

ARAB REPUBLIC OF EGYPT

Concept Note, Economic and Sector Work (ESW)

NATIONAL AFFORDABLE HOUSING POLICY AND SUBSIDIES IN EGYPT

Joint Concept Note for: National Affordable Housing Policy (P092505 Urban Sector Update, MNSSD) and Affordable housing and subsidies (P102748, MNSD)

February 2007

I. BACKGROUND: INTRODUCTION TO THE CHALLENGE

1. During the Presidential elections in 2005, President Mubarak pledged that the Government of Egypt (GOE) will deliver/facilitate the delivery of 500,000 new affordable housing units in the six year period from 2005 to 2011. Based on existing affordable housing supply and subsidy practices (per unit subsidy amounting to 70-75% of total development cost inclusive of infrastructure and the opportunity cost of land), the price tag of this program would amount to USD5 billion, which means yearly subsidies of USD0.7-0.75 billion per annum (around 0.8% of GDP) to deliver 85,000 units. Two entities work to deliver the President's National Affordable Housing Program (NAHP), but both face major challenges related to implementation.

2. The first entity is *the National Affordable Housing Program Agency (NAHPA)*, placed under the Ministry of Housing, Utilities and Urban Development (MHUUD). NAHPA offers public or private developers upfront lump-sum subsidies of up to LE15,000 per eligible limited income household to reduce the cost of newly built housing units, in addition to making available in new towns and at no cost land and off-site infrastructure through the MHUUD's New Urban Communities Authority (NUCA). Basic program elements include 63 sqm units in walk-ups, 50% in new towns and 50% in existing cities. Households should be eligible to contract 20-year mortgage loans extended by Banks (so far mostly public banks including National Bank of Egypt, Misr Bank, and Housing and Development Bank—HDB), at fixed, below-market interest rates of around 10% (market priced mortgage loans would be priced at 12-15%). The subsidy is paid directly to the developers to lower housing prices. A 7.5% annual increase of the monthly installment is envisaged in order to minimize the initial monthly payment (LE160 in year 1) and boost the credit affordability. A down payment of only LE5,000 is required. Since then, several other proposals have been put including expandable core houses and sites-and-services.

3. Private developers were invited to express interest in either 100% affordable housing developments or in mixed income/use developments under NAHP and 27 companies have already registered for the program. Yet, the NAHP remains at a very early stage, and private sector engagement is yet to start. By the end of 2006, 87,699 units were nominally under NAHP, of which 27,338 units were built and delivered to beneficiaries in new towns and governorates and the rest under construction.¹ Yet, only 13.1% of all the units completed or underway were developed under the proposed NAHP institutional protocols and financial

¹ In Governorates, 22,906 units were built and delivered to beneficiaries and 43,872 units were under construction, mostly by governorate housing directorates and to a lesser extent General Authority for Housing and Building Cooperatives (GAHBC) and MHUUD's Housing Finance Fund. In new towns, 4,432 units were delivered and 16,479 units were under construction, mostly by the GAHBC and to a lesser extent NUCA.

system including access to mortgage finance (with the consequence that public banks would be expected to scale up subsidized lending). The bulk of the first year units were in reality carryovers from the existing public housing delivery system. It is thus too early to assess the NAHP. Yet, even though NAHP announced welcome improvements over past housing subsidy programs (emphasis on private developers, beneficiaries to choose from several financing options, and introduction of new housing typologies), it still remains a supply-side subsidy program with inherent limitations (on whether it reflects actual demand/needs, possible abuses by developers and leakage, and the need to identify eligible households as in a demand-side subsidy program) and is still at a very early implementation stage to be assessed. The program also seems to lack sufficient monitoring. Finally, the challenge to harmonize and unify under one roof the multiple on/off-budget subsidies underway remains.

4. The second such entity is *the Guarantee and Subsidy Fund (GSF)*, placed under the authority of the Ministry of Investment (MOI). Its mandate is to offer an upfront subsidy for households with a monthly income below LE1,500. As the monthly mortgage repayment cannot exceed 25% of household income, the resulting maximum monthly installment is LE375 (which implies in reality moderate/lower middle income groups). The upfront subsidy of up to LE10,000 can reach a maximum of 15% of the value of the housing unit, which in turn cannot exceed LE75,000. Households are required to make a 10% down-payment. The mortgage loan is extended at market terms. Contrary to the NAHP, the GSF is a demand-side subsidy. It applies to existing units on the market (provided their value satisfies GSF terms and are either registered or deemed to be “registerable”) and to new construction (developers of GSF-approved schemes in new towns can apply to NUCA to obtain land at no cost and off-site infrastructure at 50% of its actual cost).

5. The GSF’s mandate also includes the provision a guarantee to lenders to repay up to 3 monthly installments for households in default/arrears, but this function has not yet been activated. The fact that the mortgage market is still in an infancy stage (primarily as a result of the limited share of urban land and property that is registered) affects the functioning of both the GSF and the NAHP, but the GSF faces an additional challenge in its limited access to adequate budgetary resources. As a result, its subsidies were confined to a few specific cases of NUCA units or assets transferred to the GSF (about 3,000 units).

6. What is clear is that the effective implementation of the NAHP will require delivery of significant support to the implementing entities, as well as harmonization of the numerous subsidy channels on and off-the-budget and establishment of a level playing field. More importantly, the NAHP will represent a major fiscal burden if existing parameters/practices remain unchanged. This prospect has prompted the GOE to rethink existing affordable housing strategies in the aim of reforming the system. The main elements of the new approach were laid out by HE the Minister of Housing who emphasized that the private sector needs to play the dominant role in affordable housing supply within a competitive and transparent framework (with the right incentives in place) and emphasized the importance of the rental market as a viable alternative to home ownership (which is an unaffordable option to some limited-income households and would thus be too costly on a per unit basis and non scalable).

II. KEY ISSUES

What is the nature of the housing problem in urban areas in Egypt?

7. *Since the mid-1980s, the annual growth rate of the urban housing stock (3.6%) was almost double that of the urban population (1.9%). The result is that the total urban housing stock far exceeds the number of urban households and a significant number of units is today vacant (in 2005, 9.49 millions of housing units in urban areas for 6.84 million urban*

households). Taking into account multiple unit ownership, there was in 1996 about 20% of the total urban housing stock that is unused and could be considered available on the market.

8. *During the inter-census period (1986-1996), formal housing production covered 62.8% of the total urban stock produced, with the informal sector responsible for the balance.* During that period, the public sector built 29.5% of all new (formal and informal) housing units built in urban areas during this decade and 47% of the formal housing stock, with the private sector responsible for 33.3% of total housing stock and 53% of formal housing stock. The largest producer of urban housing during this period was the informal sector, conservatively estimated to have delivered 37.2% of all new units².

9. *Over the past 25 years, the public sector has built as much as 36% of all formal housing units supplied in urban areas, which came at a significant fiscal cost of LE26.4 billion.* A plethora of public agencies and programs for direct or supply of affordable housing exist in Egypt today. These include Governorates' housing directorates, housing and development companies, the Joint Projects Agency, the GOHBC, the Housing Finance Fund, the HDB, development agencies, and the NUCA. Together, these entities have delivered 1.26 million public housing units during the period 1982-2005 at a total cost of LE26 billion, excluding the cost of land and off-site infrastructure. Governorates were the largest supplier (with 44% of all public sector-built units), despite limited revenues and mandate restrictions (especially in terms of control over public land in the urban fringe). The housing cooperative system delivered 22% of the public stock, but with a diminishing impact reflected in a much reduced GOHBC budget (20% of former peak of over LE1 billion per year). Finally, NUCA was responsible for 20% of the public stock, but its investment also fell to 5% of its former peak (LE1.1 billion).

10. *The positive trend has been the steady increase of the private sector's share of annual formal housing production over the past decade up to 90%.* With respect to the formal sector, the private sector contributed 64% of all formal housing units built in urban areas between 1982 and 2005, with the total investment having exceeded LE60 billion. Since 1999, the private sector's contribution has been steadily rising (88-90% of all new formal units since 2002 with an average of 145,000 units per year). The public sector's annual average fell to a little over 18,000 units, which points to public sector withdrawal from direct supply and an invigorated private sector playing an increasingly important role in housing supply.

11. These statistics and findings reinforce the argument that *the urban housing crisis in Egypt is not about scarcity but distortions to the housing market caused by an accumulation of ill-conceived and inadequate policies that led over time to creating a mismatch between supply and demand and to severely curtailing private sector investment in housing supply, especially in affordable housing and the rental sector.* The problem manifests itself among other things in a large share of the existing urban housing stock being kept vacant, and in private sector withdrawal from investing in the rental housing sector to focus instead on the upper segments of the market catering for homeownership (which is unaffordable even for middle-income groups in the absence, until very recently, of mortgage finance). It is also argued that there has been a mismatch between housing demand and supply, with an oversupply of formal housing for upper-middle and high-income groups (at the same time as demand was dampening due to weakened purchase power), while on the other hand there is a shortage of supply for low, moderate and even middle-income groups, leaving the informal sector to meet their needs.

² According to USAID TAPR II study, the informal sector is responsible for 45% of the total urban housing stock.

Limited income groups, unable to afford formal housing or adequately located and serviced land upon which to build especially in large cities, found that they had no option but to seek shelter in informal and squatter settlements. Construction costs in the informal sector, even with a 20-30% cost add-on in extra-legal payments to circumvent problems with local authorities and utilities and navigate the bureaucracy associated with informality, are still more affordable than formal housing supply, especially by the public sector. The end housing product is also more suited to people's needs and the progressive construction method is more adapted to their priorities and affordability level. What is interesting is that even in the informal sector, there is an oversupply of housing, estimated in Greater Cairo at 500,000 units and at 15-20% of the total stock in a sample of three informal settlements studied in detail.

12. In summary, *there is a large stock of formal and informal housing units that are vacant and which could be brought back to the market if an appropriate regulatory framework and incentives to owners/developers could be secured and effectively implemented/enforced* (including enhancing the security of property rights to land and real estate, and ensuring more expeditious tenant eviction procedures in case of end/breach of contract terms and conditions). In addition, *the positive trend of increased private sector participation and investment in housing supply needs to be capitalized upon, and obstacles facing the private sector need to be removed, if it is to play the lead role in housing supply.* Adequate (supply-side and/or demand-side) incentives will need to be provided for the private sector to cater to the needs of low and moderate income groups, including making available well located and serviced land, streamlining bureaucratic procedures for land subdivision and building permit issuance and property registration, and enhancing the end-users' affordability levels through among other things enhanced access to housing mortgage finance.

How much housing is needed for limited income groups?

13. In the inter-census period 1986-1996, the average annual supply of urban housing for all income groups was 240,000 units, of which 150,000 by the formal (public and private) sector and 90,000 by the informal sector. Of these units, it is estimated that 152,000-182,000 units were supplied for limited income groups. This comprises all publicly and privately-provided formal housing falling in the "low-cost" and "economic housing" categories³ and a share of informal housing production intended to accommodate limited income groups. The annual housing need of limited income groups is estimated between 165,000 and 197,000 units, whereas the formal sector produced annually 66,610 units about 34-40% of the need. This would imply that the informal sector must have produced 60-66% of the total needed units for poor people, lest there be overcrowding, subdivision of existing units, etc.

14. Going forward, the annual housing need for limited-income groups would thus be expected to amount to **165,000-200,000 units**. The Presidential Program, which its pledge of 85,000 units per year, would thus cover about 50% of the estimated need. Short of the informal sector catering to the remaining 50%, this means that policy reforms need to be put in place to remove the distortions in the housing market that have kept a large number of units vacant and have stifled investment in the rental sector among other things.

Who are limited income groups and what housing can they afford?

15. In accordance with Law No. 148 of 2001, limited income groups that are eligible for government housing subsidies channeled through the GSF are defined as those households

³ Law 106 of 1976 and its amendments classifies housing in Egypt in five categories that differ mainly in surface area, number of rooms, and finish quality: (i) low-cost (*munkhafid al-taklifa*, average 45sqm units); (ii) economic (*iktisadi*, average 60sqm); (iii) average (*mutawassit*, average 90sqm); (iv) above-average (*foq al-mutawassit*, average 100sqm); and (v) luxury (*fakher*, over 125-140 sqm).

earning LE 1,500 or less per month. In urban areas, and in accordance with the 2004-05 Household Income and Expenditure Survey, all households but the top 20 percent are thus eligible for GSF-administered housing subsidy.

16. Around 75% of urban households would not be able to afford a 63 sqm publicly built housing unit costing LE58,000 (inclusive of land and infrastructure cost), even with LE15,000 upfront subsidy (from NHAPA or GSF), only a 10% down-payment, and accessing long-term mortgage finance at the below-market interest rate of 10%. Only the 80th percentile urban household could afford it (yet with a LE12,000 down-payment, larger than that required by NHAPA) through a 30-year mortgage loan (at 14% market rate). This suggests that a government strategy that is solely focused on homeownership will be too costly to the budget and can therefore only reach a fraction of eligible beneficiaries.

17. ***The need for reform.*** The implementation of such a program will require the GOE to accelerate its housing (and land) sector reform program if it is to effectively and efficiently deliver the required number of units. This requires reforming existing policies including:

- (i) Transforming the role of the public sector from direct supplier to enabler of private sector delivery of housing;
- (ii) Reducing high development cost per unit by revising the unreasonably high planning and building standards that lead to inefficient land utilization;
- (iii) Reforming and rationalizing the excessive subsidy package, especially off-budget (e.g. land and infrastructure cost write down) and distortionary (e.g. below-market mortgage interest rate) subsidies that inevitably limit coverage;
- (iv) Addressing the issue of poor site locations that do not reflect people's preferences;
- (v) Reforming public land management practices, wherein many geographic and sectoral public agencies control and allocate public land without coordination or coherence, to ensure an adequate supply of well located (and serviced) land;
- (vi) Developing effective targeting mechanisms to reach limited-income groups;
- (vii) Revising inadequate urban upgrading strategies through *inter alia* land tenure legalization and integrated development that goes beyond today's focus on delivery of basic infrastructure only (especially that informal development with its estimated 30% cost markdown and incremental financing and development model has effectively met the needs of over 50% of the urban population; and
- (viii) Reforming the dysfunctional land and property registration system in urban areas to facilitate access to finance and activate the mortgage market;

18. ***The challenge*** is thus to formulate a coherent national affordable housing strategy that addresses the distortions affecting the urban housing market in Egypt with short and medium/long term recommendations (with a focus on putting in place effective institutional and regulatory frameworks that create the necessary conditions for an efficiently functioning housing market, devising the incentive structure needed to promote increased private sector participation in affordable housing supply and the subsidy package to enable limited-income households to access affordable housing), while at the same time implementing the delivery of 500,000 affordable housing units in the coming six years.

III. OBJECTIVE

19. The objective of this Policy Note, in response to two requests from HE the Minister of Housing, Utilities and Urban Development and HE the Minister of Investment, is to assist the GOE in its efforts to: (a) formulate policies to address existing distortions that prevent limited income households from accessing affordable housing in urban areas and affect the efficiency of the overall urban housing market, including recommending improvements to the existing institutional/regulatory framework, and housing subsidy mechanisms; and (b) put in

place mechanisms to effectively implement the National Affordable Housing Program target of 500,000 housing units through proposing improvements to the two existing implementation instruments, namely the NHAPA and GSF. The Policy Note would develop in conjunction with key stakeholders at the Ministries of Housing and Investment an implementation action plan with short, medium/long term measures.

IV. CONSULTATIONS WITH CLIENTS, DONORS AND STAKEHOLDERS

20. The current effort to assist the GOE in the formulation of affordable housing policies and improved subsidy mechanisms is a work underway since the end of 2005, which involves close collaboration between the GOE's MHUUD and MOI, the World Bank and two USAID-financed projects: Technical Assistance for Policy Reform II (TAPR II) and Egypt Financial Services (EFS). *It is important to note that, per the government's request, the Bank will lead the housing sector policy dialogue with the GOE. USAID-financed projects' mandate in the housing sector is restricted to mortgage market development as part of its focus on financial services; hence interventions financed by TAPR II and EFS—housing demand and technical assistance in land and property registration—retain a discrete nature without involvement in housing sector policy as it is not part of their mandate.*

21. In the end of 2005, the Bank's mortgage market development project team advised the GOE on the design of its social housing program including drafting TOR for a housing demand study (now implemented by the TAPR II project) and technical assistance in land and property registration issues (together with the EFS project). The first phase housing demand study completed by TAPR II in June 2006 and was peer-reviewed by the Bank at the GOE request. After consultation with the Country Director, the Bank's Urban Sector Update ESW team restructured its work program to complete ahead of schedule a study analyzing existing formal and informal housing supply mechanisms as complement the housing demand work, in response to the GOE's MHUUD and MOI request. A first draft was shared with the GOE and USAID in December 2006 for comments and a revised draft is included for review along with the current Concept Note.

22. The GOE has put in place since early 2006 a steering committee comprising of senior officials from MHUUD, MOI, and CAPMAS (the central statistical agency), which meets regularly with the Bank and USAID. Two workshops, to be attended by the Ministers of Housing and Investment and their senior technical staff, are planned on March 11 and April 2-3, 2007, to review the findings of ongoing Bank and USAID work and discuss lessons learnt from international experience and their relevance for Egypt. Preparation will also start for a high-level policy workshop in May-June 2007, expected to be attended by the Prime Minister of Egypt and Cabinet members, which would provide a forum to discuss and build consensus on key policy questions/issues and international experience in housing sector/subsidy reform programs that are relevant to Egypt. These are detailed in the next section. Thus, extensive collaboration is already in place and much work has already been completed.

V. SCOPE AND ORGANIZATION OF WORK AND METHODOLOGY

23. The Bank will take the lead in the high-level policy dialogue with the GOE in the aim of formulating coherent affordable housing policy/strategies, and actionable recommendations to strengthen the implementation of the NAHP. The detailed scope of work and methodology are as follows:

24. **Diagnostic and analytical work:** In addition to the comprehensive analytical work already completed by the Bank and USAID on supply and demand issues, the Bank team will continue analytical work in FY07 through meetings with NAHPA and GSF senior officials, to identify recent achievement and key challenges facing these two entities as they progress in

implementing the NAHP. In FY08, the Bank aims to pursue analytical work related to other distortions affecting the functioning of the housing market, especially related to the rental market, the restructuring of the multitude of existing housing supply and subsidy programs, and regulatory constraints to land and housing development.

25. ***High-level policy dialogue questions, issues and approach:*** In its efforts to assist the GOE in formulating overall government policies related to the affordable housing sector, the Bank will rely on high-level policy dialogue (similar to the approach utilized in the recently completed “public land management strategy” and “access to finance” ESWs). The plan is for a high-level policy workshop to be conducted in May 2007, to be attended by the Prime Minister and key cabinet members (Ministers of Housing, Investment, Finance, Local Development, etc) to present key analytical findings, and discuss/develop consensus on the key policy questions and issues, in light of lessons learnt from international experience, and agree on policy principles and key elements of a “way forward”. The policy dialogue will examine the following key policy questions/issues:

- *Which population group(s) shall/will the GOE channel its housing assistance to? And how will these be identified?* The target group is defined as limited income groups, but also sometimes vulnerable groups, the youth, etc. The policy dialogue will address this issue as well as the pros and cons of targeting on the basis of income, income proxies (assets), geographic/spatial targeting, and other approaches including self-selection through adapted planning and design standards. The dialogue will also examine other criteria used to determine eligibility and priority (demographic and socio-economic characteristics).
- *Will the GOE pursue tenure-neutral or homeownership-biased housing policies? And will government focus on new construction only or equally focus on the existing housing stock through addressing the problem of vacant units and urban upgrading needs?* Developing coherent affordable housing policies regarding household tenure choices and strategies to support homeownership and/or rental is critical. Within current budget constraints, homeownership cannot be expected to be a viable option for all households, especially at current affordability levels. The policy dialogue would examine this as well as the issue of whether (at least within the scope of NAHP) to pursue new construction only or will address existing housing stock issues.
- *How to restructure existing subsidy mechanisms to cover more eligible people and reach them more effectively? Whether to pursue demand-side and/or supply-side subsidies? Whether to have few or many subsidy channels? And which agencies to implement the program?* Based on the quantification of existing off- and on-budget, supply- and demand-side subsidies and operating within the same budget envelope, the aim is to rationalize existing subsidies to reach intended beneficiaries efficiently and to minimize leakage to the extent possible. The merits and challenges associated with demand-side subsidies (rental vouchers, grants towards homeownership, etc) and supply-side subsidies (developer subsidies/incentives, land and infrastructure cost write-down, etc) will be examined in light of lessons learnt from international experience, as well as which entity(ies) is qualified to administer the program and how to minimize administration cost and streamline the process. Recommendations as to existing and proposed subsidy mechanisms will be assessed from the perspective of efficiency, targeting, coverage, transparency, sustainability, and administrative simplicity.
- *As government scales back its direct housing supply role, what entities will fill the gap and what incentives/measures are needed? And what role for government in this new policy approach?* The policy note will examine what incentives are needed to expand the involvement of private sector and where feasible not-for-profits in the

delivery and management of affordable housing, and what measures are required to reduce risks, delays and additional costs. Scaling back government's direct supply role also requires (re)defining the mandate and role of policy-making, regulatory and implementing institutions (including MHUUD, MOI, Ministry of Finance, Ministry of Local Development, etc, as well as Governorates) in addition to putting in place measures to improve inter-agency coordination, checks-and-balances, etc.

- *What recommendations/measures to harmonize existing institutions and housing subsidy mechanisms to make government assistance more efficient?* The policy note will review and recommend improvements and reforms to existing housing programs/subsidies to support development of and access to new affordable housing units, with the aim of rationalizing subsidies, streamlining implementation, and lowering development costs. The idea of unbundling the housing package into its most basic components, implemented in such approaches such as sites-and-services, core houses, etc, will also be examined as an equally viable approach to reduce the cost of housing supply.
- *What measures to improve the functioning of the GSF?* The Policy Note will examine in detail (in a self-contained policy note) the functioning of the GSF, the obstacles and challenges facing it (particularly the issue of funding, and the implementation of the guarantee function) and propose recommendations to improve its operations, within the scope of overall GOE affordable housing policies.

26. ***Overall housing sector reform:*** The high-level policy dialogue with the GOE over housing sector reform is expected to continue in FY08 to address in detail key distortions hindering the functioning of the urban housing market and follow-up technical assistance, with a focus on:

- *What policies to improve the functioning of the housing market and remove existing distortions?* Follow on policy notes will examine in detail policies and measures to expand access of limited income groups to opportunities within the existing housing stock (including rental market policies to enable residential mobility and free unutilized/underutilized units, policies and incentives to bring back to the market part of the large number of vacant units, policies to enable/expand informal and squatter settlement upgrading). Additional work will advise in detail on needed revisions to land use planning, land subdivision and infrastructure standards, to streamline bureaucratic land development controls, and reducing the high transaction costs associated with housing delivery.
- *What detailed measures to operationalize agreed upon housing sector reforms?* Follow on detailed policy notes will examine measures needed to operationalize the agreed upon housing sector reforms including harmonization of existing housing institutions and subsidy mechanisms, strengthening the sector financing,

27. ***Affordable Housing Policy Task Force:*** The high-level policy workshop will also serve to formally establish an Affordable Housing Policy Task Force (with representatives from MHUUD, MOI, MOF, MOLD, Governorates, etc) that would ensure close coordination in the process to finalize the policy notes and formulate the implementation action plan.

28. ***International case studies and lessons learnt from experience:*** Several case studies, with lessons learnt from international experience, will be prepared by the Bank and USAID TAPR II to inform the policy dialogue around key housing sector issues in Egypt. These case studies will include Chile, South Africa, Brazil, Mexico, Indonesia, and a series of cases from the MNA region (where the Bank has been active) such as Morocco with its comprehensive

housing sector reform program initiated since 2001, Jordan and Tunisia. These case studies will address different housing subsidy programs and government interventions to enable households to access affordable housing, with an assessment of achievements, limitations, and lessons learnt.

29. ***Parallel work underway by USAID:*** In the current phase, the TAPR II project is completing three outputs of importance to the overall effort policy formulation effort:

1. *Review of Egyptian subsidized housing programs and lessons learnt:* This report assesses the different types and amount of subsidies disbursed in housing programs including on and off-budget subsidies. This report was completed in February 2007, is currently undergoing Bank peer review, and is to be presented in March 2007.
2. *Housing demand study in Greater Cairo,* based on a survey of 9,082 randomly selected households, which was completed in mid-February 2007 (the Bank provided detailed comments to strengthen the survey instrument). This study will provide an in-depth assessment of the nature of housing demand for limited income groups in the Greater Cairo Region relying on detailed data on household income and expenditures, affordability, stated housing needs and preferences in terms of location, etc. This will inform the reform of existing affordable housing delivery/subsidy programs. This work will be presented in the April 2-3 workshop.
3. *Review of lessons learnt from international experience in the housing sector and their relevance to Egypt:* This assignment, for which the Urban Institute was contracted, has not yet commenced. The Bank will assist the Institute in structuring the task to fit Egypt's needs, identifying case studies, in addition to providing background material on several cases (Brazil, Mexico, Morocco, etc) and moderating discussions around each case's relevance for Egypt in the April workshop.

VI. LINKAGES WITH OTHER BANK WORK

30. This ESW is closely linked with other Bank activities in Egypt:

- *Mortgage Market Development Project*, which aims at developing mortgage finance through establishing a market-based liquidity facility, strengthening the regulatory framework for mortgage lending, and modernizing the property registration system.
- *Alexandria Growth Pole Project*, which includes a component on urban upgrading of squatter/informal settlements, in which an integrated approach to upgrading is piloted with the aim of scaling up at a citywide level.
- *Investment Climate Assessment Study* (ESW, 2005), which examined key challenges related to access to land for investment, land and property registration and taxation.
- *Public Land Management Strategy* (ESW, 2006), which advised the GOE in its effort to reform existing public land management policies, institutions and practices in the aim of improving the business climate. The formulation of policy recommendations and action plan relied on consensus developed and guidance received in a high-level policy workshop, attended by the Prime Minister and key Cabinet members.

VII. TEAM AND STAFFING

13. The report will rely upon World Bank Group staff with experience and expertise in housing policy and finance, as well as well-known experts from outside the Bank who have accepted to join the team.

- Task Team Leader, MNSED** Sahar Nasr (responsible for overall coordination with GOE and donors, housing mortgage finance and GSF issues)
- Task Team Leader, MNSSD** Ahmed Eiweida (responsible for urban upgrading issues)
- Task Manager:** Sameh Wahba (responsible for overall coordination, housing policy issues, lead author of the Policy Note)
- Team members:** Loic Chiquier (Advisor, housing finance and GSF issues)
Cathy Lynch (international case studies and best practices)
Amira Fouad Zaki (Team assistance)
- Consultants:** Marja Hoek-Smit, (Director, International Housing Finance Program, Wharton School, University of Pennsylvania, housing finance/policy advisor, TBC)
Nicholas Retsinas (Director, Joint Center for Housing Studies, Harvard University, housing finance/policy advisor, TBC)
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David Sims (Consultant, housing subsidy programs, targeting and affordability issues)
Stephen Butler (Land and property registration consultant, Mortgage Market Development Project)
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OUTPUTS, DELIVERY SCHEDULE, AND MILESTONES

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| October-February 2007 | Housing supply analysis note |
| February 2007 | Affordable housing policy and subsidies Concept Note preparation |
| February-March 2007 | Preparation of selected detailed international case studies, lessons learnt from international experience and their relevance for Egypt: Morocco, Jordan, Tunisia, Brazil (in addition to the case studies to be prepared by USAID, Chile, South Africa, etc) |
| March-April 2007 | Ongoing review of NAHPA and GSF activities |
| April 2-3, 2007 | High level policy workshop to present and discuss the findings of the housing demand study Phase II and housing supply analysis, international case studies of housing sector programs, lessons learnt and their relevance for Egypt (jointly with USAID) |
| March-May, 2007 | Ongoing work on affordable housing policy and recommendations to improve existing housing subsidy mechanisms. |

	Draft concise policy notes with preliminary recommendations on: (a) approach to reform and harmonize existing housing subsidy programs; (b) affordability and targeting considerations; (c) institutions, mandates and incentives needed to expand private sector participation; and (d) improving the GSF functioning.
May, 2007	High level policy workshop to present preliminary findings and build consensus around key policy questions and issues
May-June, 2007	Finalization of deliverables with recommendations to strengthen affordable housing policy and housing subsidy mechanisms, and an action plan for implementation
July 2007-March 2008	Phase II of the affordable housing policy and subsidies, addressing in detail key distortions hindering the functioning of the urban housing market and follow-up technical assistance. Detailed policy notes will cover: (a) reform and harmonization of existing housing subsidy programs; (b) institutional and regulatory improvements; (c) reduction of housing supply/transaction cost; (d) reforming the rental sector; (e) urban upgrading; and (f) other detailed technical assistance as needed.

EXPECTED RESOURCE REQUIREMENTS

The resources made available in FY07 are \$100,000 (\$35,000 for the Affordable housing and subsidies ESW, \$45,000 from the Urban Sector Update ESW budget, and \$20,000 from the Public Land Management Strategy dissemination budget). These resources will permit to engage in high-level policy dialogue with the GOE based on lessons learnt from international experience and completed analytical work, with an aim of providing overall recommendations to improve policies and rationalize subsidies, and preparing a broad “road map” for housing sector reform. In FY08, an additional \$100,000 is needed by the team to continue providing support to the GOE in detailed issues related to housing sector reform and assisting in the operationalization of policy recommendations.

