear of sexual harassment, domestic responsibilities that require them to be closer to home - and indeed women’s commutes to work are on average 25 percent shorter than those of men (Figure 4.1.1). This excludes women from high quality private sector jobs (Table 4.1.2). The Job Report analysis concludes that “spatial mobility is a very large constraint on women’s access to employment” in Egypt.

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

**Figure 4.1.1 Formal Private Sector Employment Rate**



Source: ELMPS, (2010).

**Table 4.1.2 Average Time to Work, Minutes One Way**

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

Source: ELMPS, (2010).

future. Job creation is the most important factor in poverty alleviation and shared prosperity.

28. *Another critical economic rationale to assist the housing sector - that is closely linked to the WBG strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner - is improving the link between housing and labor market participation.* Well located and decent housing frees up people’s time and enables them to participate in the labor market. Economic opportunities are disproportionately located in urban and metropolitan areas of developing countries such as Egypt, which generally offer agglomeration benefits and enhanced labor productivity.

#### G. Technical Risks

29. *The main risks identified through the Technical Assessment relate to the (a) participation of private sector housing developers; (b) rental housing program design; (c)*

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

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

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

32. A well-functioning land and property registration system is fundamental for developing an active mortgage finance system, attracting investments, and creating an enabling investment climate. To include informal housing units in a demand-side rental program, and thereby alleviate the housing and employment center mismatch in metropolitan areas, would also require enhancements to the land and property registration system. However, this is controlled by the Ministry of Justice, and therefore outside the direct control of the Ministry. The Bank will advise the SHF on these issues as part of the Program's complementary technical assistance. The majority of low-income housing will be built on public land either by public or private developers. The risk related to land and potential involuntary resettlement is low given that public land that will be used for social housing is primarily in uninhabited desert areas. Moreover, the first two phases of housing development under SHF (about 100,000 units) has involved no resettlement and this risk did not apply. However, this risk could increase as the SHF seeks to find better located land closer in to the urban core. These risks will be managed through the provision of technical assistance and capacity building that will enhance the capacity of the SHF and enable them to monitor these risks during the Program implementation. These actions would enhance SHF due diligence, have a positive overall impact on SHF operations and will ensure the Program sustainability. These actions are elaborated in more details in the PAP.

## **H. Program Action Plan**

33. Technical actions included in the PAP aim to ensure the sound operation of the SHF, effective targeting and monitoring of housing programs, improved location of social housing units, and collaboration across agencies involved in the social housing sector. Two of the actions are integrated into the operation design as DLIs, namely; (i) the establishment of an M&E system that informs housing policy and programming; and (ii) the establishment of a mechanism to monitor occupancy of housing post-subsidy.

## I. Poverty Assessment

**Table 4.5: Possible Distribution of Poor Beneficiaries by Program** (thousands)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	Total
<b>Rental</b>							
Social Rental	-	58	117	117	146	146	584
Private Rental	-	-	5	10	15	20	51
<b>Total Rental</b>	-	58	122	127	161	166	635
<b>Total Ownership</b>	54	134	161	204	214	225	992
<b>Grand Total</b>	54	192	283	331	376	391	1,627

34. *The total number of Program beneficiaries is expected to reach more than 3.6 million individuals or close to 830,000 households.* The total number of beneficiaries that are below the Household Poverty Line is expected to reach 1.6 million, which represent 37 percent of the total Program beneficiaries and around 7 percent of the total poor in Egypt (22 million based on poverty rate of 26.3 percent in year 2012/13). To estimate the number of poor that will benefit from the Program, HIECS data for the year 2012/13 was used. Specific household poverty lines were used to identify the poor; household poverty lines are determined by several factors such as household size, geographical location and other household characteristics (Table 4.5). The social rental sub-program, that has 100 thousand units, will be targeting only the poor in the first and second deciles of income. In addition, low income ownership sub-program, that has 75 thousand units, will target the poor in the second and third income deciles. The rest of the rental and ownership programs have a distribution of poor similar to the income deciles they are targeting.

## ANNEX 5: Fiduciary Systems Assessment

1. The assessment<sup>41</sup> indicates that the fiduciary systems for the Program, with the enhancements proposed in the Program Action Plan, will provide reasonable assurance that the funds will be used as intended per the Bank’s PforR policy. Based on the expenditure program, no contracts in excess of the PforR policy exclusion limits have been identified.

2. As shown in Table 5.1, 98 percent of the Program expenditures relate to housing demand subsidies (97 percent for ownership subsidies). Hence, the Fiduciary Assessment has focused primarily on the systems supporting execution of these expenditures.

**Table 5.1: Program Expenditures**

Expense Item	US\$ million	Percentage
SHF overhead	16.0	0.8
SHF studies, plans, and Capacity Building	10.0	0.5
Housing data and systems	12.0	0.6
Housing demand programs – ownership	1,926.6	97.2
Housing demand programs – rental	17.6	0.9
<b>Total</b>	<b>1,982.2</b>	<b>100</b>

*Source:* World Bank estimates based on Ministry’s data (2014).

### Country Systems, Rules, Procedures and Oversight Mechanisms

3. The expenditures to be incurred under the PforR Program will form part of the SHF budget. Even though the SHF is a new entity under development, it will be subject to the Government of Egypt’s Public Financial Management (PFM) arrangements, which have been analysed through various analytical pieces.<sup>42</sup> Moreover, country system knowledge has been gathered through the Bank’s provision of technical advisory services in areas of the Government financial controls, public procurement, and external audit. A summary of applicable PFM systems, rules, procedures and oversight mechanisms follows.

4. **Legal framework.** The constitution provides the legal basis for the budget, for appropriating and spending public funds, and for preparing and approving the final accounts of the state budget. The 2014 constitution maintained these provisions and strengthened the independence and transparency of the Central Audit Organization (CAO), the supreme audit institution. A range of laws deal with specific aspects of financial management; in addition, there are specific laws for entities such as economic authorities and special funds. Unifying the PFM legal infrastructure under an integrated law would enable a more consistent and transparent approach. The Bank has recently supported the Government in the review of the draft amendment to the Public Procurement Law, the review of the new draft law of the CAO, and will start working with the Ministry of Finance on budget legislation modernization and harmonization task.

5. **Budget comprehensiveness.** The state budget covers the activities of the central Government, Governorates, and public service authorities. However, a number of special accounts and funds function under separate provisions with limited transparency. They are nominally in-budget, as their expenditures are reported within the budget with an equivalent revenue amount, but leaving the remainder of revenues collected unreported.

<sup>41</sup> This is the complete Fiduciary Systems Assessment.

<sup>42</sup> ADE. Report on Public Expenditure and Financial Accountability (PEFA), October 2009. International Monetary Fund (with World Bank contribution). A Roadmap to Advance the Public Financial Management Reform Agenda, January 2012. World Bank. Country Financial Accountability Assessment (CFAA), April 2008. World Bank staff reports.

6. The Government has successfully decreased the aggregate balance of special funds to LE 28 billion in September 2014 down from LE 37 billion in July 2011. This was mainly achieved through measures such as: (i) asking budget entities during budget negotiation stage to use the special funds under their controls to finance portions of their budget expenditures; (ii) issuing a one-off legislation requiring the special funds to transfer 25 percent of their outstanding balances as of June 30, 2012 to the central treasury; and (iii) the annual budget laws for the past two years obliged special funds to transfer a percentage of their annual revenues (20 percent in 2012/2013; 10 percent in 2014/2015) to the central treasury. The Ministry of Finance is currently deliberating on ways to increase the governance and transparency of special funds.

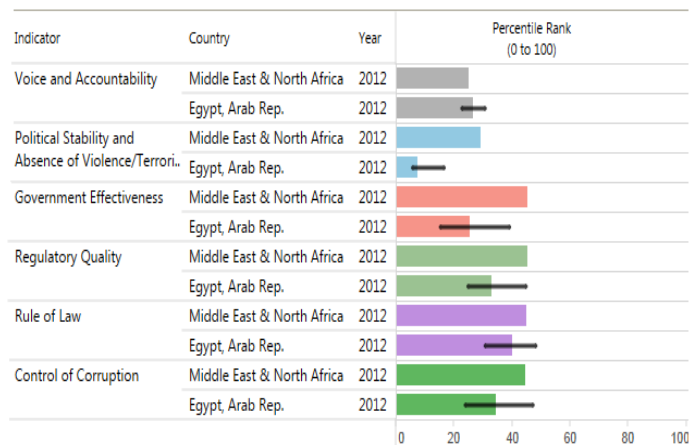
7. **Budget formulation.** The annual budget calendar largely provides for an orderly and timely budget formulation and appropriation process. The establishment of a Macro-Fiscal Unit at the Ministry of Finance has contributed to better budget estimates, but a system of dual budgeting, i.e. the recurrent expenditure chapter managed by the Ministry of Finance and the capital investment chapter managed by Ministry of International Cooperation, persists, with the two ministries collaborating on the overall envelope. In 2012, the Ministry of Finance mandated the preparation of a pre-budget statement to include the general framework for fiscal policy, the estimated aggregates in the draft budget, and the related economic and social priorities. However, the pre-budget statement is not published.

8. **Public procurement.** The Bank has been engaged with the Government on public procurement reform for over two decades. Country Procurement Assessment Reviews (CPARs) identified areas that require attention such as: (i) the need for improvement of procurement practices at the sector and decentralized levels; (ii) although the procurement law and the executive statutes provide important concepts for public procurement and are based on sound principles, they are broad and not always sufficiently clear for consistent application; (iii) there is no independent protest mechanism other than an appeal to the competent authority; and (iv) the need to develop a capacity building strategy and implement it through a systematic training program.

9. The Government, through the Ministry of Administrative Development, implemented a Government procurement portal (<http://etenders.gov.eg>), for mandatory publication of bidding opportunities, bidding documents, bid evaluations and results. While it is considered that this tool will increase transparency and efficiency, stakeholder participation through greater access to information and provide equal opportunities to all in public procurement, enhancing the systems capabilities, such as “e-contract management”, could bring about significant additional benefits.

10. **Governance indicators.** Egypt lags behind Regional neighbors in most dimensions measured by the Worldwide Governance Indicators (Figure 5.1), *Source:* World Bank (2013). including Government effectiveness and control of corruption.

**Figure 5.1: Worldwide Governance Indicators**



11. The Government has adopted an administrative reform initiative starting from August 2014, aiming to enhance transparency and integrity in public administration.
12. **Budget execution controls.** The ex-ante control system is implemented by Ministry of Finance's financial controllers and includes transaction-based compliance controls over payments (in addition to the line ministries' own due diligence), recording of transactions, and production of accounts at unit level.
13. With technical support from the Bank, the Ministry of Finance recently finalized the Manual of Procedures of the ex-ante Internal Financial Control. The manual has been published and disclosed over the whole financial control network and budget entities (line ministries, agencies, various public institutions). The manual has three objectives: (i) simplifying the control procedures; (ii) standardizing and homogenizing the controls (each procedure is described with one standardized page defining the main components of the control such as laws and regulations to comply with, required documentation, budgetary requirements); and (iii) making the control more predictable by the line ministries. The issuance of the manual will be accompanied by training activities.
14. **Financial inspection** is centralized and is carried out by the Directorate for Financial Inspection in the Accounts and Financial Directorates Department in the Ministry of Finance. Its main activity is to carry out ex-post reviews of compliance by Accounting Units. Inspections can cover all stages of the budget cycle and are normally initiated on the basis of complaints. No risk-based approach is used for formulating the annual work program. A report is submitted to the Head of the Accounts and Financial Directorates Department after each inspection. In addition, an annual report presents all the cases of alleged misuse of funds.
15. There is currently no function in the Ministry of Finance or in the line ministries that carries out independent internal audit. While the financial inspection in Egypt carries out ex-post reviews, it does not perform systematic, risk-based audits of the functioning of the internal control system.
16. **Government Financial Management Information System (GFMIS).** Accounting units across the central Government use the GFMIS to record budget allocations and modifications, and to execute the budget through general ledger transactions. However, the budget execution process chain remains largely manual. A decision was made recently to postpone using the cash management and commitments modules in accounting units. The modules for purchasing, accounts receivables and accounts payables are available but not yet activated. The Government would benefit from articulating a clear direction for the future rollout of the GFMIS and reassessing the underlying business processes.
17. **Cash management and controls.** The Ministry of Finance exercises monitoring of the actual cash transactions and balances of the accounting units included in the state budget through the longstanding arrangements with the Central Bank of Egypt (CBE). The introduction of the treasury single account (TSA) law and the closing of many special accounts and funds in commercial banks further enhanced Ministry of Finance ability and reduced financing costs. However, the TSA implementation was not completed. As stated earlier, many special accounts and funds remain with separate payment and cash management processes. Ministry of Finance still relies on manual cash planning arrangements focusing mainly on revenue forecasting.
18. **Accounting and financial reporting.** Accounting is cash-based for the state budget; hence, no complete information on accounts receivable (e.g. advances) and accounts payable (including expenditure arrears) is available. The published final accounts of 2012/2013 showed only an economic classification of expenses, which is closely aligned to the international



standard, and broken down by administrative category (administrative body, Governorates and service authorities). Conversely, the 2014/2015 budget presented a functional classification together with the economic classification -- except for expenditures that are presented as single line item.

19. Monthly budget execution reports detailing expenditures and revenues are produced by budget entities and submitted to the Ministry of Finance's Final Accounts sector within a maximum of ten days after each month-end. They include actual and budget amounts, but not commitments. Annual final accounts are produced and audited within six months after fiscal year-end.<sup>43</sup>The latest Final Accounts law of 2012/2013 was issued on November 28, 2013. No discussion and analysis accompanies the annual accounts.

20. **Budget transparency.** The enacted budget, in-year budget reports, and year-end budget reports are made public. The production of the citizen budget was discontinued in the last few years, but is expected to be resumed soon. The 2014 Constitution requires making public the annual audit reports by the CAO.

21. **External audit.** The CAO has a comprehensive scope of coverage and is known to issue its report on the annual accounts on a timely basis.

22. The CAO authorities have recently showed willingness to reform, supported by the provisions of the 2014 Constitution which, among others, introduces elements to strengthen its independence and transparency. Its reports will need to be submitted to Parliament, the President of the Republic, and for public opinion. The Bank is providing technical support to expose the CAO to international good practices through this transitional phase.

### **Capacity and Performance of the Program Implementing Agencies**

23. The fiduciary assessment is focused on the arrangements for development of the SHF, a new entity that will implement the Government's social housing program, including the Bank-supported Inclusive Housing Finance Program.

24. **The Social Housing Fund.** The SHF is a legal entity under the tutelage of the Ministry, created by the recent Social Housing Law. It has a dedicated budget, sources of revenues, bank account, accounting and internal control system. The SHF may finance, manage and build social housing units, and provide the services necessary for these units. These "supply side" activities will not form part of the PforR expenditure program.

25. The SHF will be managed by an Executive Director and will have its own Finance Department. The staffing process for senior SHF positions, and the assessment of the administrative units within the Ministry that will be consolidated within the SHF has already started.

26. The SHF Board, which is chaired by the Minister of Housing and includes representatives of the Ministry of Finance and Ministry of Planning, will approve the SHF budget as well as its annual accounts. The Board can establish committees for specific areas such as auditing or finance.

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<sup>43</sup> Final accounts of each accounting unit are sent to the Ministry of Finance's Final Accounts sector by end of July. The Central Audit Organization (CAO) completes its audit by end of August. During the month of September, adjustments are discussed and agreed between the accounting entities and the CAO. By the end of October, the Final Accounts sector consolidates the state final accounts report to be presented to the legislative body, the CAO and the Ministry of Planning. The CAO prepares its annual audit report by the end of November and presents it to the legislative body before the end of December of each year.

27. The SHF's budget will be attached to the State budget. Unused budget resources will be carried forward to the next fiscal year. The SHF's banking accounts will be held at the Central Bank.

28. The SHF will establish reporting mechanisms for each program it manages or oversees, in addition to the SHF's reporting on its own operating expenses. An analytical cost system will be implemented. No financing across programs will be allowed, except by a decision of the Board stating the amount and purpose of such cross financing. SHF accounts are subject to audit by the CAO and oversight by the Ministry of Finance, which appoints a Financial Controller. The SHF Board can also appoint independent auditors.

29. **Sub-programs.** The PforR-supported expenditure Program will consist of:

- *Mortgage-linked ownership subsidies* to targeted beneficiaries, i.e. the Affordable Mortgage Program.
- *Rental subsidies* to tenants and to investors who would commit themselves to rent out their units to targeted households.
- *Related operating costs*, such as beneficiary targeting and tracking; data collection, database management, and analysis; M&E.

30. The mortgage-linked ownership subsidy program has two components: (i) a mortgage loan payment subsidy (buy down); and (ii) for the lowest income groups, a down payment subsidy as well. The program is intended to enable first-time homebuyers who are low-income borrowers to qualify for market interest rate mortgage loans. An eligible beneficiary can benefit from a buy down subsidy or a combination of a buy down subsidy and an up-front (down payment) subsidy, based on the level of household income. The program is executed in line with the Affordable Mortgage Finance Procedure Manual.

31. For the buy-down subsidy, the AMP pays the mortgage lender the difference between the monthly loan payments affordable to the borrower, and the monthly payments of a market loan. The AMP payments to the lender decrease over a number of years as the borrower payment increases according to the program rules. The total amount of subsidy received is determined by the AMP according to the income of the borrower. The down payment subsidy is limited to the lowest borrower income groups, is set according to AMP rules, and is in addition to the down payment provided by the borrower.

32. The lenders employ their own underwriting criteria in determining the borrower's loan approval or declination. The AMP verifies beneficiaries' compliance with the eligibility criteria. To verify applicants' information and eligibility, the AMP utilizes the services from a specialized company that conducts background checks on applicants' data and income. The AMP also counts on the banks credit I-score reviews to verify applicants' credit performance and worthiness.

33. The amount of the buy down payment subsidy (on a present value basis), along with any down payment subsidy provided to the borrower, is paid upfront to the lender through an escrow account open for the length of the buy down period. Every month, simultaneously with receipt by the lender of the borrower's share of the loan payment, the scheduled subsidy escrow account amount is applied to the total monthly principal and interest due. No escrow funds can be disbursed by lenders without receipt of the borrowers' share of the monthly payment.

34. Any unused subsidy funds that remain in the borrower payment escrow account must be remitted to the AMP if the loan is paid off before those funds have been applied. Additionally,

the borrower is liable for a pro rata return of the mortgage down payment subsidy if the loan is paid off before it is 5 years old.

35. To operate the AMP, the GSF/SHF enters into master program participation agreements with lenders acceptable to the GSF/SHF. The master agreements are standard among all mortgage lenders. The authorized lenders must: (i) be a licensed financial institution authorized to provide mortgage loans to consumers; (ii) be in good standing with its regulatory authority, CBE or EFSA; (iii) agree to GSF/SHF monitoring of its program performance; and (iv) agree to GSF/SHF audits of subsidy program compliance (inspection of mortgage loan files, reports, records, books, or accounts).

36. All lenders are required to report monthly the status of all the subsidy loans that the lender is servicing. This includes new originations and existing subsidy loans segregated by current loans, delinquent loans, loans in foreclosure or forced sale status, and any loans that have been paid, retired or otherwise removed from the lenders future servicing reporting.

37. AMP related IT systems and procedures are in place and have been tested to handle a large volume of applicants. The system is set up to generate monitoring reports that include information on household level information (location, gender, income), loan and subsidy level information (size, down payment, interest rate, tenure, product, type and amount of subsidy), and lender information (type of institution, escrow amount).

38. The AMP receives funding from the State budget as well as self-generated revenue, largely from interest on time deposits. Its final accounts for 2012/2013 showed significant savings in “Chapter 4” expenditures (mortgage subsidies), mainly because of delay in completion of housing units. The actual expenditure was only 8 percent of the budget. Significant improvements are expected over the coming years to result from measures to improve supply of housing solutions and an integrated social housing policy with well-coordinated programs.

39. GSF’s accounting system makes use of the Government’s chart of accounts and related procedures, but not of the GFMIS. The accounting unit is overseen by a Financial Controller from the Ministry of Finance responsible for ex-ante controls. GSF is subject to periodic audits by CAO, but the Bank was informed that annual audit reports are not available.

40. **Procurement.** Given that the financing under the PforR Program will be limited to demand side incentives and operating costs, there will be no major procurement involved. Therefore, country-level procurement capacity limitations are not expected to significantly impact Program implementation.

41. **Fraud and corruption.** The latest amendments of the mortgage finance law in July 2014 introduced stricter rules and penalties on fraud by beneficiaries. These include: (i) restricted use of the subsidized unit to the beneficiary and his/her household; (ii) banned disposition of purchased unit for seven years to discourage speculation; and (iii) imprisonment or financial penalties (LE 50,000 to LE 100,000) for providing fraudulent data in applying to the mortgage subsidy. The GSF receives complaints through its website as well as its Facebook page. Its manual requires handling complaints within 48 hours of receipt. All fraud cases or information that has driven to rejection based on GSF requirements, are required to be compiled in a "black list" that must be checked when a new file is appraised.

### **Fiduciary Risk Assessment**

42. **Country system risks.** While the Egypt’s public financial management (PFM) systems have been deemed adequate for budget support operations, the stagnation in some areas of

PFM reform is a concern that influences fiduciary risk. The Bank is engaged in dialogue and technical advice with the Government in the areas of financial controls, public procurement, and supreme audit institution development. Furthermore, the Bank and the Ministry of Finance are starting to collaborate towards the modernization of the budget legislation and revamping the PFM reform strategy.

43. **Program-specific risks.** Considering that the institutional structure and systems of the Program implementing entity (SHF), and some of the sub-programs, are still under development, the fiduciary risk is substantial. The fiduciary risk also involves the risk of providing subsidies to ineligible beneficiaries, either due to fraudulent application by beneficiaries, political interference to influence targeting, or errors. To mitigate this risk, the Bank is providing technical support to improve subsidy targeting systems and procedures in the SHF, with a view to ensure that the funds reach the intended beneficiary households. Stricter penalties on beneficiary fraud were introduced by the Government through recent amendments to the Real Estate Finance Law.

44. The Bank is also playing an important role advising the development of institutional governance and systems of the SHF. The positive experience with the operation of the AMP, administered by the GSF, exemplifies the Government's track record with development of monitoring systems for similar programs. The systemic fiduciary risk mitigation issues will be addressed through the Program Action Plan (see next section) and selectively through the DLIs connected to the SHF capacity development and program effectiveness.

#### **Fiduciary Elements of the Program Action Plan (PAP)**

45. This section lists key technical and capacity development measures that aim to increase the operational efficiency of the Program, ensure full transparency and proper accountability mechanisms, and mitigate existing fiduciary risks.

46. **Rules and regulations.** The operational and financial management arrangements for the rental subsidy sub-programs should be laid out in regulation and detailed in Procedures Manual, consistent with GSF's Manual when applicable. The Procedures Manual should also regulate the budgeting, cash management, accounting, financial reporting and audit arrangements applicable to the SHF. These arrangements should be consistent with the general PFM regulatory framework.

47. **Budget system integration.** As a special fund, the SHF will benefit from specific flow-of-fund and record keeping arrangements. However, its programs should be integrated with the State budget, using the national budget classifications and chart of accounts.

48. **Program MIS development and integration.** For the new rental subsidy sub-programs, beneficiary enrollment, monitoring, and payment databases should be integrated in the program's management information system (MIS). Building upon the GSF system, a unified social housing beneficiary database with cross-checks to other pertinent databases should be developed. The payment database should be linked to the program accounting system.

49. **Internal audit.** The internal audit function should be established in the SHF, reporting to the Board through the Audit Committee, to contribute a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes of the SHF. As opposed to the transaction-level reviews performed by financial controllers, the internal audit function would focus on:

- Measuring the inherent and residual risks associated with improper benefit payments, and planning its audit work program accordingly.

- Using analytical procedures, information system audit and assurance standards, and data mining tools – for which due access to the MIS databases for audit purposes should be secured.
- Undertaking spot checks and field visits regularly to validate continued relevance of internal controls, including the quality of the complaints mechanism.
- Following up on the timely implementation of audit recommendations.

50. **Financial reporting.** The SHF and its sub-programs should be subject to periodic and timely reporting on budget execution, using the GFMIS or an accounting system that can seamlessly feed information into the GFMIS. Additional financial information should include the geographical distribution of benefits and the correlation of benefits paid to income level of beneficiaries. The financial reports should be publicly available through the SHF websites.

51. The Bank will work with the SHF to develop an Integrated Reporting pilot. This will present a pioneer opportunity in the MNA Region to bring different elements (financial, nonfinancial, governance, environment and social) together, under an incremental capacity development approach that will lead to the issuance of reports around year three of implementation.

52. **External audit.** Program financial statements would be audited by an independent audit firm, with terms of reference that will also include verification of some of the DLIs. The results from these audits should be made public as per the provisions of the financing agreement.

53. **Complaints and grievances mechanisms.** The SHF needs to develop the mechanisms for handling complaints and grievances by June 30, 2016<sup>44</sup>. Program beneficiaries or third-parties should be able to lodge complaints through easy-to-access channels. Each complaint or grievance should be recorded and addressed to the appropriate level for action, with feedback given to the complainant on the action taken applying service standards. Special procedures should be in place for the proper handling of complaints relating to allegations of fraud and corruption.

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<sup>44</sup> As specified in the Program Action Plan (Annex 8).

## ANNEX 6: Summary Environmental and Social Systems Assessment

1. An Environmental and Social Systems Assessment (ESSA) was prepared in accordance with Operational Policy 9.00 for PforR financing. The ESSA reviews the capacity of existing Government systems to plan and implement effective measures for environmental and social impact management and to determining if any measures would be required to strengthen them.

### A. Program Environmental and Social Benefits, Risks and Impacts

2. The Program has clear boundaries within the demand side of the SHF. No supply side activities will be supported by the Program, therefore the scope of the assessment is limited within the demand-side. The following factors support this limitation of scope:

- Beneficiaries of the three sub-programs supported by the Program have the liberty to choose any housing unit or apartment on the open housing market, without any obligation to select a house supplied by the SHF. The eligibility criteria to access subsidy in one of the sub-programs is limited to proof of income and having the housing unit within the classification of low and medium-income households.
- The expenditures of the Program are limited to the subsidies for the three sub-programs, in addition SHF overhead, policy, planning, and programming, and M&E.

3. Given the boundaries of the Program scope, no major environmental and social impacts and risks are expected. There will be no land acquisition, construction activities, or civil works. The Program does not include any of Category-A type investments, nor does it pose a risk for natural habitats or physical cultural resources. The Program does not include activities that generates considerable pollution to any environmental media and does not pose any risks to land use or natural resources. Also, there are no negative impacts related to land taking or livelihoods are expected to result from the Program.

4. **Environmental benefits.** The Program will yield some environmental benefits, as the results are expected to improve the efficiency of the housing sector, especially through occupation of existing vacant units. This would result in rationalizing construction activities for housing projects with less associated environmental risks. This rationalization of construction activities would also lead to less growth of informal settlements, which would lead to minimizing associated environmental impacts. The Program will also help to reduce commuting for employment, and one of the DLIs will focus on increasing the number of housing program beneficiaries who live near employment centers, which could result in less environmental impacts from traffic.

5. **Environmental risks.** On the other hand, there might be some community risks related to occupying housing units with some structural stability issues or with low fire safety precautions, either due to some defects that happened during the construction of the building or lack of maintenance and unsuitable operational practices. For new housing units this risk is quite low because there are explicit legislation and engineering codes for the construction of buildings, and it is a prerequisite for buildings supplied by Government entities, or private developers participating in the Program, to comply with those safety standards or, otherwise, their buildings will not be licensed by the local authority, and, hence, will not be able to connect to utilities. For existing units this risk may be relatively higher because good maintenance, which is not consistent among the existing buildings, is an important factor that reduces such risk. The PAP includes requirements that buildings used by the Program beneficiaries have valid occupancy certificates.

6. ***Social benefits.*** The Program will positively contribute to solving the housing challenge by facilitating access to appropriate ownership and rental housing schemes among low- and middle-income groups, which will also contribute to the discouragement of the growth of the informal and unstructured housing. The Program will accommodate low-income households who lack financial capacity and lack assets to place for loans guarantees. The Program will work to ensure equitable access to social housing by various socially marginal groups, including female-headed households, families in marginalized Governorates, and lagging regions, as well as, groups with special needs. The Program will also have indirect social impacts, such as reducing commuting time and the associated cost. The enhanced institutional capacity should contribute to better management for the Program to ensure that the low- and middle-income households will benefit.

7. ***Social risks.*** A number of risks have been identified as part of the ESSA consultation process, which are mainly relate to the limited institutional capacities that is regarded as a crosscutting threat for the Program sustainability. Main risks identified are: (i) leakage of the Program benefits to households that are not eligible; (ii) inability to reach needy and priority cases; and (iii) limited capacity to handle potentially high volume of grievances and fragmented grievance redress systems.

## **B. Description of the Existing Environmental and Social Management System**

8. At the program level, providing demand-side subsidies for ownership and rental of low- and medium-income households does not require special environmental licensing or EIA requirements. In terms of building safety, the Building Law 119 of 2008 includes stipulations for ensuring the building safety and validity for use, and a detailed inspection system for the validity of buildings carried out by local units. The inspection of building safety after construction is usually promptly performed so as to enable the connection of utilities to the buildings. For existing buildings, the inspection is usually not performed on a frequent basis because of the limited number of inspection staff. Accordingly, the recommended PAP includes measures to have safety inspection certificate of existing buildings as a pre-request document for applications. The certificate would be cleared by the correspondent Local Unit, or through authorized consultants delegated by the local units.

## **C. Environmental and Social Measures in the Program Action Plan**

9. ***Environmental measures.*** The PAP includes measures to maximize environmental benefits and to minimize risks. Program beneficiaries will be guided to achieve better energy efficiency and waste management practices to maximize environmental benefits. It is recommended to have a standard energy consumption rate for each type of household in cooperation with Ministry of Electricity, and if the Program beneficiary achieved this target rate or less consumption, he would be subject to have incentives that would be according to a mechanism to be designed during the program implementation. An awareness leaflet about best waste management practices should be provided to each beneficiary when he receives documents related to the Program (contracts, receipts, etc.). Communication would be established with the Ministry of State for Environmental Affairs to get enough numbers of these leaflets. In order to make sure that existing buildings have sufficient safety measures as stipulated in Law 119 of 2008 and relevant Engineering Codes, a valid occupancy certificate should be submitted by the owner of the unit as a condition for receiving the subsidy.

10. ***Social measures.*** The enhancement of the institutional capacities is a key requirement and it should involve assigning the needed human resources, training and equipping them with

the tools needed to implement and monitor these measures. In order to implement the Program with a view towards maximizing the social benefits, the following measures should be taken:

- Designing and implementing context sensitive information sharing mechanisms, with support from the World Bank. The SHF will help the Program to pilot localized information dissemination modalities in collaboration with non-governmental organizations.
- Designing and implementing consultation, communication and reaching out plans. The SHF will be implementing broad campaigns to increase the awareness of their programs and through the local social officers ensure adequate consultation.
- Establishing a robust grievance redress mechanism. The SHF will streamline and strengthen the grievance redress mechanisms to be simple, responsive and accessible both locally and nationally.

11. The SHF will need to mobilize appropriate human resources to take the lead in the implementation and following up on these measures. At the central level adequate staffing will be provided to make data and information widely available and mainstream grievance redress mechanisms. Local teams should be also mobilized at the Governorate level in charge of the actual implementation.

#### **D. Public Consultation**

12. The Bank conducted a number of meetings, discussions, and two public consultation events with wide range of stakeholders at the central level and with one selected Governorate representing Upper Egypt in cooperation with the Ministry. The consultation engaged Government, NGOs, and beneficiaries from existing social housing programs. The consultation aimed to present the program and the scope of the ESSA to seek the stakeholders' feedback and incorporate in the Program design. The environmental and social issues and inputs recorded during the consultation process were considered and included, as appropriate, in the ESSA. Comments related to the Program design were communicated to the program team for consideration.

#### **E. Citizen Engagement and Beneficiary Feedback**

13. Increasing voice, participation, and accountability is a critical priority in the region. Citizen engagement will ensure transparent and effective processes for greater citizen voice and participation in the preparation, implementation, M&E of the Program; with the objective of improving accountability and thereby increasing the development benefits of the project.

14. The aim is to maximize client participation by incorporating citizens' voices into the Program. Consultations with a wide range of stakeholders has already started and will continue throughout the project to ensure beneficiary informed design, implementation and evaluation, and continuous buy-in and ownership of stakeholders, in particular through the increased focus on accountability within the program and designation of local social officers. In order to ensure that the Social Housing Program (SHP) delivers services that are relevant and adapted to its beneficiaries (clients), beneficiaries' feedback mechanisms will be integrated in the Program. Citizen engagement mechanisms can also help mitigate high levels of complaints that the program may receive, as identified in the social safeguards assessment.

15. The Program will employ a two-pronged approach to feedback loops through: (i) customized, sustainable, context-specific feedback mechanisms that directly collect feedback from beneficiaries; and (ii) a return channel from the Program to beneficiaries where the beneficiaries are updated on the actions taken based on their feedback. Beneficiaries will



provide feedback on the services obtained from the different units within SHP, with the aim of informing the SHP on their experience and needs. This will enable SHP to improve the services within the housing program and match the needs of its clients. The authorities' capacity to communicate back to clients through a mass based communication method will be developed. This will enable the Program to strategically communicate back on its actions and services to better serve client needs. Beneficiaries' feedback will be collected through an appropriate combination of web-based - mobile technologies like SMS and hotlines, and traditional feedback mechanisms. Client's satisfaction will be part of the program's M&E framework, and its operation will be monitored through PAP. Currently there is a weak grievance system in place where all complaints are handled through the Citizen's Service Office in Cairo under the Executive Agency of Social Housing, and there are no formalized and streamlined mechanisms for receiving citizen's feedback or complaints.

16. **Expected outcome.** Transparent and efficient financing and non-financing processes, ensures that potential beneficiaries are treated fairly with adequate access to timely information. This allows the flagging of problems and addressing them at an early stage.

17. **Methodology.** Beneficiaries' feedback will be made public and will be used for rating the Program's services. This would allow the Program to provide quality services and the beneficiaries to stay engaged in the provision of feedback. While applying for loans, beneficiaries will have to provide a phone number, which could be used to call them and get their feedback on their experiences with the Program.

18. Two types of feedbacks will be collected: Monthly and systematic feedbacks: (i) randomized monthly feedback will be collected through phone calls from the beneficiaries applying for financing, which can be used for feeding the M&E framework; and (ii) systematic feedback using traditional methods, IT and mobile technologies will be requested from two groups: beneficiaries participating to the financing application process (applicants); and potential beneficiaries who should have access to information related to the financing application process but have not applied (potential applicants).

## **F. Information Collected**

19. **Applicants:** At every stage of the application process different information pertaining to information usefulness, service quality, feeling of corruption, feeling of being discriminated, etc. will be collected from applicants. In parallel to data collected from applicants, an additional set of data will be collected on the applicant's demographic and on the ratio between applicants by demographic to total applicants receiving benefits. These two sets of data will be public and analyzed to ensure that there is neither bias nor issues in handling of the application process. Eventual potential problems could range from misunderstanding of provided information to corruption and discriminatory practices.

20. **Potential applicants.** Feedback from potential beneficiaries will assess their perception of the application process for ensuring that they have access to and understand the right information and that they are not subjected to hidden discriminatory measure.

21. **Data.** Information on customer experience and grievances will be used to improve the programs within the SHF through the M&E channels of the Program. In addition, the information will be published and presented to the beneficiaries, ensuring increased transparency through closing of the feedback loop.)

## ANNEX 7: Integrated Risk Assessment

<b>1. PROGRAM RISKS</b>			
<b>1.1 Technical Risks</b>	<b>Rating:</b>	<b>Substantial</b>	
<p><b>Description:</b> An increase in inflation/interest rates would make the effective cost of subsidies higher than anticipated. This risk is particularly pronounced when the CBE stimulus program will be phased out. Another risk is economic stagnation, when unemployment might increase even further and real incomes might decrease.</p>	<p><b>Risk Management:</b> These risks are beyond the control of the Program, and will be monitored.</p>	<p><b>Resp:</b> Both</p>	<p><b>Stage:</b> Implementation</p> <p><b>Due Date:</b></p> <p><b>Status:</b> Ongoing</p>
<p><b>Description:</b> Lack of private developer participation in the low-income housing market could undermine the financial sustainability of the SHF.</p>	<p><b>Risk Management:</b> Through the operation, the Bank will provide technical support for the design of policies and PPP arrangements that facilitate private developer participation in the low-income segment of the housing market.</p>	<p><b>Resp:</b> Both</p>	<p><b>Stage:</b> Preparation and implementation</p> <p><b>Due Date:</b></p> <p><b>Status:</b> Ongoing</p>
<p><b>Description:</b> The quality of the rental program design could undermine the technical and financial soundness of the SHF. The decision to create a supply-side public rental housing program with insufficient rent levels and allocations for operations and maintenance could drain resource from the Fund and compromise the quality of the housing units.</p>	<p><b>Risk Management:</b> Through the operation, the Bank will focus implementation support on the design of the national housing policy and rental housing programs. The foundation for the design of policies and programs will commence during preparation and their implementation will be incentivized through DLIs. The SHF is planning to launch the rental programs on small scale and experiment with various implementation models before scaling up.</p>	<p><b>Resp:</b> Both</p>	<p><b>Stage:</b> Preparation and implementation</p> <p><b>Due Date:</b></p> <p><b>Status:</b> Ongoing</p>
<p><b>Description:</b> Accurate and effective targeting of subsidies to avoid leakage is a risk for both the rental housing and homeownership demand-side programs.</p>	<p><b>Risk Management:</b> To address this risk, the operation will support the strengthening of housing M&amp;E systems, including unification with other household subsidy programs, and incentivize accurate targeting through DLIs that incorporate post-occupancy review of household profiles.</p> <p>Moreover, the team will work on alleviating any potential risk through: (i) focusing most of the support for SHF to assist its managerial and operational systems building sound governance for the SHF in the early steps of the disbursement. Disbursement will depend on progress in these areas. Having the World Bank engagement from the early stage of the program, is of critical importance; and (ii) the SHF is primarily intended at correcting known weaknesses in the current housing policy management in Egypt, and as such is a worthwhile ambitious step. In the meantime, most of the funds go to direct subsidies, and the great majority to the AMP which already has a proven system of operation.</p>		

	<b>Resp:</b> Both	<b>Stage:</b> Implementation	<b>Due Date:</b>	<b>Status:</b> Ongoing
<b>Description:</b> The Program is focused on the demand-side and no construction, civil works or land acquisition will occur in the part of the Program financed by the Bank. The majority of low-income housing will be built on uninhabited public land either by public or private developers, and involuntary resettlement impacts are very unlikely to happen. However this risk could increase, as the SHF seeks to find better located land closer in to the urban core. The risks of construction works are also out of the scope of the Bank financed supply side. Construction works are regulated through national labor legislation and guidelines. However, the compliance with these guidelines varies according to the contractor and monitoring/enforcement procedures	<b>Risk Management:</b> Technical assistance and capacity building will be provided to SHF to enhance the capacity to address the risks related to land acquisition, resettlement, occupational safety of construction workers and adequate handling of building chemicals and wastes. The capacity building will enable SHF to monitor these risks during the Program implementation. These actions would enhance SHF due diligence, have a positive overall impact on SHF operations and will ensure the Program sustainability.			
	<b>Resp:</b> Both	<b>Stage:</b> Implementation	<b>Due Date:</b>	<b>Status:</b> Ongoing
<b>Description:</b> A well-functioning land and property registration system is fundamental for developing an active mortgage finance system, attracting investments, and creating an enabling investment climate. To include informal housing units in a demand-side rental program, and thereby alleviate the housing and employment center mismatch in metropolitan areas, would also require enhancements to the land and property registration system. However, this is controlled by the Ministry of Justice, and therefore outside the direct control of the Ministry.	<b>Risk Management:</b> It has to be noted that slow progress in AMP was mostly due to the macroeconomic conditions after the revolution and the retraction of land contracts. Issues like foreclosure have been addressed by the recently amended Real Estate Law. On property registration, the Tri Party Agreement has addressed the problem in the New Communities, where there is the majority of new houses, including low-income houses.			
	<b>Resp:</b> Both	<b>Stage:</b> Implementation	<b>Due Date:</b>	<b>Status:</b> Ongoing
<b>Description:</b> Capacity building activities is a critical element for the success of the Program. There is a risk to implementation if trust fund resources are not secured.	<b>Risk Management:</b> The capacity building activities will require a combination of inputs delivered by individual technical experts, both from within the World Bank and international experts. These activities will be Bank-executed. In parallel, the Program will incur expenditures related to institutional strengthening, including, for example, contracting of specialized staff in SHF; procurement of IT systems for internal audit, M&E, and beneficiary databases; contracting of local firms to conduct surveys and studies necessary for planning and policy design; execution of public awareness campaigns; and workshops with the main stakeholders from relevant government entities and the private sector. Trust funds are currently being pursued, and the team will work to secure them.			
	<b>Resp:</b> Both	<b>Stage:</b> Implementation	<b>Due Date:</b>	<b>Status:</b> Ongoing

<b>1.2 Fiduciary Risk</b>	<b>Rating: Substantial</b>
<p><b>Description:</b></p> <p><i>Country system risks.</i> While the Government of Egypt’s country public financial management (PFM) systems have been deemed adequate for budget support operations, the stagnation in some areas of PFM reform is a concern that influences fiduciary risk.</p> <p><i>Program-specific risks.</i> On the program side, the inherent fiduciary risk involves the risk of providing subsidies to ineligible beneficiaries, either due to fraudulent application by beneficiaries, political interference to influence targeting, or errors. The Bank has been monitoring the operation of the mortgage-linked subsidy program, but the details of the rental subsidy scheme is still to be designed. The institutional structure and systems of the SHF, the main implementing agency, will be built over the next months.</p>	<p><b>Risk Management:</b></p> <p><i>Country system risks.</i> The Bank is engaged in dialogue and technical advice with the Government in the areas of financial controls, public procurement, and supreme audit institution development. Furthermore, the Bank and the Ministry of Finance are starting to collaborate towards the modernization of the budget legislation and revamping the PFM reform strategy.</p> <p><i>Program-specific risks.</i> The Bank is providing technical support to improve subsidy targeting systems and procedures in the SHF, with a view to ensure that the funds reach the intended beneficiary households. The Bank is also playing an important role advising the development of institutional governance and systems of the SHF, building upon existing arrangements for GSF programs. The systemic fiduciary risk mitigation issues are addressed through the Program Action Plan.</p> <p>Other mitigating measure include: (i) creating subsidy management systems that align incentives among lenders, beneficiaries and government, as explained in the description of the AMP; (ii) building strong monitoring and evaluation systems, and establishment of a competent internal audit function, which are part of the Result Areas and DLIs; (iii) amendments of the Real Estate Finance Law No. 148 for the year 2001 (amended in July 2014) included the following: restricted use of allocated housing units to only the beneficiary and his/her household; banned disposition of purchased unit for seven years from the date of purchase; and two years imprisonment and/or financial penalties (LE 50,000-100,000) to sanction the provision of fraudulent data in applying to the mortgage subsidy. This is in addition to returning the unit and refunding the subsidy. The audits by the Supreme Audit Institution and independent auditors provide an additional layer of independent assurance.</p> <p><b>Resp:</b> Both                      <b>Stage:</b> Preparation and implementation                      <b>Due Date :</b>                      <b>Status:</b> Ongoing</p>
<b>1.3 Environmental and Social Risk</b>	<b>Rating: Moderate</b>
<p><b>Description:</b></p> <p>Environmental risks are anticipated to be limited, but could include the risk that program beneficiaries could use housing units with structural stability issues or with low fire precautions measures.</p>	<p><b>Risk Management:</b></p> <p>There are explicit legislation and engineering codes for the construction of buildings including sufficient safety measures, and it is a prerequisite for buildings to comply with those safety standards or, otherwise, these buildings will not be licensed will not be able to connect to utilities. For older buildings the beneficiaries will be requested to provide a validity certificate for those buildings ensuring that they are in compliance with safety standards</p> <p><b>Resp:</b> Client                      <b>Stage:</b> Preparation and implementation                      <b>Due Date:</b>                      <b>Status:</b> Ongoing</p>
<p><b>Description:</b></p> <p>Social risks are: (i) the possible leakage of the program benefits to cases that are not eligible; (ii) the inability to reach needy and priority cases; and (iii) the limited capacity to handle potentially high volume of grievances.</p>	<p><b>Risk Management:</b></p> <p>Social risks will be minimized through enhancement of the institutional capacities of the SHP staff, who shall (i) design and implement context sensitive information sharing mechanisms, 2) design and implement consultation, communication and reaching out plans and 3) establish robust local level grievance system mechanism.</p>

	<b>Resp:</b> Client	<b>Stage:</b> Preparation and implementation	<b>Due Date:</b>	<b>Status:</b> Ongoing
<b>1.4 Disbursement linked indicator risks</b>	<b>Rating:</b>	<b>Substantial</b>		
<p><b>Description:</b> Because the operation will be supporting the establishment of a new program, there is a risk that the DLIs selected are too ambitious or do not adequately incentivize the transformation of the housing sector that is envisioned.</p>	<p><b>Risk Management:</b> During the design of the operation, the Bank and the client worked closely on the selection of DLIs and their targets. This risk will be mitigated by balancing and sequencing the indicators used, combining actions, outputs, intermediate and ultimate outcomes.</p> <p>Other key risk management measures include: (i) using straightforward and scalable DLIs when possible; (ii) computing DLI targets in a conservative fashion; and (iii) ensuring strong DLI verification protocols.</p> <p>Risk management during implementation will include: (i) continuous monitoring of DLI progress; and (ii) strengthening capacities in weak areas potentially affecting DLI achievement.</p>			
	<b>Resp:</b> Bank	<b>Stage:</b> Preparation	<b>Due Date:</b>	<b>Status:</b> Completed
<p><b>Overall Risk Rating</b> According to the risk assessment undertaken by the Bank, the mitigation of identified risks is possible within the design of the Program. However, given the novelty of the results-based approach in Egypt and the novelty of the SHF, the overall risk is rated as substantial.</p>	<b>Substantial</b>			

## ANNEX 8: PROGRAM ACTION PLAN

Action Description	DLI*	Covenant*	Due Date	Responsible Party	Completion Measurement**
<b>Technical Design Measures</b>					
Multi-institutional governance structure established and functioning to facilitate coordination across Government entities (Advisory Committee)	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2015	SHF/the Ministry	
Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system	<input checked="" type="checkbox"/>	<input type="checkbox"/>	December 31, 2016	SHF	SHF prepares an annual report describing M&E unit staffing, data collection processes and procedures, indicators and their analysis, and means of public dissemination of housing data.
Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand-side housing subsidy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF	A report describing the mechanism as outlined in the definition of the DLI is submitted to the World Bank along with documentation demonstrating that the mechanism has been endorsed by the SHF Board of Directors.
Full staffing of SHF based on agreed organizational structure and staff skills	<input type="checkbox"/>	<input type="checkbox"/>	January 31, 2016	SHF	
Integrate housing location criteria and requirement to collect physical coordinates into housing program guidelines	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2017	SHF	
Monitoring and enforcement of location criteria for housing programs	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF	
Establishment of unified beneficiary database	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF	
<b>SHF Governance and Financial Management Strengthening</b>					
The operational and financial management arrangements for the rental subsidy should be laid out in regulation and detailed in a Procedures Manual, consistent with GSF's Manual when applicable. The SHF Procedures Manual should also regulate the budgeting, cash management, accounting, financial reporting and audit arrangements applicable to the SHF.	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF	
SHF programs should be integrated with the State budget, using the national budget classifications and chart of accounts.	<input type="checkbox"/>	<input type="checkbox"/>	January 1, 2016		
For the new rental subsidy programs, beneficiary enrollment, monitoring, and payment databases should be integrated in the program's management information system (MIS)	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016		

Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with the SHF.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Dec. 31, 2016		
The SHF and its sub-programs should be subject to periodic and timely reporting on budget execution, using the GFMIS or an accounting system that can seamlessly feed information into the GFMIS. The financial reports should be publicly available through the SHF websites.	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016		
The annual audited financial statements of the Program are issued on a timely basis and made public.	<input type="checkbox"/>	<input type="checkbox"/>			
The SHF needs to establish robust integrated grievance redress mechanism and link it to the local level grievance redress system. SHF will also need to design and implement an improved mechanism for disseminating information.	<input type="checkbox"/>	<input type="checkbox"/>	June 30, 2016	SHF with support from the WB team in assessing and designing the system	A report describing the grievance redress system is submitted to the World Bank along with documentation demonstrating that the mechanism has sufficient funding.
<b>Environmental and Social Measures</b>					
Provide incentives for energy savings among Program beneficiaries through setting targeted energy consumption rates and awareness leaflets about the best practices for energy saving. Households achieving the targets are subject to incentives according to mechanisms, which will be designed during the program implementation.	<input type="checkbox"/>	<input type="checkbox"/>	Upon program approval	SHF in coordination with Ministry of Electricity. WB team to support designing incentive system	Review of the energy saving achievement among program beneficiaries and associated incentives
Raise beneficiaries' awareness about waste management through distributing leaflets that explain the importance of waste management at the household level and the adequate best practices. These leaflets shall be distributed to the beneficiaries, along with documents related to the Program (such as contracts, receipts, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	Upon program approval	SHF in coordination with Ministry of State for Environmental Affairs	
Ensure that beneficiaries use safe buildings through Including building validity certificate among required application documents	<input type="checkbox"/>	<input type="checkbox"/>	Upon program approval	SHF	
Guidelines and training provided to SHF staff and other stakeholders about addressing occupational safety related to construction activities and handling of building chemicals and construction wastes					
Deliver training and capacity building to the SHF and other relevant stakeholders on issues related to land acquisition, involuntary resettlement, best practices in handling affected communities/ individuals and enhancing the monitoring and evaluations capabilities to manage risks related to involuntary resettlement	<input type="checkbox"/>	<input type="checkbox"/>	Upon program approval	WB to support SHF	

Strengthening the institutional Setup through developing comprehensive ToRs for the social team to be hired, and hiring social officers	<input type="checkbox"/>	<input type="checkbox"/>	Upon program approval	WB to support in the design and SHF to implement
Strengthening the intuitional capacity through developing and delivering training packages to the relevant teams, and sharing best practices and similar successful global experiences	<input type="checkbox"/>	<input type="checkbox"/>	year 1 (first three months after approval)	
Designing and implementing context sensitive information sharing and disclosure mechanisms	<input type="checkbox"/>	<input type="checkbox"/>	Design during the first three months after approval and implementation will be ongoing	WB to support in the design and SHF to implement
Designing and implementing consultation, communication and reaching out plans	<input type="checkbox"/>	<input type="checkbox"/>		
Establishing robust integrated grievance redress mechanism and link it to the local level grievance redress system	<input type="checkbox"/>	<input type="checkbox"/>		



## ANNEX 9: Implementation Support Plan

1. During Program preparation, the Bank's support has focused primarily on assisting the Ministry to establish the regulatory and organizational framework for the implementation of the SHF based on lessons learned from international experience. Specifically, the Bank has provided input and guidance on the Internal Regulations for SHF as well as its organizational structure and projected staffing needs (number of staff and qualifications).
2. Key Bank support initiated during Program preparation will be sustained during Program implementation, including support for institutional capacity building and the design and roll-out of specific demand-side housing subsidy programs. The Bank's input, drawing upon international experience, is focused on improving Program design, performance, processes, and capacity of the SHF. Some of the specific areas for which the Bank will provide technical support are detailed below. The required technical support will be a combination of inputs delivered by individual technical experts, both from within the World Bank (including from the Cairo office) and external experts, training and workshop activities with the main stakeholders from government and private sector, and support provided by information technology firms to expand and establish SHF's IT systems.

### SHF Policy, Programming, M&E

3. ***Strengthening the fund's capacity to update the existing housing strategy to reflect the latest market developments and change in priorities.*** The Bank will advise the SHF on the National Housing Strategy, reflecting recent developments and changes in priority areas, focusing on policy tools to improve the efficiency of the housing system in Egypt, including: (i) addressing supply-side and legal constraints in the rental housing market, the mortgage market, and the land market; (ii) addressing the vacant and unfinished housing problem; (iii) improving the coordination of housing, infrastructure and employment policies, including by providing advice on contractual arrangements with the relevant housing entities; and (iv) the design of PPP arrangements and policies to increase private sector participation in the low-income housing market.
4. ***Preparing a coherent and transparent housing subsidy system.*** Technical support will be provided to SHF to establish efficient and equitable targeting and allocation systems as well as to maximize the links between housing programs, social and economic poverty alleviation, and labor markets (increased housing mobility, improved location of social housing).
5. ***Accountability, research, monitoring and evaluation.*** Technical support will be provided for establishing an on-site audit function by SHF and defining the format and content of information to be provided by housing agencies on the implementation of the social housing programs, including information on construction number, cost, and occupancy (including vacancy rates). Advice will be provided on the design of a data collecting system, including format and content of data to be collected from each housing agency, technical means, single identification tracking number for beneficiaries and applicants, and contractual arrangement between SHF and housing agencies.

### Financial Management

6. ***Strengthening the fund's financial management capacity and assurance mechanisms.*** The Bank will provide advisory and implementation support on the budgeting, cash management, controls, accounting, financial reporting, and internal audit arrangements related to the fund and sub-programs.

### Social and Environmental Risk Management:

7. ***Strengthen SHF capacity for environmental and social risk management.*** The Bank will provide support to the SHF to increase its capacity to perform the required environmental and social aspects related to the Program, including capacity of Local Units to screen for buildings safety, the capacity of the SHF and associated staff to verify beneficiary eligibility, stakeholder communication

and consultation plans, grievance redress mechanisms, and information dissemination and transparency.

8. ***Strengthen the use of data and grievances to improve programs.*** A particular emphasis will be put on support in using data on customer satisfaction and grievances to improve the management on the programs. Additional support will be on methods for closing the feedback loop with beneficiaries.

### **Affordable Homeownership**

9. ***Expanding low-income mortgage lending.*** The Program will support the SHF in incorporating new banks and geographically dispersed bank branches into its subsidy approval and allocation system for the AMP. GSF needs enhanced IT systems to deal with the larger number of applicants and beneficiaries it must serve. Additional support will be provided to support the expansion of mortgage lending in general and for down-market lending specifically. Support will be provided for the standardization of administrative systems (origination, servicing, and loan management) in general and for low-income mortgage lending specifically across banks and mortgage finance companies, and the integration of these systems with the AMP administrative requirements.

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

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

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

### **Rental Housing Sector**

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

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

### **Implementation**

15. Implementation support will also include activities typical in all PforR operations such as reviewing implementation progress and achievement of Program results and DLIs, helping the client to resolve implementation issues and to carry out institutional capacity building, monitoring the performance of Program systems, including the implementation of the PAP, and monitoring changes in Program risks as well as compliance with the provisions of any legal covenants.

16. Most of the Bank's implementation support team members (fiduciary, environmental and social systems, and fraud and anti-corruption), including the Task Team Leader, are either based in the Egypt Country Office or in the Region. This will ensure timely, efficient, and effective implementation support to the Ministry on operational issues. Formal implementation support missions and field visits will be carried out semi-annually, or as deemed necessary, and will include relevant sectoral staff. However, the Bank team's support to the SHF will need to be bolstered by specialized technical expertise to provide guidance, review policy measures and regulations, share international best practice, and review achievement of DLIs. Therefore, it is anticipated that trust fund resources will be sought to augment the Bank's implementation support.